ARTS WAY MANUFACTURING CO INC
Form 10-Q
October 15, 2002

Appendix A to Item 601(c) of Regulation S-K
Commercial and Industrial Companies
Article 5 of Regulation S-X
Quarter Ended August 31, 2002

Item Number	Item Description	Amount
5-02(1)	Cash and cash items	27,314
5-02(2)	Marketable securities	-
5-02(3)(a)(1)	Notes and accounts receivable-trade	1,061,846
5-02(4)	Allowances for doubtful accounts	58,268
5-02(6)	Inventory	4,108,560
5-02(9)	Total current assets	5,315,603
5-02(13)	Property, plant and equipment	10,614,924
5-02(14)	Accumulated depreciation	9,682,209
5-02(18)	Total assets	6,248,318
5-02(21)	Total current liabilities	3,218,671
5-02(22)	Bonds, mortgages and similar debt	2,142,675
5-02(28)	Preferred stock-mandatory redemption	-
5-02(29)	Preferred stock-no mandatory redemption	-
5-02(30)	Common stock	19,382
5-02(31)	Other stockholders' equity	2,792,265
5-02(32)	Total liabilities and stockholders' equity	6,248,318
5-03(b)1(a)	Net sales of tangible products	3,226,991
5-03(b)1	Total revenues	3,226,991
5-03(b)2(a)	Cost of tangible goods sold	2,379,772
5-03(b)2	Total costs and expenses applicable to sales and revenues	508,196
5-03(b)3	Other costs and expenses	24,995
5-03(b)5	Provision for doubtful accounts and notes	4,500
5-03(b)8	Interest and amortization of debt discount	44,060
5-03(b)10	Income before taxes and other items	265,467
5-03(b)11	Income tax benefit	-
5-03(b)14	Income from continuing operations	265,467
5-03(b)(15)	Discontinued operations	-
5-03(b)(17)	Extraordinary items	-
5-03(b)(18)	Cumulative effect-changes in accounting principles	-
5-03(b)19	Net income	265,467
5-03(b)20	Income per share-primary	0.14
5-03(b)20	Income per share-fully diluted	0.14

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended August 31, 2002 Commission File No. 0-5131

ART'S-WAY MANUFACTURING CO., INC.
(Exact name of registrant as specified in its charter)

DELAWARE	42-0920725
State of Incorporation	I.R.S. Employer Identification No.
Hwy 9 West, Armstrong, Iowa	50514
Address of principal executive offices	Zip Code

Registrant's telephone number, including area code: (712) 864-3131

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of September 11, 2002:

1,938,176
Number of Shares

ART'S-WAY MANUFACTURING CO., INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Year To Date	
	August 31, 2002	August 31, 2001	August 31, 2002	August 31, 2001
NET SALES	$3,226,991	$2,615,463	$8,121,504	$8,015,442
COST OF GOODS SOLD	2,379,773	2,102,054	6,062,166	6,391,012
GROSS PROFIT	847,218	513,409	2,059,338	1,624,430
EXPENSES:				
Engineering	19,203	33,776	49,840	173,878
Selling	186,594	131,423	438,030	382,616
General and Administrative	306,899	337,036	1,114,262	1,085,259
Total	512,696	502,235	1,602,132	1,641,753
INCOME (LOSS) FROM OPERATIONS	334,522	11,174	457,206	(17,323)
OTHER DEDUCTIONS:				
Interest expense	(44,060)	(95,953)	(138,874)	(325,661)
Other	(24,995)	(17,064)	(70,902)	(90,003)
Other deductions	(69,055)	(113,017)	(209,776)	(415,664)
INCOME (LOSS) BEFORE INCOME TAXES	265,467	(101,843)	247,430	(432,987)
INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	$ 265,467	$(101,843)	$247,430	$(432,987)
INCOME (LOSS) PER				

SHARE (NOTE 2):				
Basic	$ 0.14	(0.08)	$ 0.14	$ (0.34)
Diluted	$ 0.14	(0.08)	$ 0.14	$ (0.34)
COMMON SHARES AND EQUIVALENT OUTSTANDING:				
Basic	1,938,176	1,298,176	1,765,330	1,273,447
Diluted	1,943,186	1,298,176	1,767,955	1,273,447

See accompanying notes to financial statements.

ART'S-WAY MANUFACTURING CO., INC.
CONDENSED BALANCE SHEETS

	August 31, 2002 (Unaudited)	November 30, 2001
ASSETS		
CURRENT ASSETS		
Cash	$ 27,314	$ 4,375
Accounts receivable-customers, net of allowance for doubtful accounts of $58,268 and $55,301 in August and November, respectively	1,003,578	922,168
Inventories	4,108,560	4,690,008
Other current assets	176,151	54,157
Total current assets	5,315,603	5,670,708
PROPERTY, PLANT AND EQUIPMENT, at cost	10,614,924	10,583,740
Less accumulated depreciation	9,682,209	9,499,347
Net property, plant and equipment	932,715	1,084,393
TOTAL	$ 6,248,318	$ 6,755,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable to bank	$ 1,175,935	$ 2,073,704
Current portion of term debt	748,740	962,040
Accounts payable	512,620	984,052
Customer deposits	42,961	64,449
Accrued expenses	738,415	634,306
Total current liabilities	3,218,671	4,718,551
TERM DEBT, excluding current portion	218,000	272,333
STOCKHOLDERS' EQUITY:		
Common stock - $.01 par value. Authorized 5,000,000 shares; issued 1,938,176 shares in August and 1,340,778 shares in November	19,382	13,408
Additional paid-in capital	1,634,954	1,249,611
Retained earnings	1,157,311	909,881
	2,811,647	2,172,900
Less cost of common shares in treasury of 0 shares in August, 2002 and 42,602 shares in November, 2001	-	408,683
Total stockholders' equity	2,811,647	1,764,217

TOTAL	$ 6,248,318	$ 6,755,101

See accompanying notes to financial statements.

ART'S-WAY MANUFACTURING CO., INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	NINE MONTHS ENDED	
	August 31, 2002	August 31, 2001
CASH FLOWS FROM OPERATIONS:		
Net income (loss)	$ 247,430	$ (432,987)
Adjustment to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	182,862	383,458
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(81,410)	59,755
Inventories	581,448	282,447
Sundry	(121,994)	(124,224)
Increase (Decrease) in:		
Accounts payable	(471,432)	457,132
Customer deposits	(21,488)	(6,476)
Accrued expenses	104,109	(308,286)
Total adjustments	172,095	743,806
Net cash provided by operations	419,525	310,819
CASH USED IN INVESTING ACTIVITIES-		
Purchases of property, plant and equipment	(31,184)	(58,534)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments of notes payable to bank	(897,769)	(63,344)
Principal payments on term debt	(267,633)	(270,256)
Proceeds from issuance of common stock from treasury	53,253	91,705
Proceeds from issuance of common stock	746,747	-
Net cash used in financing activities	(365,402)	(241,895)
Net increase in cash	22,939	10,390
Cash at beginning of the period	4,375	4,375
Cash at end of the period	$ 27,314	$ 14,765
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 138,874	$ 325,661
Income taxes	4,032	4,276

See accompanying notes to financial statements.

ART'S-WAY MANUFACTURING CO., INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

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-K for the year ended November 30, 2001. The results of operations for the third quarter and year to date ended August 31, 2002 are not necessarily indicative of the results for the fiscal year ending November 30, 2002.

2. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share are computed on the basis of weighted average number of common shares. Diluted earnings (loss) per share are computed on the basis of weighted average number of common shares plus equivalent shares assuming exercise of stock options.

The difference in shares utilized in calculating basic and diluted loss per share represents the number of shares issued under the Company's stock option plans less shares assumed to be purchased with proceeds from the exercise of the stock options. Due to the net loss year to date August 31, 2001, and for the quarter ended August 31, 2001, the anti-dilutive effect of the Company's stock option plans is not included in the calculation of diluted loss per share for these periods. The reconciling item between the shares used in the computation of basic and diluted earnings per share for the quarter and year to date ended August 31, 2002 is 5,010 and 2,625 equivalent shares, respectively, for the effect of dilutive stock options.

3. INVENTORIES

Major classes of inventory are:	August 31, 2002	November 30, 2001
Raw material	$ 780,714	$ 749,544
Work-in-process	967,321	1,181,870
Finished goods	2,360,525	2,758,594
Total	$ 4,108,560	$ 4,690,008

4. ACCRUED EXPENSES

Major components of accrued expenses are:

	August 31, 2002	November 30, 2001
Salaries, wages and commissions	$ 395,421	$ 294,961
Accrued warranty expense	54,100	67,426
Other	288,894	271,919
Total	$ 738,415	$ 634,306

5. LOAN AND CREDIT AGREEMENTS

Line of Credit

The Company has a credit agreement with a lending institution (lender) that provides for a revolving line of credit (credit facility) and a term loan. The credit facility allows for borrowings up to $4,500,000, subject to borrowing base limitations based on the Company's accounts receivable and inventory, and allowing for letters of credit in the amount of $100,000. At August 31, 2002, the Company has borrowed $1,175,935 and has $100,000 in outstanding letters of credit. At November 30, 2001, the Company had borrowed $2,073,704 and had $100,000 in outstanding letters of credit. At August 31, 2002 and November 30, 2001, $642,000 and $68,000 were available for borrowings, respectively. The interest rate is based on the lender's referenced rate and is variable based upon certain performance objectives. Under the terms of the agreement, the Company will not pay more than 4% over the reference rate, nor less than the reference rate during the term of the agreement. The outstanding borrowings bear interest at 8.75% at August 31, 2002.

The term loan was for an original principal amount of $1,991,000. The principal amount is repayable in monthly installments of $23,700 with the remaining balance due on demand.

All loans, advances and other obligations, liabilities and indebtedness of the Company are secured by all present and future assets. The Company pays an unused line fee equal to three-eighths of one percent of the unused portion of the revolving line of credit.

During 1999, the Company was notified by its lender that the Company does not fit the lender's customer profile and was requested to relocate its financing needs.

At November 30, 2000 and 1999, the Company was in default of a loan covenant, the fixed maturity coverage ratio, of their credit facility and term loan. The lender notified the Company that the current loan agreement provided that the lender may, as a result of any event of default, accelerate the payment of all obligations. As a result, all term borrowings associated with this lender had been classified as current. The lender did not call for the acceleration of the payment of all obligations, but retained the right to do so at any time.

The initial term of the loan agreement ended on August 31, 2000. In a letter dated May 26, 2000, the Company was notified that the lender did not intend to extend the term of the loan agreement beyond the termination date. Therefore, all of the obligations outstanding under the credit agreement and term loan amounting to $4,383,825 at August 31, 2000 were due and payable on August 31, 2000.

During the period between August 31, 2000 and August 31, 2001, the loan agreement was amended several times to provide for extensions of various lengths from 30 days to 90 days. On September 1, 2001, the lender sold the loan to another lending institution (new lender). Under this arrangement, the Company continued to operate under the same terms as existed prior to the sale. The new lender granted an extension from September 1, 2001 through November 15, 2001, but has not granted an extension beyond this date.

Although there is no documented extension, the new lender has submitted a financing proposal to the Company in regards to long-term financing. The final terms of the proposal are currently being negotiated.

The Company believes a new credit facility will be obtained from the new lender and that it will be able to meet its obligations under the new credit agreement when completed, although there are no assurances of such. If the Company is unable to obtain a new credit agreement, it will be unable to pay its outstanding balance due upon foreclosure.

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

	August 31, 2002	November 30, 2001
Installment term debt payable in monthly installments of $23,700, plus interest at four percent over the bank's national money market rate (8.75%), secured by the cash, accounts receivable, inventories and property, plant and equipment	$ 676,470	$ 889,771
State of Iowa Community Development Block Grant promissory notes at zero percent interest, maturity 2006, with quarterly principal payments of $11,111	$ 177,778	$ 211,111
State of Iowa Community Development Block Grant local participation promissory notes at 4% interest, maturity 2006, with quarterly payments of $7,814	$ 112,492	$ 133,491
Total term debt	$ 966,740	$1,234,373
Less current portion of term debt	$ 748,740	$ 962,040
Term debt, excluding current portion	$ 218,000	$ 272,333

6. RELATED PARTY TRANSACTION

In February 2002, the Company sold common stock to an existing shareholder, Mr. J. Ward McConnell, Jr., at estimated fair value. Proceeds from the sale of common stock were $800,000. Mr. McConnell has agreed that without prior approval of the Board of Directors, excluding himself and his son, he will not acquire as much as fifty percent (50%) of the Company's common stock and will not take the company private. Immediately after the transaction, Mr. McConnell was elected as Chairman of the Board of Directors of the Company. His son, Marc McConnell, is also a Board Member.

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(a) Liquidity and Capital Resources

For the nine months ended August 31, 2002, the Company has funded its working capital requirements through operations. The capital infusion by a private investor has allowed for payments on the note payable and term debt.

The Company continues to operate under the terms and conditions of a credit agreement that expired November 15, 2001. Under the terms of the agreement, all cash received by the Company is applied to the bank indebtedness. Based upon levels of accounts receivable and inventory, the Company borrows funds necessary to meet current obligations. The amounts available for borrowing at August 31, 2002 and November 30, 2001, were $642,000 and $68,000, respectively.

The Company is negotiating on terms with a lender in regards to a proposal for long-term financing. The proposed lender has indicated a sincere interest in consummating an agreement and the Company believes a new credit facility will be obtained, although there are no assurances of such.

Also see footnote 5 of the notes to the condensed financial statements for a discussion of the Company's credit facility.

As of August 31, 2002, the Company had no material commitments for capital expenditures.

On February 12, 2002, the Company sold to J. Ward McConnell, Jr. a private investor, 640,000 shares of common stock for $800,000. The proceeds were used for the repayment of current obligations and for the reduction of bank debt. Mr. McConnell has agreed that without prior approval of the Board of Directors, excluding himself and his son, he will not acquire as much as fifty percent (50%) of the Company's common stock and will not take the Company private.

The Company is mindful of the necessity to continue to control its costs, as it intends to finance its working capital and pay down its debt through cash from operations. The Company believes that the infusion of capital from Mr. McConnell will also enable it to successfully complete negotiations with its lender, although there can be no assurances that these negotiations will be successfully concluded.

(b) Results of Operations

Fiscal year 2002 third quarter and year to date sales were 23% and 1%, respectively, higher than for the comparable periods one-year ago. This increase in sales reflects a stronger demand for our sugar beet harvesting equipment. Although there is a continuing weakness in the farm economy, demand for our feed processing and land maintenance equipment is above expectations and replacement parts sales remain srong.

Gross profit, as a percent of sales, was 26% for the quarter ended August 31, 2002, as compared to 20% for the same period in 2001. Year to date through August 31, 2002, gross profit was 25% compared to 20% for the prior year. A combination of a favorable product mix in the current year and sales of distressed inventory at low margins in the prior year account for the improvement. The sale of distressed inventory in the prior year served to reduce gross profit by approximately 2% for both the quarter and year-to-date ended August 31, 2001.

Operating expenses were comparable to last year. As a percent of sales, operating expenses were 16% and 19% for the three months ended August 31, 2002 and 2001, respectively, and 20% year to date August 31, 2002 and 2001. As a result of cost reduction programs, engineering expenses decreased by $15,000 for the quarter and $124,000 year to date compared to the same periods of the previous year. We currently expect these lower engineering costs to continue throughout fiscal year 2002. Sales costs increased $55,000 for the quarter and year to date due to commissions on the higher level of sales.

Other deductions decreased by $44,000 for the quarter and $206,000 year to date from the previous year. Reduction in bank borrowings combined with lower prime interest rate and reduced volume in our financed acccounts receivable resulted in this reduction.

The order backlog as of August 31, 2002 is $1,354,000, compared to $1,142,000 one year ago. These orders primarily will be delivered by the end of the fourth quarter of the current fiscal year.

(c) Quantitative and Qualitative Disclosures About Market Risk

The Company does not have any additional market risk exposure other than what was outlined in the November 30, 2001, 10-K filing.

(d) Critical Accounting Policies

The Company has identified the following accounting policies as critical to its operations.

Revenue Recognition - Revenue is recognized when risk of ownership passes to the buyer. This generally occurs when the Company's product is shipped from its facility to the customer. Products delivered to dealers on a consignment basis are not recognized in revenue until the cash is collected from the dealer.

Allowance for Bad Debts - In determining an allowance for receivables with potential collectibility issues, the Company considers the age of the receivable, the customer credit history and the reasons for non-payment.

Inventory Valuation - The Company values its inventory based on a standard costing system and uses the first in, first out method. Slow moving inventory is evaluated on a quarterly basis, and is written down to the Company's estimate of net realizable value. As the agriculture industry changes, inventory items can become outdated and the Company evaluates this on a regular basis. If a product is determined to be outdated, the Company will mark it down to its net realizable value and attempt to sell it at a discounted price.

Part II - Other Information

ITEM 1. LITIGATION AND CONTINGENCIES

Various legal actions and claims are pending against the Company consisting of ordinary routine litigation incidental to the business. In the opinion of management and outside counsel, appropriate provisions have been made in the accompanying financial statements for all pending legal actions and other claims.

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

On June 14, 2002, the Company held a Special Meeting of stockholders for the purpose of ratifying the sale of 640,000 shares of our common stock to J. Ward McConnell, Jr. at a price of $1.25 per share.

The following information is submitted:

(a) A special meeting was held on June 14, 2002.

(b) The shareholders voted on a motion to ratify the sale of 640,000 shares of our common stock to J. Ward McConnell, Jr. at a price of $1.25 per share.

Total number of shares authorized to vote: 1,162,976
Total number of shares voted in favor: 684,772
Total number of shares voted against: 2,078
Total number of abstentions: 1,637

ITEM 6. EXHIBITS

99. Certifications of Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ART'S-WAY MANUFACTURING CO., INC.

Date October 15, 2002 /s/William T. Green
(William T. Green, Acting Chief Financial Officer)

Date October 15, 2002 /s/John C. Breitung
(John C. Breitung, President)

CERTIFICATION OF FINANCIAL STATEMENTS

Pursuant to 18 U.S.C. 63 1350, the Chief Executive Officer and the Chief Financial Officer of Art's-Way Manufacturing Co., Inc. (the "Company"), hereby certify that this Form 10-Q and the financial statements thereto fully comply with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q and the financial statements thereto fairly present, in all material respects, the financial condition and results of operations of the Company.

John C. Breitung — Chief Executive Officer

William T. Green — Acting Chief Financial Officer

October 15, 2002
Date

OM504758.1

CERTIFICATIONS

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Public Law Number 107-204), the Chief Executive Officer of the Company certifies that:

1) I have reviewed this report;

2) Based upon my knowledge, this report does not contain any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based upon my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations, and cash flows of the Company as of, and for, the period presented in this report;

4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the Company and its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days prior to the filing date of this report (the "Evaluation Date");

   c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company board of directors (or persons performing equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6) The Company's other certifying officers have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

John C. Breitung
Chief Executive Officer

October 15, 2002
Date

OM504759.1

CERTIFICATIONS

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Public Law Number 107-204), the Chief Financial Officer of the Company certifies that:

1) I have reviewed the report;

2) Based upon my knowledge, this report does not contain any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based upon my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations, and cash flows of the Company as of, and for, the period presented in this report;

4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the Company and its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days prior to the filing date of this report (the "Evaluation Date");

   c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company board of directors (or persons performing equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6) The Company's other certifying officers have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

William T. Green
Acting Chief Financial Officer

October 15, 2002
Date

OM504760.1