

To Shareholders of Universal Mfg. Co.

UNIVERSAL MFG. CO.
CONSOLIDATED NINE MONTH OPERATING REPORTS
FOR THE THIRD QUARTER ENDED APRIL 30, 2018
(Not audited by Independent Public Accountants)

BALANCE SHEET

	April 30, 2018	July 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 121,816	\$ 67,780
Receivables		
Trade receivables, net	2,194,788	6,458,818
Other receivables, net	155,171	249,586
Inventories	22,702,174	14,211,930
Prepaid expenses	214,669	203,420
Income tax receivable	3,791	186,172
Deferred income taxes	737,915	737,915
Total Current Assets	26,130,324	22,115,621
Property, plant and equipment, net	5,897,548	6,449,592
Other Noncurrent Assets:		
Intangibles, net of amortization	68,831	79,402
Goodwill	4,904,350	4,904,350
	4,973,181	4,983,752
Total Assets	\$ 37,001,053	\$ 33,548,965
Liabilities and Stockholders' Equity		
Current Liabilities:		
Outstanding checks in excess of bank balance	268,196	802,180
Lines of credit	14,262,059	8,308,135
Current portion of long-term debt	910,522	595,831
Accounts payable	3,577,149	3,641,144
Deferred revenue	7,308,300	4,155,118
Accrued expenses and other liabilities	2,531,239	2,288,503
Total Current Liabilities	28,857,465	19,790,911
Noncurrent Liabilities:		
Long term debt, less current portion	4,788,218	5,198,594
Deferred income taxes	737,915	737,915
Total Noncurrent Liabilities	5,526,133	5,936,509
Stockholders' Equity		
Common stock - issued and outstanding	876,067	876,067
Additional paid-in capital	923,326	923,326
Retained earnings	818,062	6,022,152
Total Stockholders' Equity	2,617,455	7,821,545
Total Liabilities and Stockholders' Equity	\$ 37,001,053	\$ 33,548,965

CONSOLIDATED INCOME STATEMENT

	Quarter Ended		Nine Months Ended	
	April		April	
	2018	2017	2018	2017
Sales	\$ 4,822,877	\$12,203,466	\$18,778,823	\$33,005,058
Earnings (Loss) Before Income Taxes	\$ (2,377,948)	\$ (326,377)	\$ (5,204,090)	\$ (1,235,465)
Income Taxes Expense (Benefit) Est.	\$ -	\$ (110,969)	\$ -	\$ (420,059)
Net Income (Loss)	\$ (2,377,948)	\$ (215,408)	\$ (5,204,090)	\$ (815,406)
Basic Earnings per Share	\$ (2.71)	\$ (0.25)	\$ (5.94)	\$ (0.94)
Diluted Earnings per Share	\$ (2.66)	\$ (0.24)	\$ (5.83)	\$ (0.92)

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 3rd Quarter ending April 30, 2018 (the “Quarter”) and the first nine months of the current fiscal year (“YTD”) as compared to the same periods for the prior year (“PY”). Net Loss for the Quarter was \$2,377,948 compared to net loss of \$215,408 for the same Quarter PY.

Net Sales for the Quarter were down over PY (60.5%) driven by decreased sales at MLM, MWM and UA this year. Gross profit for the Quarter is lower 12.5% as a percentage of sales compared to PY due to higher warranty costs, labor and engineering costs.

Sales at ReTech for the Quarter were down 2.5% over PY primarily due to lower Caliper sales partially offset by higher Transfer Case sales. ReTech gross profit was down 5.2% due to under applied overhead costs related to the lower Caliper sales and production along with higher obsolescence expense over PY. Operating loss was \$233k for the Quarter; down 313% over PY due to lower gross profit and higher SG&A costs, which were anticipated.

Progress continues to be made in operational performance and market expansion at ReTech. Improvements have been made to decrease COGS at standard and warranty expenses. 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.

Sales are still soft in our Shelby operation including MLM, MWM and UA. MLM sales decreased 73% for the Quarter compared to same Quarter PY. MLM booked orders decreased significantly during the 2nd quarter, causing low sales in 3rd quarter. MLM gross margins were down over PY due to higher material and labor costs. Higher warranty costs in the quarter continue to drive down overall margin. Focus of sales continues to be on products that require limited engineering time. We have made significant headway in production. Booked orders are starting to pick up heading into 4th Quarter.

MWM sales decreased 66% for the Quarter compared to same Quarter PY. Gross margins were also down over PY. We continue to struggle to develop a quality backlog, but we remain focused on it. Quotes for more commercial and OEM work are increasing. Gross margin is impacted by the lower sales along with higher material and overhead costs.

UA sales decreased 93% for the Quarter compared to same Quarter PY and gross margins are also down over same Quarter PY. Increased labor and overhead costs are 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 (“DOS”) opportunity has had additional delays which will push the majority of this project into FY 2019.

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. Soft sales, delays in production, and warranty/rework costs have impacted the 3rd quarter numbers. There was a one-time expense in SG&A for a lease termination fee related to our Cudahy, WI location which has now been vacated. There was also a one-time expense in SG&A related to a settlement with an MLM customer related to a warranty issue. Outside of those charges, SG&A costs are relatively flat to same Quarter PY.

Cash flow for the Quarter was impacted by the net loss and the ramp up in our production. Inventory increased \$2.5m for the Quarter. Cash usage was funded by a decrease in Accounts Receivable of \$4.0m. Our line of credit stood at \$13.8m as of the end of the Quarter.

Business Overview

The YTD 2018 results have been dramatically impacted by four factors which will be righted in the coming months.

- Required modifications to the design, driven by DOS, have delayed the project more than 6 months. Of our planned 2018 sales, this represents \$15m in revenue that was planned to ship by Dec 2017. Contract is now live and proceeding.
- Department of Justice (“DOJ”) contract follows DOS and had the same required modifications and is delayed accordingly. The revenue value on this contract is about \$3.5m.
- The continuance of a Foreign Military Sales (“FMS”) contract, which is on hold pending a change requested which represents about \$3.0m in revenue.
- A change in a large Fuel Pump rebuild program placed on hold, pending expansion of e-commerce site launch, which is presently up and running, delaying about \$1.0m in revenue.

Each of these programs are secured and will move forward, although operating costs and cash use have been dramatically impacted as raw material, WIP and manufacturing expenses have been expended preparing to execute these programs. In parallel with the above, several other large programs have been secured and are progressing through the operations, the largest of which is the Mamba project with Osprea. These programs will be completed late 4th Quarter FY 2018 and 1st Quarter FY 2019.

The strategy of pursuit and expansion of Commercial revenue in MWM is beginning to take hold as interest levels and quote activity continue to rise. In parallel, our visits to SOFIC and Eurosatory were positive with interest in UA armoring capabilities.

ReTech took two major steps in the 3rd Quarter with the launch of a new product line, manual transmissions, and the entrance into the e-commerce space on E-bay and Amazon. Sales have been registered in both ventures.

MLM had a positive rebound in the 3rd Quarter with bookings improving and proposal activity increasing.

Cash will continue to be tight with revenue and income below expectations as these issues with DOS, DOJ and FMS are cleared in 4th Quarter FY 2018 and 1st Quarter FY 2019.

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.