

UNIVERSAL MFG. CO.
1128 LINCOLN MALL, SUITE 301
LINCOLN, NE 68508
www.universalmfgco.com
To Shareholders of Universal Mfg. Co.

UNIVERSAL MFG. CO.
CONSOLIDATED THREE MONTH OPERATING REPORTS
FOR THE FIRST QUARTER ENDED OCTOBER 31, 2016
(Not audited by Independent Public Accountants)

BALANCE SHEET

	October 31, 2016	July 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 70,734	\$ 33,204
Receivables		
Trade receivables, net	7,267,657	3,761,022
Other receivables, net	205,858	223,402
Inventories	8,477,916	8,701,271
Prepaid expenses	786,675	1,322,824
Income tax receivable	1,173,127	1,009,649
Deferred income taxes	632,513	632,513
Total Current Assets	18,614,480	15,683,885
Property, plant and equipment, net	7,346,757	7,700,810
Other Noncurrent Assets:		
Intangibles, net of amortization	89,973	93,496
Goodwill	4,904,350	4,904,350
	4,994,323	4,997,846
Total Assets	\$ 30,955,560	\$ 28,382,541
Liabilities and Stockholders' Equity		
Current Liabilities:		
Outstanding checks in excess of bank balance	384,432	199,741
Lines of credit	4,216,445	1,941,730
Current portion of long-term debt	531,554	531,554
Accounts payable	6,351,018	5,829,097
Deferred revenue	316,998	205,225
Accrued expenses and other liabilities	1,949,971	2,119,462
Total Current Liabilities	13,750,418	10,826,809
Noncurrent Liabilities:		
Long term debt, less current portion	5,573,470	5,672,622
Deferred income taxes	883,831	883,831
Total Noncurrent Liabilities	6,457,301	6,556,453
Stockholders' Equity		
Common stock - issued and outstanding	866,067	866,067
Additional paid-in capital	849,946	842,326
Retained earnings	9,031,828	9,290,886
Total Stockholders' Equity	10,747,841	10,999,279
Total Liabilities and Stockholders' Equity	\$ 30,955,560	\$ 28,382,541

CONSOLIDATED INCOME STATEMENT

	Quarter Ended		Three Months Ended	
	October 31		October 31	
	2016	2015	2016	2015
Sales	\$ 10,394,027	\$ 38,582,916	\$ 10,394,027	\$ 38,582,916
Earnings (Loss) Before Income Taxes	\$ (392,512)	\$ 4,200,246	\$ (392,512)	\$ 4,200,246
Income Taxes Expense (Benefit) Est.	\$ (133,454)	\$ 1,428,084	\$ (133,454)	\$ 1,428,084
Net Income	\$ (259,058)	\$ 2,772,162	\$ (259,058)	\$ 2,772,162
Basic Earnings per Share	\$ (0.30)	\$ 3.40	\$ (0.30)	\$ 3.40
Diluted Earnings per Share	\$ (0.29)	\$ 3.32	\$ (0.29)	\$ 3.32

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 1st Quarter ending October 31, 2016 (the “Quarter”) and the first three months of the current fiscal year (“YTD”) as compared to the same periods for the prior year (“PY”). Net Loss for the Quarter was \$259,058 compared to net gain of \$2,772,162 for the same Quarter PY.

Net Sales for the Quarter were down substantially over PY (73.1%) driven principally by the large United Stated SOCOM transaction that was recognized in the same Quarter PY. Although we recognized a loss, we have seen substantial improvement in the volume of production in the past two months from our Shelby operations as we renewed production of a significant contract that was placed on hold most of the last half of FY2016.

Sales at UMC-ReTech were below PY. Sales were down 6.5% compared to same period PY; however, gross margin improved by 19.4% over PY. Warranty costs, specifically in our Transfer Case line, improved significantly, an overall 18.8% improvement over same Quarter PY. Operating income was substantially improved year over year for the Quarter, a 61.7% improvement. Transfer Case sales improved by .7% year over year; however, Caliper sales decreased 28% year over year. Operating results were improved with a focus on warranty costs and a pick-up on core returns.

MLM sales were significantly improved increasing 25.2% for the Quarter compared to same Quarter of PY. Gross margins were also improved over PY, a 13.8% improvement prior to unapplied expense. Focus of sales has been on products that require limited engineering time. We have made significant headway in production.

MWM sales were also substantially improved, increasing 166% for the Quarter compared to same Quarter PY. Gross margins were substantially less, decreasing by 8.9% 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.

UA is difficult to compare due to the large US SOCOM order that was completed the PY. Sales were in excess of \$2 Million with gross margins prior to unapplied expenses of 20%.

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 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 44%. The reduction was driven principally by incentive compensation booked in the PY.

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Cash flow for the Quarter was materially impacted by the ramp up in our production at our Shelby operations. Accounts receivable increased by over \$3.5 Million dollars for the Quarter. We were able to manage our inventory at ReTech, decreasing by \$366 Thousand offset by a small increase in inventories at Shelby. This increase was funded by an increase in accounts payable of \$522 Thousand and an increase in usage of our line of credit that stood at \$4.2 Million as of the end of the Quarter, a \$2.3 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.

At our annual meetings held last week, Jeff Einfalt and Kevin Pope were re-elected to serve another term on the Board. Additionally, as previously announced, Thomas Hance was elected to serve as President & CEO of the Company as of January 1, 2017. Don Dunn's resignation from those positions will be effective as of the end to the calendar year; Mr. Dunn will remain on the Board of Directors.

Forward Looking Statements;

Statements herein that are not historical facts, including statements about the Company's confidence and strategies and the Company's expectations about future market opportunities, market demand or acceptance of the Company's products are forward looking statements that involve risks and uncertainties. These uncertainties include, without limitation, the effect of general economic and market conditions, customer requirement for our products, the continuing strength of the industries in which we operate, competitor pricing, maintenance of our current momentum, weather conditions and other factors.