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ARTS WAY MANUFACTURING CO INC  
Form 10QSB  
July 17, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

- Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended May 31, 2007
- Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-5131

ART'S-WAY MANUFACTURING CO., INC.  
(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE 42-0920725  
(State or Other Jurisdiction I.R.S. Employer Identification No.  
of Incorporation or Organization)

Hwy 9 West, Armstrong, Iowa  
50514  
(Address of Principal Executive Offices)

(712) 864-3131  
Issuer's Telephone Number, Including Area Code

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes \_\_\_ No X

Number of common shares outstanding as of July 16, 2007: 1,978,176

Transitional Small Business Disclosure Format (check one): Yes \_ No X

ARTS WAY MANUFACTURING CO., INC.  
Consolidated Statements of Operations  
Condensed

(Unaudited)

|                    | Three Months Ended |                 | Year to Date    |                 |
|--------------------|--------------------|-----------------|-----------------|-----------------|
|                    | May 31,<br>2007    | May 31,<br>2006 | May 31,<br>2007 | May 31,<br>2006 |
| Net sales          | \$ 5,699,168       | \$ 4,111,729    | \$ 10,974,205   | \$ 8,413,817    |
| Cost of goods sold | 4,014,104          | 2,822,374       | 7,790,881       | 5,749,057       |
| Gross profit       | 1,685,064          | 1,289,355       | 3,183,324       | 2,664,760       |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Expenses:                                 |            |            |            |            |
| Engineering                               | 135,021    | 108,858    | 214,109    | 199,898    |
| Selling                                   | 220,704    | 192,978    | 453,051    | 385,237    |
| General and administrative                | 591,076    | 677,356    | 1,270,902  | 1,278,804  |
| Total expenses                            | 946,801    | 979,192    | 1,938,062  | 1,863,939  |
| Income from operations                    | 738,263    | 310,163    | 1,245,262  | 800,821    |
| Other income (expense):                   |            |            |            |            |
| Interest expense                          | (72,240)   | (99,969)   | (178,211)  | (182,311)  |
| Other                                     | 171,264    | 24,822     | 353,953    | 41,458     |
| Total other expense                       | 99,024     | (75,147)   | 175,742    | (140,853)  |
| Income before income taxes                | 837,287    | 235,016    | 1,421,004  | 659,968    |
| Income tax (benefit)                      | 279,157    | 81,847     | 482,545    | 234,829    |
| Net income                                | \$ 558,130 | \$ 153,169 | \$ 938,459 | \$ 425,139 |
| Net income per share:                     |            |            |            |            |
| Basic                                     | \$ 0.28    | \$ 0.08    | \$ 0.47    | \$ 0.22    |
| Diluted                                   | 0.28       | 0.08       | 0.47       | 0.21       |
| Common shares and equivalent outstanding: |            |            |            |            |
| Basic                                     | 1,978,176  | 1,972,796  | 1,978,176  | 1,968,451  |
| Diluted                                   | 1,983,182  | 1,979,570  | 1,982,614  | 1,977,619  |

See accompanying notes to consolidated financial statements.

ARTS WAY MANUFACTURING CO., INC.  
Consolidated Balance Sheets  
Condensed

|  | (Unaudited)   |                  |
|--|---------------|------------------|
|  | May<br>2007   | November<br>2006 |
| Assets   |               |                  |
| Current assets:  |               |                  |
| Cash   | \$ 2,334,020  | \$ 2,072,121     |
| Accounts receivable-customers, net of allowance for doubtful accounts of \$102,288 and \$108,372 in May and November, respectively | 2,279,406     | 2,313,290        |
| Inventories, net   | 8,250,974     | 5,998,175        |
| Profit in excess of billings   | 67,202        | 0                |
| Deferred taxes   | 772,000       | 672,000          |
| Insurance Receivable   | 982,506       | 0                |
| Other current assets   | 180,448       | 163,114          |
| Total current assets   | 14,866,556    | 11,218,700       |
| Property, plant, and equipment, net  | 2,845,456     | 3,185,298        |
| Deferred taxes   | 0             | 100,000          |
| Other assets   | 94,438        | 110,240          |
| Total assets   | \$ 17,806,450 | \$ 14,614,238    |
| Liabilities and Stockholders Equity  |               |                  |
| Current liabilities:   |               |                  |
| Notes payable to bank  | \$ 93,531     | \$ 0             |
| Current portion of term debt   | 278,686       | 220,559          |
| Accounts payable   | 1,008,303     | 587,555          |
| Customer deposits  | 2,111,411     | 424,205          |
| Billings in excess of cost and profit  | 435,279       | 57,266           |
| Accrued expenses   | 1,067,582     | 1,427,658        |

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|  |               |               |
|--|---------------|---------------|
| Total current liabilities  | 4,994,792     | 2,717,243     |
| Deferred taxes   | 122,341       | 0             |
| Term debt, excluding current portion   | 3,703,485     | 3,852,372     |
| Total liabilities  | 8,820,618     | 6,569,615     |
| Stockholders equity:   |               |               |
| Common stock \$0.01 par value. Authorized<br>5,000,000 shares; issued 1,978,176 and<br>1,978,176 shares in 2007 and 2006 | 19,782        | 19,782        |
| Additional paid-in capital   | 1,768,447     | 1,765,697     |
| Retained earnings  | 7,197,603     | 6,259,144     |
| Total stockholders equity  | 8,985,832     | 8,044,623     |
| Total liabilities and stockholders equity  | \$ 17,806,450 | \$ 14,614,238 |

See accompanying notes to consolidated financial statements.

### ARTS WAY MANUFACTURING CO., INC. Consolidated Statements of Cash Flows Condensed

|  | (Unaudited)  |             |
|--|--------------|-------------|
|  | Year to Date |             |
|  | May<br>2007  | May<br>2006 |
| Cash flows from operations:  |              |             |
| Net income   | \$ 938,459   | \$ 425,139  |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |              |             |
| Stock based compensation   | 2,750        | 2,638       |
| (Gain) Loss on sale of property, plant, and<br>equipment                             | (698,884)    | (16,238)    |
| Depreciation and amortization  | 169,594      | 132,266     |
| Deferred income taxes  | 122,341      | 123,000     |
| Changes in assets and liabilities  |              |             |
| (Increase) decrease in:  |              |             |
| Accounts receivable  | 33,884       | (689,170)   |
| Inventories  | (2,323,004)  | (976,780)   |
| Other current assets   | (17,334)     | (44,994)    |
| Other, net   | 15,802       | (3,698)     |
| Increase (decrease) in:  |              |             |
| Accounts payable   | 420,748      | 168,940     |
| Contracts in progress, net   | (68,564)     | 0           |
| Customer deposits  | 1,687,206    | 1,033,180   |
| Accrued expenses   | (360,076)    | 213,437     |
| Net cash provided by operating activities  | (77,078)     | 367,720     |
| Cash flows from investing activities:  |              |             |
| Purchases of property, plant, and equipment  | (163,793)    | (712,427)   |
| Proceeds from insurance recoveries   | 499,999      | 0           |
| Proceeds from sale of property, plant, and equipment                                 | 0            | 82,689      |
| Net cash (used in) investing activities  | 336,206      | (629,738)   |
| Cash flows from financing activities:  |              |             |
| Net change in line of credit   | 93,531       | 0           |
| Payments of notes payable to bank  | (90,760)     | (91,133)    |
| Loan Origination Fee Paid  | 0            | (27,070)    |
| Proceeds from term debt  | 0            | 1,500,000   |
| Proceeds from the exercise of stock options  | 0            | 23,200      |
| Net cash provided by (used in) financing activities                                  | 2,771        | 1,404,997   |

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|                                 |              |              |
|---------------------------------|--------------|--------------|
| Net increase/(decrease) in cash | 261,899      | 1,142,979    |
| Cash at beginning of period     | 2,072,121    | 1,198,238    |
| Cash at end of period           | \$ 2,334,020 | \$ 2,341,217 |

Supplemental disclosures of cash flow information:

Cash paid/(received) during the period for:

|              |            |            |
|--------------|------------|------------|
| Interest     | \$ 208,308 | \$ 169,569 |
| Income taxes | 685,779    | 24,100     |

Supplemental disclosures of noncash investing activities:

|                                    |            |      |
|------------------------------------|------------|------|
| Proceeds from insurance recoveries | \$ 499,999 | \$ 0 |
| Insurance recoveries receivable    | 982,506    | 0    |

Net book value of assets destroyed

|  |            |      |
|--|------------|------|
| Property, plant and equipment          | (334,041)  | 0    |
| Cost incurred on contracts in progress | (379,375)  | 0    |
| Inventories                            | (70,205)   | 0    |
| Gain on insurance recovery             | \$ 698,884 | \$ 0 |

See accompanying notes to consolidated financial statements.

### ART'S WAY MANUFACTURING CO., INC.

#### NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement Presentation

The financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-KSB for the year ended November 30, 2006. The results of operations for the six months ended May 31, 2007 are not necessarily indicative of the results for the fiscal year ending November 30, 2007.

2. INVENTORIES

Major classes of inventory are:

|                 | May 31,<br>2007 | November 30,<br>2006 |
|-----------------|-----------------|----------------------|
| Raw material    | \$ 5,809,645    | \$ 3,260,897         |
| Work-in-process | 699,342         | 981,979              |
| Finished goods  | 3,001,814       | 2,886,860            |
| Total           | \$ 9,510,801    | \$ 7,129,736         |
| Less reserves   | 1,259,827       | 1,131,561            |
| Inventories     | \$ 8,250,974    | \$ 5,998,175         |

3. ACCRUED EXPENSES

Major components of accrued expenses are:

|                                 | May 31,<br>2007 | November 30,<br>2006 |
|---------------------------------|-----------------|----------------------|
| Salaries, wages and commissions | \$ 495,983      | \$ 464,609           |
| Accrued warranty expense        | 253,853         | 230,740              |

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|            |              |              |
|------------|--------------|--------------|
| Income tax | 31,141       | 356,712      |
| Other      | 286,605      | 375,597      |
| Total      | \$ 1,067,582 | \$ 1,427,658 |

#### 4. PRODUCT WARRANTY

The Company offers limited warranties of various lengths to its customers depending on the specific product and terms of the customer purchase agreement. The average length of the warranty period is one year from date of purchase. The Company's warranties require it to repair or replace defective products during the warranty period at no cost to the customer. The Company records a liability for estimated costs that may be incurred under its warranties. The costs are estimated based on historical experience and any specific warranty issues that have been identified. Although historical warranty costs have been within expectations, there can be no assurance that future warranty costs will not exceed historical amounts. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the balance as necessary.

Changes in the Company's product warranty liability for the three and six months ended May 31, 2007 and 2006 are as follows:

|  | Three Months Ended |                | Six Months Ended |                |
|--|--------------------|----------------|------------------|----------------|
|  | May 31,<br>2007    | May31,<br>2006 | May 31,<br>2007  | May31,<br>2006 |
| Balance, beginning                     | \$221,089          | \$84,440       | \$230,740        | \$131,832      |
| Settlements made in<br>cash or in-kind | (11,125)           | (36,906)       | (118,819)        | (147,319)      |
| Warranties issued                      | 43,889             | 119,953        | 141,932          | 182,974        |
| Balance, ending                        | \$253,853          | \$167,487      | \$253,853        | \$167,487      |

#### 5. LOAN AND CREDIT AGREEMENTS

The Company has a revolving line of credit for \$3,500,000 with advances funding the working capital, letter of credit and corporate credit card needs that will mature on April 30, 2008. The interest rate is West Bank's prime interest rate, adjusted daily. Monthly interest only payments are required and the unpaid principal is due on the maturity date. Collateral consists of a first position on assets owned by the Company including, but not limited to inventories, accounts receivable, machinery and equipment. As of May 31, 2007 and 2006, the Company had borrowed approximately \$94,000 and \$0, respectively. Total amount available for borrowing at May 31, 2007 was \$3,406,000. Other terms and conditions of the debt with West Bank include providing monthly internally prepared financial reports including accounts receivable aging schedules and borrowing base certificates and year-end audited financial statements. The borrowing base shall limit advances from line of credit to 60% of accounts receivable less than 90 days, 60% of finished goods inventory, 50% of raw material inventory and 50% of work-in-process inventory plus 40% of appraisal value of machinery and equipment.

J. Ward McConnell, Jr. was required to personally guarantee the debt with West Bank on an unlimited and unconditional basis. The guarantee of the term debt shall be reduced after the first three years to a percentage representing his ownership of the Company. Mr. McConnell's guarantee shall be removed from the term debt in the event that his ownership interest in the Company is reduced to a level less than 20% after the first three years of the loan. The Company compensates Mr. McConnell for his personal guarantee at an annual percentage rate of 2% of the

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outstanding balance to be paid monthly. Guarantee fee payments to Mr. McConnell were approximately \$30,000 and \$31,000, for the six months ended May 31, 2007, and 2006, respectively.

A summary of the Company's term debt is as follows:

|  | May 31,<br>2007 | November 30,<br>2006 |
|--|-----------------|----------------------|
| West Bank loan payable in monthly installments of \$17,776 including interest at Bank's prime rate plus 1.5%, due March 31, 2023 (A) (B) | \$ 1,682,057    | \$ 1,701,843         |
| West Bank loan payable in monthly installments of \$10,000 including interest at Bank's prime rate plus 1.5%, due March 31, 2015 (A) (B) | \$ 922,532      | \$ 943,034           |
| West Bank loan payable in monthly installments of \$22,063 including interest at Bank's prime rate plus 1.0% due April 2016              | \$1,377,582     | \$1,428,054          |
| Total term debt  | \$ 3,982,171    | \$ 4,072,931         |
| Less current portion of term debt  | \$ 278,686      | \$ 220,559           |
| Term debt, excluding current portion   | \$ 3,703,485    | \$ 3,852,372         |

(A) Notes are supported by a guarantee issued by the United States Department of Agriculture (USDA) for 75% of the loan amount outstanding. Collateral for these loans are primarily real estate with a second position on assets securing the line of credit. The USDA subordinates collateral rights in all assets other than real estate in an amount equal to West Bank's other credit commitments.

(B) Covenants include, but are not limited to, restrictions on payment of dividends, debt service coverage ratio, debt/tangible net worth ratio, current ratio, limitation on capital expenditures, and tangible net worth.

On June 7th, 2007 the Company restructured its long-term debt with West Bank. The Company will now have one loan for \$4,100,000. The loan matures on May 1, 2017 and bears interest at the U.S. daily 5-year treasury index (presently 4.16%) plus 2.75 bps fixed for 5 years and ten adjusted to the prevailing same index and margin on the sixth anniversary of the loan for the balance of the term. For the first five years the interest is capped at 7.25%. Monthly principal and interest payments in the amount of \$42,500 are required compared to \$50,000 with the previous three loans. The new loan will not be guaranteed by the USDA or by Mr. McConnell.

### 6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (Issued 6/06). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in

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interim periods, disclosure, and transition. For the Company, the Statement is effective for fiscal years beginning after December 15, 2006. The Company is assessing the effects of Financial Interpretation No. 48.

### 7. STOCK OPTION PLANS

On January 25, 2007 the Board of Directors adopted the 2007 Non-Employee Directors' Stock Option Plan. Options will be granted to non-employee directors to purchase shares of common stock of the Company at a price not less than fair market value at the date the options are granted. Non-employee directors are automatically or initially granted options to purchase 1,000 shares of common stock annually upon their election to the Board, which are automatically vested. Options granted are nonqualified stock options. The option price and terms are set by the Compensation Committee of the Board of Directors of the Company.

On February 5, 2007 the Board of Directors adopted the 2007 Employee Stock Option Plan which was approved by the stockholders at the Annual Stockholders' Meeting on April 26, 2007.

### 8. SUBSEQUENT EVENTS

On June 26, 2007 the Company announced that they had signed a letter of intent with Miller - St. Nazianz, Inc. The letter of intent calls for Miller - St. Nazianz to sell to Art's-Way Manufacturing Co., Inc. portions of its Miller Pro product offerings, specifically the hay and forage lines. The sale is to include all inventories, tooling and other proprietary rights of these products. Closing is scheduled before the next selling season in September. It is the intent of the Company to move the production of the Miller lines to its Armstrong, Iowa location where it produces its other agricultural equipment.

### 9. SEGMENT INFORMATION

On October 4, 2005, the Company purchased certain assets of Vessels Systems, Inc. which created a separate operating segment. On August 2, 2006, the Company purchased certain assets of Tech Space, Inc. which created a third operating segment. Prior to these acquisitions the Company operated in one reportable segment.

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

There are three reportable segments: agricultural products, pressurized vessels and modular buildings. The agricultural products segment fabricates and sells farming products as well as replacement parts for these products in the United States and worldwide. Export sales year to date amounted to \$460,000 and \$0 in 2007 and 2006 respectively. The pressurized vessel segment produces pressurized tanks. The modular building segment produces modular buildings for animal containment and various laboratory uses.

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies. Management evaluates the performance of each segment based on profit or loss from operations before income taxes, exclusive of nonrecurring gains and losses.

Approximate financial information with respect to the reportable segments is as follows. The agricultural products, pressurized vessels,

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and modular building segment information are for the three and six months ended May 31, 2007 and May 31, 2006.

### Three Months Ended May 31, 2007

|                                 | Agricultural<br>Products | Pressurized<br>Vessels | Modular<br>Buildings | Consolidated |
|---------------------------------|--------------------------|------------------------|----------------------|--------------|
| Revenue from external customers | 3,102,000                | 1,203,000              | 1,394,000            | 5,699,000    |
| Income from operations          | 98,000                   | 320,000                | 320,000              | 738,000      |
| Income before tax               | 93,000                   | 298,000                | 446,000              | 837,000      |
| Segment profit                  | 67,000                   | 197,000                | 294,000              | 558,000      |
| Total Assets                    | 13,031,000               | 2,098,000              | 2,677,000            | 17,806,000   |
| Capital expenditures            | 71,000                   | 11,000                 | 11,000               | 93,000       |
| Depreciation                    | 69,000                   | 13,000                 | 12,000               | 94,000       |

### Three Months Ended May 31, 2006

|                                 | Agricultural<br>Products | Pressurized<br>Vessels | Modular<br>Buildings | Consolidated |
|---------------------------------|--------------------------|------------------------|----------------------|--------------|
| Revenue from external customers | 3,301,000                | 811,000                | 0                    | 4,112,000    |
| Income from operations          | 106,000                  | 204,000                | 0                    | 310,000      |
| Income before tax               | 24,000                   | 211,000                | 0                    | 235,000      |
| Segment profit                  | 22,000                   | 131,000                | 0                    | 153,000      |
| Total Assets                    | 13,343,000               | 1,715,000              | 0                    | 15,058,000   |
| Capital expenditures            | 361,000                  | 17,000                 | 0                    | 378,000      |
| Depreciation                    | 69,000                   | 10,000                 | 0                    | 79,000       |

### Six Months Ended May 31, 2007

|                                 | Agricultural<br>Products | Pressurized<br>Vessels | Modular<br>Buildings | Consolidated |
|---------------------------------|--------------------------|------------------------|----------------------|--------------|
| Revenue from external customers | 6,374,000                | 2,254,000              | 2,346,000            | 10,974,000   |
| Income from operations          | 386,000                  | 530,000                | 329,000              | 1,245,000    |
| Income before tax               | 329,000                  | 486,000                | 606,000              | 1,421,000    |
| Segment profit                  | 217,000                  | 322,000                | 400,000              | 939,000      |
| Total Assets                    | 13,031,000               | 2,098,000              | 2,677,000            | 17,806,000   |
| Capital expenditures            | 116,000                  | 17,000                 | 31,000               | 164,000      |
| Depreciation                    | 129,000                  | 25,000                 | 16,000               | 170,000      |

### Six Months Ended May 31, 2006

|                                 | Agricultural<br>Products | Pressurized<br>Vessels | Modular<br>Buildings | Consolidated |
|---------------------------------|--------------------------|------------------------|----------------------|--------------|
| Revenue from external customers | 6,929,000                | 1,485,000              | 0                    | 8,414,000    |
| Income from operations          | 584,000                  | 217,000                | 0                    | 801,000      |
| Income before tax               | 433,000                  | 227,000                | 0                    | 660,000      |
| Segment profit                  | 284,000                  | 141,000                | 0                    | 425,000      |
| Total Assets                    | 13,343,000               | 1,715,000              | 0                    | 15,058,000   |
| Capital expenditures            | 681,000                  | 31,000                 | 0                    | 712,000      |
| Depreciation                    | 111,000                  | 21,000                 | 0                    | 132,000      |

### Item 2

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing



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elsewhere in this report. Management's discussion and analysis contains forward-looking statements that involve risks and uncertainties, including but not limited to, quarterly fluctuations in results; customer demand for our products; economic conditions; the achievement of lower costs and expenses; the continued availability of financing in the amount and on the terms required to support future business; and other risks detailed from time to time in our other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations.

(a) Plan of Operation

In the current fiscal year we plan to continue growth through new product development and when appropriate acquisition. We continue to look for new and better ways to improve our product offerings for our end users. We persist in our attempt to improve our efficiencies, through the implementation of lean manufacturing processes.

(b) Management's Discussion and Analysis of Financial Condition and Results of Operations

(i) Critical Accounting Policies

Our critical accounting policies involving the more significant judgments and assumptions used in the preparation of the financial statements as of May 31, 2007 have remained unchanged from November 30, 2006. These policies involve revenue recognition, inventory valuation and income taxes. Disclosure of these critical accounting policies is incorporated by reference under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" in our Annual Report on Form 10-KSB for the year ended November 30, 2006.

(ii) Results of Operations

Our consolidated net sales for the six months ended were \$10,974,000, representing a 30% increase compared to the same period one year ago. A majority of this increase was due to the inclusion of Art's-Way Scientific, Inc., net sales of \$2,346,000, for the six months just ended. Art's-Way Scientific, Inc. was acquired in August of 2006 and therefore was not included in last year's six months results. Art's-Way Manufacturing had revenues totaling \$6,374,000 for the six months, compared to \$6,929,000 for the same period in 2006. This decrease was due to a reduction in sales to our OEM dealers for blowers. Art's-Way Vessels had revenues totaling \$2,254,000 for the six months ended, compared to \$1,485,000 for the same period in 2006. Art's-Way Vessels has succeeded in increasing sales since the acquisition date through on time delivery of a quality product, to new and existing customers.

Consolidated gross profit increased during the quarter to 30% compared to 28% in the first quarter. Year to date gross profit is 29% compared to 32% in 2006. When we purchased Art's-Way Scientific we also purchased their backlog and had to honor pricing from the prior owners. Art's-Way Scientific's gross profit was 20% for the first quarter of 2007, year to date, gross profit has increased to 28%. Art's-Way Manufacturing's gross profit was 28% while Art's-Way Vessel's was 34% year to date.

Operating expenses for the quarter decreased \$32,000 compared to 2006. As a percent of sales, operating expenses decreased by seven percentage points- 17% in 2007 compared to 24% in 2006. Year to date operating expenses are 18% compared to 22% in 2006. Art's-Way Manufacturing's year to date operating expense as a percentage of sales was 22%, Art's-Way Vessel 11% and Art's-Way Scientific was 14%.

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General and administrative expenses for the quarter decreased \$86,000 as compared to 2006. Year to date general and administrative expenses as a percentage of sales was 12% compared to 15% in 2006.

Engineering expenses are up \$26,000 for the quarter compared to the same quarter in 2006. As a percent of year to date sales, engineering expenses remain consistent at 2% for both 2007 and 2006.

Selling expenses were up for the quarter by \$28,000 compared to the same quarter in 2006. As a percent of sales, year to date selling expenses are 4% compared to 5% in 2006.

Interest expense year to date remains consistent. Other income increased by \$312,000 in 2007 compared to 2006 as a result of our accounting for the fire and insurance recoveries in Monona, Iowa.

As previously disclosed on January 16th, 2007, one of our buildings in Monona, Iowa, was completely destroyed by fire. The building housed the production and offices for Art's-Way Scientific. The 36,000 square foot building was a stick built structure with steel siding. We were insured for the loss of the building, its contents as well as the disruption in business. We are currently working with our insurance company to settle the claim. At this time we have received \$500,000 towards the claim and we have booked a receivable for the estimated loss of the building of \$983,000. We have incurred costs in excess of \$900,000 related to the fire, including \$334,000 in losses of fixed assets. We are currently working from one of our other buildings in Monona, Iowa. We have started construction on our replacement building. The new building will be located in Monona on the same site as the building that was destroyed. It is our intent to be in a new building by September 2007. We continue to manufacture buildings and have not lost any orders to date.

The order backlog as of May 31, 2007 is \$12,105,000 compared to \$5,790,000 one year ago. Art's-Way Manufacturing's order backlog as of May is \$4,325,000 compared to \$3,099,000 in 2006, Art's-Way Vessels backlog is \$1,682,000 compared to \$2,691,000 in 2006, and Art's-Way Scientific's backlog is \$6,097,000.

### (iii) Liquidity and Capital Resources

Our main source of funds year to date came from customer deposits which increased \$1,687,000 over our 2006 year end. This is a traditional increase for us as our beet programs runs in the first quarter and we offer discounts to our customers for making down payments on their orders. We are working to settle the insurance claim for the building, inventory and assets that were destroyed in Monona, Iowa. We have currently recorded a gain of \$699,000 as the result of the difference between anticipated fire insurance proceeds and the net book value of assets destroyed in the fire. We are also showing proceeds from insurance recoveries of \$500,000 that relates directly to the expected insurance proceeds on the building. Inventories increased \$2,253,000. We have bought in large quantities of steel for our current build of sugar beet equipment.

See footnote 5 of the notes to the consolidated condensed financial statements for a discussion of our credit facilities.

### Item 3

#### CONTROLS AND PROCEDURES

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Senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure; and (b) recorded, processed, summarized and reported, within the time specified in the SEC's rules and forms. Since that evaluation process was completed there have been no significant changes in our disclosure controls or in other factors that could significantly affect these controls.

There were no changes in our internal control over financial reporting, identified in connection with this evaluation that occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Part II - Other Information

#### ITEM 1. LEGAL PROCEEDINGS

During the period covered by this report, we were not a party to any legal action or claim which was other than routine litigation incidental to our business.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At our annual meeting of stockholders held April 26, 2007, the following individuals were elected to our Board of Directors to hold office until the next annual meeting or until their successors are elected and qualified, with the following votes in favor of election:

|                        | FOR       | WITHHELD |
|------------------------|-----------|----------|
| David R. Castle        | 1,918,858 | 20,323   |
| Fred W. Krahmer        | 1,918,458 | 20,323   |
| James Lynch            | 1,918,458 | 20,323   |
| Douglas McClellan      | 1,918,458 | 20,323   |
| J. Ward McConnell, Jr. | 1,918,458 | 20,323   |
| Marc H. McConnell      | 1,918,458 | 20,323   |
| Thomas E. Buffamante   | 1,918,458 | 20,323   |

The stockholders ratified the selection of Eide Bailly, LLP as independent public accountants for the year ending November 30, 2007.

Total number of shares voted in favor: 1,934,194  
Total number of shares voted against: 2,501  
Total number of abstentions: 2,086  
Total number of broker non-votes: 0

The stockholders also approved the adoption of the Art's-Way Manufacturing Co., Inc. 2007 Stock Option Plan.

Total number of shares voted in favor: 1,050,206  
Total number of shares voted against: 54,980  
Total number of abstentions: 3,066  
Total number of broker non-votes: 830,529

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ITEM 6. EXHIBITS

See Exhibit Index on page 15 of this report.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ART'S-WAY MANUFACTURING CO., INC.

By: \_\_\_\_\_  
E.W. Muehlhausen  
President  
Date:\_\_\_\_\_

By: \_\_\_\_\_  
Carrie L. Majeski  
Chief Financial Officer  
Date:\_\_\_\_\_

Exhibits Index

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer under 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer under 18 U.S.C. Section 1350.