

To Shareholders of Universal Mfg. Co.

**UNIVERSAL MFG. CO.**  
**CONSOLIDATED SIX MONTH OPERATING REPORTS**  
**FOR THE SECOND QUARTER ENDED JANUARY 31, 2018**  
(Not audited by Independent Public Accountants)

**BALANCE SHEET**

	<b>January 31, 2018</b>	<b>July 31, 2017</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 104,000	\$ 67,780
Receivables		
Trade receivables, net	6,159,961	6,458,818
Other receivables, net	153,460	249,586
Inventories	20,166,911	14,211,930
Prepaid expenses	157,426	203,420
Income tax receivable	2,991	186,172
Deferred income taxes	737,915	737,915
<b>Total Current Assets</b>	<b>27,482,664</b>	<b>22,115,621</b>
Property, plant and equipment, net	6,187,890	6,449,592
Other Noncurrent Assets:		
Intangibles, net of amortization	72,355	79,402
Goodwill	4,904,350	4,904,350
	4,976,705	4,983,752
<b>Total Assets</b>	<b>\$ 38,647,259</b>	<b>\$ 33,548,965</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Outstanding checks in excess of bank balance	180,418	802,180
Lines of credit	13,838,567	8,308,135
Current portion of long-term debt	921,272	595,831
Accounts payable	3,427,168	3,641,144
Deferred revenue	7,308,300	4,155,118
Accrued expenses and other liabilities	2,311,199	2,288,503
<b>Total Current Liabilities</b>	<b>27,986,924</b>	<b>19,790,911</b>
Noncurrent Liabilities:		
Long term debt, less current portion	4,927,017	5,198,594
Deferred income taxes	737,915	737,915
<b>Total Noncurrent Liabilities</b>	<b>5,664,932</b>	<b>5,936,509</b>
Stockholders' Equity		
Common stock - issued and outstanding	876,067	876,067
Additional paid-in capital	923,326	923,326
Retained earnings	3,196,010	6,022,152
<b>Total Stockholders' Equity</b>	<b>4,995,403</b>	<b>7,821,545</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 38,647,259</b>	<b>\$ 33,548,965</b>

**CONSOLIDATED INCOME STATEMENT**

	Quarter Ended		Six Months Ended	
	January		January	
	2018	2017	2018	2017
Sales	\$ 6,169,892	\$10,407,566	\$13,955,946	\$20,801,593
Earnings (Loss) Before Income Taxes	\$ (1,847,150)	\$ (516,577)	\$ (2,826,142)	\$ (909,089)
Income Taxes Expense (Benefit) Est.	\$ -	\$ (175,636)	\$ -	\$ (309,090)
Net Income (Loss)	\$ (1,847,150)	\$ (340,941)	\$ (2,826,142)	\$ (599,999)
Basic Earnings per Share	\$ (2.11)	\$ (0.39)	\$ (3.23)	\$ (0.69)
Diluted Earnings per Share	\$ (2.07)	\$ (0.38)	\$ (3.16)	\$ (0.68)

**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 2<sup>nd</sup> Quarter ending January 31, 2018 (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 \$1,847,150 compared to net loss of \$340,941 for the same Quarter PY.

Net Sales for the Quarter were down over PY (40.7%) driven by decreased sales at MWM and UA this year. Gross profit for the Quarter is lower 6.8% as a percentage of sales compared to PY due to higher warranty costs, unapplied labor and overhead costs.

Sales at ReTech for the Quarter were up 3.8% over PY primarily due to higher Transfer Case and Fuel Pump sales. ReTech gross margin was up 14% due to lower core returns and obsolescence expense, partially offset by under applied burden and overhead costs over PY. Operating loss was \$10k for the Quarter; up 78.5% over PY due to higher gross margin partially offset by 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. Retech is moving into online sales.

MLM sales increased 139% for the Quarter compared to same Quarter of PY. Gross margins were down over PY, a 6.4% reduction prior to unapplied expense, due to higher material costs partially offset by lower labor costs. Higher warranty costs in the quarter continue to 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 73% for the Quarter compared to same Quarter PY. Gross margins were down over PY, decreasing 14.8% 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 90% for the Quarter compared to same Quarter PY and gross margins are also down 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. While there have been delays, 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 2<sup>nd</sup> quarter numbers. SG&A expenses for MLM, MWM and UA as a percentage of sales have increased 9.4% for the Quarter compared to same Quarter PY, however costs are fairly flat to same Quarter PY.

Cash flow for the Quarter was impacted by the ramp up in our production. Inventory increased \$1.1m and Accounts Payable decreased \$1.1m for the Quarter. Cash usage was funded by an increase in our line of credit that stood at \$13.8m as of the end of the Quarter, a \$3.2m increase during the Quarter.

With the completion of the Department of State \$15m project along with the completion of other delayed projects, expectations for the 2<sup>nd</sup> half of the year are for improvement in cash flow, revenue and balance sheet. Revenue is recognized on shipment of product, so the balance sheet and cash flow include costs associated with these delayed projects. Margins associated with these projects will be recognized in the 2<sup>nd</sup> half of the year.

**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.