

To Shareholders of Universal Mfg. Co.

UNIVERSAL MFG. CO.
CONSOLIDATED THREE MONTH OPERATING REPORTS
FOR THE FIRST QUARTER ENDED OCTOBER 31, 2017
(Not audited by Independent Public Accountants)

BALANCE SHEET

	October 31, 2017	July 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 175,966	\$ 67,780
Receivables		
Trade receivables, net	7,253,644	6,458,818
Other receivables, net	41,273	249,586
Inventories	19,022,927	14,211,930
Prepaid expenses	217,328	203,420
Income tax receivable	186,172	186,172
Deferred income taxes	737,915	737,915
Total Current Assets	27,635,225	22,115,621
Property, plant and equipment, net	6,141,583	6,449,592
Other Noncurrent Assets:		
Intangibles, net of amortization	75,878	79,402
Goodwill	4,904,350	4,904,350
	4,980,228	4,983,752
Total Assets	\$ 38,757,036	\$ 33,548,965
Liabilities and Stockholders' Equity		
Current Liabilities:		
Outstanding checks in excess of bank balance	527,226	802,180
Lines of credit	10,659,600	8,308,135
Current portion of long-term debt	581,497	595,831
Accounts payable	4,561,900	3,641,144
Deferred revenue	7,379,797	4,155,118
Accrued expenses and other liabilities	2,403,209	2,288,503
Total Current Liabilities	26,113,229	19,790,911
Noncurrent Liabilities:		
Long term debt, less current portion	5,063,340	5,198,594
Deferred income taxes	737,915	737,915
Total Noncurrent Liabilities	5,801,255	5,936,509
Stockholders' Equity		
Common stock - issued and outstanding	876,067	876,067
Additional paid-in capital	923,326	923,326
Retained earnings	5,043,159	6,022,152
Total Stockholders' Equity	6,842,552	7,821,545
Total Liabilities and Stockholders' Equity	\$ 38,757,036	\$ 33,548,965

CONSOLIDATED INCOME STATEMENT

	Quarter Ended		Three Months Ended	
	October 31		October 31	
	2017	2016	2017	2016
Sales	\$ 7,786,053	\$10,394,027	\$ 7,786,053	\$10,394,027
Earnings (Loss) Before Income Taxes	\$ (978,992)	\$ (392,512)	\$ (978,992)	\$ (392,512)
Income Taxes Expense (Benefit) Est.	\$ -	\$ (133,454)	\$ -	\$ (133,454)
Net Income (Loss)	\$ (978,992)	\$ (259,058)	\$ (978,992)	\$ (259,058)
Basic Earnings per Share	\$ (1.12)	\$ (0.30)	\$ (1.12)	\$ (0.30)
Diluted Earnings per Share	\$ (1.10)	\$ (0.29)	\$ (1.10)	\$ (0.29)

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 1st Quarter ending October 31, 2017 (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 \$978,992 compared to net loss of \$259,058 for the same Quarter PY.

Net Sales for the Quarter were down over PY (25.1%) driven by decreased sales at MWM, UA and MLM this year. Gross profit for the Quarter is lower by 0.3% as a percentage of sales compared to PY due to higher overhead costs.

Sales at ReTech for the Quarter were up 14.5% over PY primarily due to higher Transfer Case, Caliper and Fuel Pump sales. ReTech gross margin was down 17% due to higher costs related to inventory adjustments and warranty expense over PY. Operating income was \$179k for the Quarter; down 16.8% over PY due to lower gross margin and higher SG&A costs, which were anticipated.

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 as we move through Fiscal Year (“FY”) 2018 and beyond.

MLM sales decreased 41% for the Quarter compared to same Quarter of PY. Gross margins were improved over PY, a 2.1% improvement prior to unapplied expense, partially due to lower engineering costs and lower material costs. High warranty costs in the quarter drive down overall margin. 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 continues to focus on sales. Revenue generation is on track for growth over FY 2017. Improved operations and Engineering have returned MLM cost structure closer to levels prior to the move to Shelby.

MWM sales decreased 44% for the Quarter compared to same Quarter PY while gross margins improved, increasing by 5.8% year over year for the same Quarter prior to unapplied expense. We continue to work to improve efficiency and drive down material costs that we anticipate will continue to improve as we work more consistently with a quality backlog. Development of the backlog continues to be a struggle, but we remain focused on it. 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 12% for the Quarter compared to same Quarter PY and gross margins are also down 6.2% over same Quarter prior to unapplied expenses. Increased material costs is the main driver in margin erosion. 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 is expected to complete during 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. Delays in production, warranty and rework costs have impacted the 1st quarter numbers. SG&A expenses for MLM, MWM and UA as a percentage of sales have increased 7.7% for the Quarter compared to same Quarter PY.

Cash flow for the Quarter was impacted by the ramp up in our production. Accounts Receivable increased \$584k for the Quarter and Inventory increased \$4.8m for the Quarter. This increase was funded by deferred revenue of \$3.2m and an increase in usage of our line of credit that stood at \$10.7m as of the end of the Quarter, a \$2.4m increase during the Quarter. Our borrowing base at the end of the Quarter supported \$12.3m of our authorized Line of Credit of \$14.5m.

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.