UNIVERSAL MFG. CO.
1128 LINCOLN MALL, SUITE 301
LINCOLN, NE 68508

THOMAS C. HANCE
PRESIDENT & CEO
www.universalmfgco.com

To Shareholders of Universal Mfg. Co.

UNIVERSAL MFG. CO.
CONSOLIDATED SIX MONTH OPERATING REPORTS
FOR THE SECOND QUARTER ENDED JANUARY 31, 2017
(Not audited by Independent Public Accountants)

BALANCE SHEET

	January 31, 2017	July 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 20,346	$ 33,204
Receivables		
Trade receivables, net	5,139,513	3,761,022
Other receivables, net	219,508	223,402
Inventories	11,760,096	8,701,271
Prepaid expenses	484,507	1,322,824
Income tax receivable	1,350,238	1,009,649
Deferred income taxes	632,513	632,513
Total Current Assets	19,606,721	15,683,885
Property, plant and equipment, net	7,008,269	7,700,810
Other Noncurrent Assets:		
Intangibles, net of amortization	86,449	93,496
Goodwill	4,904,350	4,904,350
	4,990,799	4,997,846
Total Assets	$ 31,605,789	$ 28,382,541
Liabilities and Stockholders' Equity		
Current Liabilities:		
Outstanding checks in excess of bank balance	742,635	199,741
Lines of credit	5,202,735	1,941,730
Current portion of long-term debt	531,554	531,554
Accounts payable	6,526,632	5,829,097
Deferred revenue	-	205,225
Accrued expenses and other liabilities	1,873,581	2,119,462
Total Current Liabilities	14,877,137	10,826,809
Noncurrent Liabilities:		
Long term debt, less current portion	5,444,057	5,672,622
Deferred income taxes	883,831	883,831
Total Noncurrent Liabilities	6,327,888	6,556,453
Stockholders' Equity		
Common stock - issued and outstanding	866,067	866,067
Additional paid-in capital	843,810	842,326
Retained earnings	8,690,887	9,290,886
Total Stockholders' Equity	10,400,764	10,999,279
Total Liabilities and Stockholders' Equity	$ 31,605,789	$ 28,382,541

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CONSOLIDATED INCOME STATEMENT

	Quarter Ended January 31		Six Months Ended January 31	
	2017	2016	2017	2016
Sales	$10,407,566	$16,426,463	$20,801,593	$55,009,379
Earnings (Loss) Before Income Taxes	$ (516,577)	$ (221,840)	$ (909,089)	$ 3,978,405
Income Taxes Expense (Benefit) Est.	$ (175,636)	$ (75,425)	$ (309,090)	$ 1,352,659
Net Income (Loss)	$ (340,941)	$ (146,415)	$ (599,999)	$ 2,625,746
Basic Earnings per Share	$ (0.39)	$ (0.18)	$ (0.69)	$ 3.22
Diluted Earnings per Share	$ (0.38)	$ (0.18)	$ (0.68)	$ 3.14

Financial Overview

The above are consolidated operating results of Universal Mfg. Co. ("UMC"), including its UMC-ReTech operating division ("ReTech") and its operating subsidiaries Man Lift Mfg. Co. ("MLM"), Metal Works Mfg. Co. ("MWM") and Ultra Armoring, LLC ("UA") (collectively, the "Company") for the fiscal 2nd Quarter ending January 31, 2017 (the "Quarter") and the first six months of the current fiscal year ("YTD") as compared to the same periods for the prior year ("PY"). Net Loss for the Quarter was $340,941 compared to net loss of $146,415 for the same Quarter PY.

Net Sales for the Quarter were down substantially over PY (36.6%) driven by work in 2nd Quarter PY for the US Marine Corp. and US SOCOM. The US Marine Corp. work was a non-recurring contract that was complete during 2nd Quarter PY. Gross profit for the Quarter improved marginally over PY. Our inability to achieve sales in adequate volume to absorb overhead costs impacted gross margin in all operations

Sales at ReTech for the Quarter were flat to PY; however, Transfer Case sales were down about $0.1 Million and Caliper sales were up about the same amount compared to PY same Quarter. This resulted in lower gross margin of 2.3% compared to PY; due to lower gross margins on Calipers compared to Transfer Cases along with an increase in the obsolescence and LIFO reserves over PY same Quarter. Retech recorded a small operating loss for the Quarter due to the lower gross margins and higher SG&A costs. Warranty costs are down about 35% from PY same Quarter due to the continued focus to drive these costs down.

Progress continues to be made in operational performance and market expansion at ReTech. The drive from operations to deliver "any product, any day" is beginning to develop. This will allow ReTech to react quickly to unforeseen market needs and increasing market fill rates, thus driving up revenue. This is especially important as we pursue more Transfer Case revenue. New market and customer initiatives are developing across all product lines. These initiatives line up well with our strength and core competence and will drive future growth across all product lines, beginning in the 2nd half of Fiscal Year ("FY") 2017.

MLM sales decreased 26.5% for the Quarter compared to same Quarter of PY. Gross margins were improved over PY, a 36.3% improvement prior to unapplied expense, partially due to lower engineering costs. Focus of sales has been on products that require limited engineering time. We have made significant headway in production. MLM has made substantial progress in cost control and sales in the first half of FY 2017. Revenue generation is on track for growth over FY 2016. Improved operations and Engineering have improved MLM cost structure back to levels prior to the move to Shelby.

MWM sales were substantially improved, increasing 329% compared to same Quarter PY. Gross margins also improved, increasing by 27.2% year over year for the same Quarter prior to unapplied expense. We continue to work to improve efficiency that we anticipate will continue to improve as we work more consistently with a quality backlog. Progress continues to be made in expansion of MWM into main stream OEM work. These efforts will continue; allowing entry into higher value product streams and where possible, add multiple levels of processing to aid in margin development.

UA sales decreased 92% due to the large US Marine Corp. order that was completed during the same Quarter PY. Gross Margins are also down about 6.6% over same Quarter prior to unapplied expenses. UA continues to develop as the long term strategic play for UMC. With the increased interest levels in expanding the military, and our ability to compete in this area with high value and speed, we expect UA to continue to develop a broad portfolio over time. The $15M Department of State opportunity secures a good foothold on the start of FY 2018.

Unapplied expense continues to be an issue, although we have made material improvement and anticipate it will only continue to improve as we build our product base with MLM, our customer base with MWM and win additional work for UA. SG&A expenses have decreased substantially for the Quarter compared to same Quarter PY, decreasing by over 18%.

Cash flow for the Quarter was impacted by the ramp up in our production. Inventory increased $3.3 Million for the Quarter. This increase was funded by a decrease in accounts receivable of $2.1 Million for the Quarter and an increase in usage of our line of credit that stood at $5.2 Million as of the end of the Quarter, a $1.0 Million increase during the Quarter. Our borrowing base at the end of the Quarter supported the full amount of our authorized Line of Credit of $7.5 Million.