

ARTS WAY MANUFACTURING CO INC  
Form 10-Q  
April 15, 2013

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended February 28, 2013

or

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 registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

42-0920725  
(I.R.S. Employer Identification No.)

5556 Highway 9  
Armstrong, Iowa 50514  
(Address of principal executive offices)

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

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 (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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large Accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)   
smaller reporting company

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

Number of common shares outstanding as of April 10, 2013: 4,039,052

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

ART'S-WAY MANUFACTURING CO., INC.  
Condensed Consolidated Balance Sheets

|  | (Unaudited)          |                      |
|--|----------------------|----------------------|
| Assets   | February 28,<br>2013 | November 30,<br>2012 |
| <b>Current assets:</b>   |                      |                      |
| Cash   | \$ 3,571,234         | \$ 1,546,609         |
| Accounts receivable-customers, net of allowance for doubtful accounts<br>of \$32,976 and \$27,958 in 2013 and 2012, respectively                     | 2,740,044            | 2,778,007            |
| Inventories, net   | 14,126,345           | 14,327,482           |
| Deferred taxes   | 1,061,806            | 1,061,806            |
| Cost and Profit in Excess of Billings  | 59,919               | 102,058              |
| Other current assets   | 329,657              | 309,800              |
| <b>Total current assets</b>  | <b>21,889,005</b>    | <b>20,125,762</b>    |
| Property, plant, and equipment, net  | 9,536,135            | 9,562,698            |
| Assets held for lease, net   | 313,113              | 340,979              |
| Assets held for sale, net  | -                    | 205,508              |
| Goodwill and other Intangibles   | 993,729              | 993,729              |
| <b>Total assets</b>  | <b>\$ 32,731,982</b> | <b>\$ 31,228,676</b> |
| <b>Liabilities and Stockholders' Equity</b>  |                      |                      |
| <b>Current liabilities:</b>  |                      |                      |
| Current portion of term debt   | 1,180,751            | 1,165,177            |
| Accounts payable   | 1,092,789            | 654,322              |
| Customer deposits  | 2,011,484            | 232,300              |
| Billings in Excess of Cost and Profit  | 547,042              | 1,125,666            |
| Accrued expenses   | 1,734,485            | 1,960,240            |
| Income taxes payable   | 364,273              | 821,300              |
| <b>Total current liabilities</b>   | <b>6,930,824</b>     | <b>5,959,005</b>     |
| <b>Long-term liabilities</b>   |                      |                      |
| Deferred taxes   | 897,492              | 897,492              |
| Long Term debt, excluding current portion  | 7,013,190            | 7,300,957            |
| <b>Total liabilities</b>   | <b>14,841,506</b>    | <b>14,157,454</b>    |
| <b>Stockholders' equity:</b>   |                      |                      |
| Undesignated preferred stock - \$0.01 par value. Authorized 500,000<br>shares in 2013 and 2012; issued and outstanding 0 shares in 2013 and<br>2012. |                      |                      |
| Common stock – \$0.01 par value. Authorized 9,500,000 shares in 2013<br>and 2012; issued and outstanding 4,035,052 in 2013 and 2012                  | 40,351               | 40,351               |
| Additional paid-in capital   | 2,540,320            | 2,540,320            |
| Retained earnings  | 15,309,805           | 14,490,551           |
| <b>Total stockholders' equity</b>  | <b>17,890,476</b>    | <b>17,071,222</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 32,731,982</b> | <b>\$ 31,228,676</b> |

See accompanying notes to condensed consolidated financial statements.

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ART'S-WAY MANUFACTURING CO., INC.  
Condensed Consolidated Statements of Operations  
(Unaudited)

Three Months Ended

|  | February 28, 2013 | February 29, 2012 |
|--|-------------------|-------------------|
| Net sales  | \$ 8,415,104      | \$ 6,312,216      |
| Cost of goods sold   | 6,045,941         | 4,835,995         |
| Gross profit   | 2,369,163         | 1,476,221         |
| Expenses:  |                   |                   |
| Engineering  | 102,567           | 85,060            |
| Selling  | 489,736           | 366,783           |
| General and administrative   | 1,064,112         | 662,125           |
| Total expenses   | 1,656,415         | 1,113,968         |
| Income from operations   | 712,748           | 362,253           |
| Other income (expense):  |                   |                   |
| Interest expense   | (89,463 )         | (93,041 )         |
| Other  | 638,142           | 19,865            |
| Total other income (loss)  | 548,679           | (73,176 )         |
| Income before income taxes   | 1,261,427         | 289,077           |
| Current tax expense  | 442,173           | 57,075            |
| Deferred tax expense   | -                 | 38,504            |
| Net income   | \$ 819,254        | \$ 193,498        |
| Net income per share:  |                   |                   |
| Basic net income per share   | \$ 0.20           | \$ 0.05           |
| Diluted net income per share   | \$ 0.20           | \$ 0.05           |
| Weighted average outstanding shares used to compute basic net income per share   | 4,035,052         | 4,028,193         |
| Weighted average outstanding shares used to compute diluted net income per share | 4,047,134         | 4,046,125         |

See accompanying notes to condensed consolidated financial statements.

ART'S-WAY MANUFACTURING CO., INC.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|  | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | February 28,<br>2013 | February 29,<br>2012 |
| <b>Cash flows from operations:</b>   |                      |                      |
| Net income   | \$819,254            | \$193,498            |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                      |                      |
| Stock based compensation   | -                    | 10,692               |
| (Gain) on disposal of property, plant, and equipment                                     | (630,028 )           | -                    |
| Depreciation expense   | 198,753              | 190,661              |
| Amortization expense   | -                    | 15,000               |
| Bad debt expense   | 5,018                | -                    |
| Deferred income taxes  | -                    | 38,504               |
| <b>Changes in assets and liabilities net of Universal Harvester acquisition:</b>         |                      |                      |
| <b>(Increase) decrease in:</b>   |                      |                      |
| Accounts receivable  | 32,945               | (1,068,758 )         |
| Inventories  | 201,137              | (1,130,456 )         |
| Income taxes receivable  | -                    | (28,097 )            |
| Other current assets   | (19,856 )            | (182,151 )           |
| <b>Increase (decrease) in:</b>   |                      |                      |
| Accounts payable   | 438,467              | 1,115,086            |
| Contracts in progress, net   | (536,485 )           | 347,410              |
| Customer deposits  | 1,779,184            | 1,827,356            |
| Income taxes payable   | (457,028 )           | (350,997 )           |
| Accrued expenses   | (225,755 )           | (264,319 )           |
| Net cash provided by operating activities  | 1,605,606            | 713,429              |
| <b>Cash flows from investing activities:</b>   |                      |                      |
| Purchases of property, plant, and equipment  | (144,325 )           | (105,601 )           |
| Proceeds from sale of Armstrong, IA land and Salem, SD building                          | 835,536              | -                    |
| Net cash provided by (used in) investing activities                                      | 691,211              | (105,601 )           |
| <b>Cash flows from financing activities:</b>   |                      |                      |
| Net change in line of credit   | -                    | (246,965 )           |
| Payments of notes payable to bank  | (272,192 )           | (163,299 )           |
| Net cash (used in) financing activities  | (272,192 )           | (410,264 )           |
| Net increase in cash   | 2,024,625            | 197,564              |
| Cash at beginning of period  | 1,546,609            | 118,924              |
| Cash at end of period  | \$3,571,234          | \$316,488            |
| <b>Supplemental disclosures of cash flow information:</b>                                |                      |                      |
| <b>Cash paid during the period for:</b>  |                      |                      |
| Interest   | \$89,463             | \$94,317             |
| Income taxes   | 899,200              | 436,900              |

See accompanying notes to condensed consolidated financial statements.





Notes to Unaudited Condensed Consolidated Financial Statements

(1) Description of the Company

Unless otherwise specified, as used in this Quarterly Report on Form 10-Q, the terms “we,” “us,” “our,” “Art’s-Way,” and the “Company,” refer to Art’s-Way Manufacturing Co., Inc., a Delaware corporation headquartered in Armstrong, Iowa, and its wholly-owned subsidiaries.

We began operations as a farm equipment manufacturer in 1956. Since that time, we have become a major worldwide manufacturer of agricultural equipment. Our principal manufacturing plant is located in Armstrong, Iowa.

We have organized our business into three operating segments. Management separately evaluates the financial results of each segment because each is a strategic business unit offering different products and requiring different technology and marketing strategies. Our agricultural products segment (“Manufacturing”), manufactures farm equipment under the Art’s-Way Manufacturing label and private labels. Our pressurized vessels segment (“Vessels”), manufactures pressurized vessels and our modular buildings segment (“Scientific”), manufactures modular buildings for various uses, commonly animal containment and research laboratories. For detailed financial information relating to segment reporting, see Note 12, “Segment Information.”

On May 10, 2012, the Company acquired the assets of Universal Harvester Co., Inc. consisting of inventory, equipment, land, building, goodwill, and intangible assets. Universal Harvester Co., Inc. manufactured pickup reels for combines and swathers. The existing Universal Harvester Co., Inc. operational team was hired on May 11, 2012 to continue the manufacturing of pickup reels. The acquired assets and operations are reported with our agricultural products segment. For detailed financial information related to the acquisition, see Note 10, “Acquisitions.”

(2) Summary of Significant Account Policies

Statement Presentation

The foregoing condensed consolidated financial statements of the Company 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 fiscal year ended November 30, 2012. The results of operations for the three months ended February 28, 2013 are not necessarily indicative of the results for the fiscal year ending November 30, 2013.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the three months ended February 28, 2013. Actual results could differ from those estimates.

(3) Net Income Per Share of Common Stock

Basic net income per common share has been computed on the basis of the weighted average number of common shares outstanding. Diluted net income per share has been computed on the basis of the weighted average number of common shares outstanding plus equivalent shares assuming exercise of stock options.



Basic and diluted earnings per common share have been computed based on the following as of February 28, 2013 and February 29, 2012:

|   | For the three months ended |                      |
|---|----------------------------|----------------------|
|   | February 28,<br>2013       | February 29,<br>2012 |
| <b>Basic:</b>   |                            |                      |
| Numerator: net income   | 819,254                    | 193,498              |
| Denominator: average number of common shares outstanding          | 4,035,052                  | 4,028,193            |
| Basic earnings per common share                                   | 0.20                       | 0.05                 |
| <b>Diluted:</b>   |                            |                      |
| Numerator: net income   | 819,254                    | 193,498              |
| Average number of common shares outstanding                       | 4,035,052                  | 4,028,193            |
| Effect of dilutive stock options                                  | 12,082                     | 17,932               |
| Denominator: dilutive average number of common shares outstanding | 4,047,134                  | 4,046,125            |
| Diluted earnings per common share                                 | 0.20                       | 0.05                 |

(4) Inventory

Major classes of inventory are:

|                 | February 28,<br>2013 | November 30,<br>2012 |
|-----------------|----------------------|----------------------|
| Raw materials   | \$9,291,987          | \$8,466,060          |
| Work in process | 334,271              | 632,969              |
| Finished goods  | 7,077,804            | 7,694,528            |
|                 | \$16,704,062         | \$16,793,557         |
| Less: Reserves  | (2,577,717 )         | (2,466,075 )         |
|                 | \$14,126,345         | \$14,327,482         |

(5) Accrued Expenses

Major components of accrued expenses are:

|                                  | February 28,<br>2013 | November 30,<br>2012 |
|----------------------------------|----------------------|----------------------|
| Salaries, wages, and commissions | \$797,124            | \$924,123            |
| Accrued warranty expense         | 575,330              | 578,864              |
| Other                            | 362,031              | 457,253              |
|                                  | \$1,734,485          | \$1,960,240          |

(6) Product Warranty

The Company offers 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 the 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. The accrued warranty balance is included in accrued expenses as shown in Note 5.

Changes in the Company's product warranty liability for the three months ended February 28, 2013 and February 29, 2012 are as follows:

|                                     | For the three months ended |                      |
|-------------------------------------|----------------------------|----------------------|
|                                     | February 28,<br>2013       | February 29,<br>2012 |
| Balance, beginning                  | \$578,864                  | \$201,630            |
| Settlements made in cash or in-kind | (168,689 )                 | (143,059 )           |
| Warranties issued                   | 165,155                    | 125,566              |
| Balance, ending                     | \$575,330                  | \$184,137            |

(7) Loan and Credit Agreements

The Company has a \$6,000,000 revolving line of credit with West Bank (the "Line of Credit") which is scheduled to mature on April 30, 2013. The Line of Credit is renewable annually with advances funding the Company's working capital and letter of credit needs. The interest rate is West Bank's prime interest rate, adjusted daily, with a minimum rate of 4.00%. As of February 28, 2013, the interest rate was the minimum of 4.0%. Monthly interest-only payments are required and the unpaid principal is due on the maturity date. As of each of February 28, 2013 and November 30, 2012, the Company had no principal balance outstanding against the Line of Credit. The available amount remaining on the Line of Credit was \$6,000,000 on each of February 28, 2013 and November 30, 2012. The borrowing base limits advances from the Line of Credit to 60% of accounts receivable less than 90 days, 60% of finished goods inventory, 50% of raw material inventory and work-in-process inventory, plus 40% of Net Book Value of Fixed Assets as calculated at each month-end. The Company's obligations under the Line of Credit are evidenced by a Business Loan Agreement effective April 26, 2012 (the "Business Loan Agreement"), a Promissory Note dated April 26, 2012 and certain other ancillary documents. The Company is currently assessing the need to renew the Line of Credit as it pertains to future business needs.

On June 7, 2007, the Company obtained a term loan from West Bank in the amount of \$4,100,000. On April 26, 2012, the Company refinanced the existing long-term debt in the amount of \$2,659,000. The loan, which had an outstanding principal balance of \$2,337,000 as of February 28, 2013, matures on April 1, 2017 and bears fixed interest at 4.750%. Monthly principal and interest payments in the amount of \$42,500 are required, with a final payment of principal and accrued interest in the amount of \$536,000 due on April 1, 2017.

The Company obtained two additional loans from West Bank in 2007 for the purpose of financing the construction of the Company's new facilities in Monona and Dubuque. On October 9, 2007, the Company obtained a loan for \$1,330,000. On April 26, 2012, the Company refinanced the existing long-term debt in the amount of \$1,074,000. The loan, which had an outstanding principal balance of \$1,007,000 as of February 28, 2013, matures on April 1, 2017 and bears interest at a fixed interest rate of 4.750%. Monthly payments of \$11,000 are required for principal and interest, with a final payment of accrued interest and principal in the amount of \$628,000 due on April 1, 2017.

On November 30, 2007, the Company obtained a \$1,500,000 construction loan to finance construction of the Dubuque, Iowa facility. On April 26, 2012, the Company refinanced the existing long-term debt in the amount of \$1,221,000. The loan, which had an outstanding principal balance of \$1,144,000 as of February 28, 2013, matures on April 1, 2017 and bears interest at a fixed interest rate of 4.750%. Payments of \$12,550 are due monthly for principal and interest, with a final accrued interest and principal payment in the amount of \$711,000 due on April 1, 2017.



On May 1, 2012, the Company obtained \$2,000,000 in new long-term debt from West Bank to acquire the inventory, equipment, land, building, goodwill and intangible assets of Universal Harvester Co., Inc. located in Ames, Iowa. This loan had an original principal amount of \$2,000,000 and bears fixed interest at 4.50%. The payments required on this loan began June 1, 2012 and will continue until May 1, 2017. The terms of the loan require monthly payments of \$27,800 for principal and interest, with a final payment of principal and accrued interest in the amount of \$666,000 due May 1, 2017. As of February 28, 2013, the outstanding principal balance on this loan was \$1,813,000.

Each of the Company's loans from West Bank is governed by the Business Loan Agreement, which requires the Company to comply with certain financial and reporting covenants. The Company must provide monthly internally prepared financial reports, year-end audited financial statements, annual compliance certificates, and notice upon certain events, such as a change in executive or management personnel. The Company must maintain a minimum debt service coverage ratio of 1.5, a maximum debt to tangible net worth ratio of 1.25, and a minimum tangible net worth of \$12,000,000, each as measured at the Company's fiscal year-end. Further, the Company must obtain West Bank's prior written consent for any investment in, acquisition of, or guaranty relating to another business or entity. The loans are secured by a first position security interest on the assets of the Company and its subsidiaries, including but not limited to, inventories, accounts receivable, machinery, equipment and real estate, in accordance with the Business Loan Agreement, Real Estate Mortgages, Commercial Security Agreements, and Commercial Guaranties previously executed by the Company's subsidiaries. The Company and its subsidiaries were also required to execute Agreements to Provide Insurance that set forth the insurance requirements for the collateral.

If the Company or its subsidiaries (as guarantors) commits an event of default under the Business Loan Agreement and fails or is unable to cure that default, the interest rate on the Line of Credit would increase by 2.0%. In addition, West Bank may cease advances under the Line of Credit and has the option of causing all outstanding indebtedness to become immediately due and payable. Events of default include, without limitation: (i) becoming insolvent or subject to bankruptcy proceedings; (ii) defaulting on any obligations to West Bank; (iii) defaulting on any obligations to third parties that would materially affect the ability to perform obligations owed to West Bank; (iv) suffering a material adverse change in financial condition or the value of any collateral; (v) experiencing a change in ownership of twenty-five percent or more of outstanding common stock; and (vi) making false statements to West Bank.

The Company was in compliance with all covenants under the Business Loan Agreement as measured on November 30, 2012. As of February 28, 2013, the Company's debt service coverage ratio was below the minimum required by the Business Loan Agreement. The Company remains in compliance with the terms of the Business Loan Agreement, and was not required to obtain a waiver with respect to its debt service coverage ratio, because compliance with the financial covenants contained in the Business Loan Agreement are measured on an annual basis. The next measurement date is November 30, 2013.

On June 1, 2009, Art's-Way Scientific Inc., a wholly-owned subsidiary of the company, received funds from two \$95,000 promissory notes in connection with an agreement signed August 7, 2007 between Art's-Way Scientific and the Iowa Department of Economic Development. The first \$95,000 promissory note was a 0% interest loan requiring 60 monthly payments of \$1,583, and an original maturity date of July 1, 2014. The second \$95,000 promissory note was a forgivable loan subject to certain contract obligations. The obligations included maintaining Art's-Way Scientific's principal place of business in Iowa, complying with certain tax and insurance requirements, and creating 16 full-time positions and retaining 21 full-time positions in Iowa for a two-year period. During the fiscal year ended November 30, 2011, the Iowa Department of Economic Development was required to audit the job attainment of Art's Way Scientific. Art's Way Scientific had obtained approximately 48% of the job retention and creation requirements and was required, during the fourth quarter of the fiscal year ending November 30, 2011, to restructure the original two promissory notes into three separate notes. The first note is now a 6% interest-bearing note requiring a monthly payment of \$2,437 that had a balance of \$35,000 as of February 28, 2013 and has a maturity date of June 1, 2014. The second note is an interest-free note requiring a monthly payment of \$813 which had a balance of \$12,000

as of February 28, 2013, with a final payment due June 1, 2014. The third note is a forgivable loan subject to contract obligations which were measured during April 2012. As of February 28, 2013, we were in compliance with all contract obligations. The forgivable loan had a balance of \$49,000 as of February 28, 2013. Art's-Way Manufacturing Co., Inc. has provided a guarantee in connection with these loans to Art's-Way Scientific.



On May 1, 2010, the Company obtained a loan to finance the purchase of an additional facility located in West Union, Iowa to be used as a distribution center, warehouse facility, and manufacturing plant for certain products under the Art's-Way brand. The funds for this loan were made available by the Iowa Finance Authority by the issuance of tax exempt bonds. This loan had an original principal amount of \$1,300,000 and an interest rate of 3.5%. On February 1, 2013, the interest rate was decreased to 2.75%. The other terms of the loan remain unchanged. The terms of the loan require monthly payments of \$12,900 for principal and interest until June 1, 2020. As of February 28, 2013, the outstanding principal balance on this loan was \$998,000.

This loan from the Iowa Finance Authority, which has been assigned to The First National Bank of West Union (n/k/a Bank 1st), is governed by a Manufacturing Facility Revenue Note dated May 28, 2010 as amended February 1, 2013 and a Loan Agreement dated May 1, 2010 and a First Amendment to Loan Agreement dated February 1, 2013 (collectively, "the IFA Loan Agreement"), which requires the Company to provide quarterly internally prepared financial reports and year-end audited financial statements and to maintain a minimum debt service coverage ratio of 1.5 to 1.0, which is measured at November 30 of each year. Among other covenants, the IFA Loan Agreement also requires the Company to maintain proper insurance on, and maintain in good repair, the West Union Facility, and continue to conduct business and remain duly qualified to do business in the State of Iowa. The loan is secured by a mortgage on the Company's West Union Facility, pursuant to a Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Financing Statement dated May 1, 2010 between the Company and The First National Bank of West Union (the "West Union Mortgage").

If the Company fails to make a required payment or perform any other covenant under the IFA Loan Agreement or the West Union Mortgage, becomes subject to bankruptcy or insolvency proceedings, defaults in payment on any of our other loan obligations in excess of \$100,000, or if there is a determination that any of the Company's representations made in the IFA Loan Agreement or related documents are materially false, the Company will be deemed to have committed an event of default under the IFA Loan Agreement. If the Company does not cure the event of default within the time specified by the IFA Loan Agreement, the lender may cause the entire amount of the loan to be immediately due and payable and take any other action that it is lawfully permitted to take or in equity to enforce the Company's performance.

The Company was in compliance with all covenants under the IFA Loan Agreement as measured on November 30, 2012. As of February 28, 2013, the Company's debt service coverage ratio was below the minimum required by the IFA Loan Agreement. The Company remains in compliance with the terms of the IFA Loan Agreement, and was not required to obtain a waiver with respect to its debt service coverage ratio, because compliance with the financial covenants contained in the IFA Loan Agreement are measured on an annual basis. The next measurement date is November 30, 2013.

On September 15, 2010, the Company obtained a zero-interest loan from the West Union Community Development Corporation in the amount of \$13,000. Annual principal payments of \$4,333.33 are due September 1 of 2011, 2012, and 2013. On February 28, 2013, the outstanding principal balance on this loan was \$4,333.

On May 10, 2012, the Company obtained \$880,000 in new long-term debt from U.S. Bank issued to acquire the building and property of Universal Harvester Co., Inc. located in Ames, Iowa (the "U.S. Bank Loan"). The U.S. Bank Loan had an original principal amount of \$880,000 and bears fixed interest at 3.150%. The payments required on this loan began on June 10, 2012 in the amount of \$11,700 and continue on the same date of each consecutive month thereafter, until the maturity date May 10, 2017, with a final payment of principal and accrued interest in the amount of \$283,500 due May 10, 2017. As of February 28, 2013, the outstanding principal balance on this loan was \$795,000. This loan is secured by a mortgage on the building and property acquired from Universal Harvester Co., Inc. in Ames, Iowa, pursuant to a Mortgage, Security Agreement and Assignment of Rents between the Company and

U.S. Bank, dated May 10, 2012.

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If the Company fails to make a required payment or perform or observe any agreement or covenant under the U.S. Bank Loan, commits and fails to cure a default under the terms of any of our other loan obligations in excess of \$10,000, becomes subject to bankruptcy, insolvency proceedings, or a judgment in an amount exceeding \$10,000, if there is a determination that any of the representations made in the U.S. Bank Loan or ancillary documents are untrue or materially misleading or if there is a material adverse change in our business, we will be deemed to be in default under the U.S. Bank Loan. If we do not cure the default within the applicable cure period, the lender may cause the entire amount of the loan to be immediately due and payable or may increase the interest rate to a rate of 5.00% per annum, plus the interest rate otherwise payable under the U.S. Bank Loan.

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

|   | February 28, 2013 | November 30, 2012 |
|---|-------------------|-------------------|
| West Bank loan payable in monthly installments of \$42,500 including interest at 4.750%, due April 1, 2017                                  | \$ 2,337,035      | \$ 2,435,359      |
| West Bank loan payable in monthly installments of \$11,000 including interest at 4.750%, due April 1, 2017                                  | 1,006,721         | 1,027,330         |
| West Bank loan payable in monthly installments of \$12,550 including interest at 4.750%, due April 1, 2017                                  | 1,144,158         | 1,167,725         |
| West Bank loan payable in monthly installments of \$27,800 including interest at 4.50%, due May 1, 2017                                     | 1,812,864         | 1,875,120         |
| U.S. Bank loan payable in monthly installments of \$11,700 including interest at 3.15%, due May 10, 2017                                    | 794,989           | 823,555           |
| Iowa Finance Authority loan payable in monthly installments of \$12,892 including interest at 2.75%, due June 1, 2020                       | 997,656           | 1,027,366         |
| IDED loan payable in monthly installments of \$2,437 including interest at 6%, due June 1, 2014   | 35,146            | 41,866            |
| IDED loan payable in monthly installments of \$813 including interest at 0%, due June 1, 2014   | 12,208            | 14,649            |
| IDED loan payable in monthly installments of \$0 including interest at 0%, due July 1, 2014   | 48,830            | 48,830            |
| West Union Community Development Corporation loan payable in annual installments of \$4,333 including interest at 0%, due September 1, 2013 | 4,334             | 4,334             |
| Total term debt   | \$ 8,193,941      | \$ 8,466,134      |
| Less current portion of term debt   | 1,180,751         | 1,165,177         |
| Term debt, excluding current portion  | \$ 7,013,190      | \$ 7,300,957      |

#### Fair Value Measurement Update

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” that amends the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and disclosing information about fair value measurements. The amendments in this update achieve the objective of developing common fair value measurement and disclosure requirements, as well as improving consistency and understandability. Some of the requirements clarify the FASB’s intent about the application of existing fair value measurement requirements while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this ASU are effective prospectively for interim and annual periods beginning after December 15, 2011, with no early adoption permitted. The Company has not completed the adoption of this standard and the Company does not expect this standard to have a material impact on our consolidated financial statements.

## Comprehensive Income

In June 2011, the FASB issued ASU NO. 2011-05, "Presentation of Comprehensive Income" that improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statements of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from other comprehensive income ("OCI") to net income, in both net income and OCI. The standard does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively, with early adoption permitted. The Company has not completed the adoption of this standard and the Company does not expect this standard to have a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU (Accounting Standards Update) No. 2011-12 which stated that the new presentation requirements about reclassifications of items out of accumulated other comprehensive income would be difficult for preparers and may add unnecessary complexity to financial statements. In addition it is difficult for some stakeholders to change systems in time to gather the information for the new presentation requirements by the effective date of Update 2011-05. Given these issues, they asked the Board to reconsider whether it is necessary to require entities to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. Because those pending paragraphs are effective on a retrospective basis for public entities for annual periods beginning after December 15, 2011, and interim periods within those years, those stakeholders asked the Board, at a minimum, to defer the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income in Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, until the Board is able to reconsider those paragraphs.

In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. The amendments are being made to allow the Board time to confirm whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities must apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has not completed the adoption of this standard and the Company does not expect this standard to have a material impact on our consolidated financial statements.

(9) Equity Incentive Plan and Stock Based Compensation

On January 27, 2011, the Board of Directors of the Company authorized and approved the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan (the "2011 Plan"). The 2011 Plan was approved by the stockholders on April 28, 2011. It replaced the Employee Stock Option Plan and the Directors' Stock Option Plan (collectively, the "Prior Plans"), and no further stock options will be awarded under the Prior Plans. Awards to directors and executive officers under the 2011 Plan will be governed by the forms of agreement approved by the Board of Directors.

The 2011 Plan permits the plan administrator to award nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance awards, and stock appreciation rights to employees (including officers), directors, and consultants. The Board of Directors has approved a director compensation policy pursuant to which non-employee directors are automatically granted non-qualified stock options to purchase 2,000 shares of common stock annually or initially upon their election to the Board, which are fully vested.

Stock options granted prior to January 27, 2011 are governed by the applicable Prior Plan and the forms of agreement adopted thereunder.

Stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date and recognized over the relevant vesting period. We estimate the fair value of each stock-based award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical option exercise and termination data to estimate the expected term the options are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is calculated using historical dividend amounts and the stock price at the option issuance date.

(10) Acquisitions

On May 10, 2012, the Company acquired the assets of Universal Harvester Co., Inc. consisting of inventory, equipment, land, building, goodwill, and intangible assets. The acquisition-date fair value of the total consideration transferred was approximately \$3,066,000 consisting of \$3,030,450 of current and future cash to be paid and \$35,550 of common stock. Under the terms of the purchase agreement, cash in the amount \$3,003,565 was paid on May 11, 2012 and \$27,427 of cash will be paid on real estate taxes accrued but due on the land and building in future periods. As of February 28, 2013, the Company has paid all of the accrued real estate taxes. The Company issued 5,000 shares of common stock valued at \$35,550 based on the closing market price as of May 10, 2012.

The operating results of the acquired business are reflected in the Company's consolidated statement of operations from the acquisition date forward. The acquisition was made to continue the Company's growth strategy and diversify its product offerings inside the agricultural industry. The purchase price was determined based on an arms-length negotiated value. The transaction is being accounted for under the acquisition method of accounting, with the purchase price allocated to the individual assets acquired. The purchase price allocation below is the final valuation.

The consideration has been allocated as follows:

|                                |             |
|--------------------------------|-------------|
| Inventories                    | \$947,760   |
| Equipment, tools and dies      | 364,053     |
| Goodwill and intangible assets | 618,729     |
| Land and Building              | 1,136,000   |
| Total                          | \$3,066,542 |



The unaudited pro forma information for the periods set forth below gives effect to the acquisition as if it had occurred at the beginning of fiscal year starting December 1, 2011. The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time or that may result in the future:

ART'S-WAY MANUFACTURING CO., INC.  
Condensed Consolidated Statements of Operations  
(Unaudited)

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | February 28, 2013  | February 29, 2012 |
| <b>Net Sales from Continuing Operations:</b>  |                    |                   |
| As Reported   | \$ 8,415,104       | \$ 6,312,216      |
| Pro Forma   | \$ 8,415,104       | 7,216,848         |
| <b>Net Income from Continuing Operations:</b>   |                    |                   |
| As Reported   | 819,254            | 193,498           |
| Pro Forma   | 819,254            | 222,848           |
| <b>Basic Net income per Share:</b>  |                    |                   |
| As Reported   | \$ 0.20            | \$ 0.05           |
| Pro Forma   | \$ 0.20            | \$ 0.06           |
| <b>Diluted Net income per Share:</b>  |                    |                   |
| As Reported   | \$ 0.20            | \$ 0.05           |
| Pro Forma   | \$ 0.20            | \$ 0.06           |
| <b>Weighted average outstanding shares used to compute basic net income per share</b>   |                    |                   |
|   | 4,035,052          | 4,028,193         |
| <b>Weighted average outstanding shares used to compute diluted net income per share</b> |                    |                   |
|   | 4,047,134          | 4,046,125         |

(11) Disclosures About the Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. At February 28, 2013, and November 30, 2012, the carrying amount approximated fair value for cash, accounts receivable, accounts payable, notes payable to bank, and other current and long-term liabilities. The carrying amounts approximate fair value because of the short maturity of these instruments. The fair value of the Company's installment term loans payable also approximate recorded value because the interest rates charged under the loan terms are not substantially different than current interest rates.

(12) Segment Information

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. The pressurized vessels segment produces pressurized tanks. The modular buildings segment manufactures and installs 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.

Three Months and Year-to-Date Ended February 28, 2013

|                                 | Agricultural<br>Products | Pressurized<br>Vessels | Modular<br>Buildings | Consolidated |
|---------------------------------|--------------------------|------------------------|----------------------|--------------|
| Revenue from external customers | \$7,004,000              | \$394,000              | \$1,017,000          | \$8,415,000  |
| Income (loss) from operations   | 561,000                  | (123,000 )             | 275,000              | 713,000      |
| Income (loss) before tax        | 1,176,000                | (176,000 )             | 261,000              | 1,261,000    |
| Total Assets                    | 26,697,000               | 2,707,000              | 3,328,000            | 32,732,000   |
| Capital expenditures            | 139,000                  | 4,000                  | 1,000                | 144,000      |
| Depreciation & Amortization     | 151,000                  | 26,000                 | 22,000               | 199,000      |

Three Months and Year-to-Date Ended February 29, 2012

|                                 | Agricultural<br>Products | Pressurized<br>Vessels | Modular<br>Buildings | Consolidated |
|---------------------------------|--------------------------|------------------------|----------------------|--------------|
| Revenue from external customers | \$3,988,000              | \$330,000              | \$1,994,000          | \$6,312,000  |
| Income (loss) from operations   | 136,000                  | (88,000 )              | 314,000              | 362,000      |
| Income (loss) before tax        | 137,000                  | (144,000 )             | 296,000              | 289,000      |
| Total Assets                    | 20,633,000               | 2,773,000              | 4,756,000            | 28,162,000   |
| Capital expenditures            | 77,000                   | 14,000                 | 15,000               | 106,000      |
| Depreciation & Amortization     | 124,000                  | 29,000                 | 53,000               | 206,000      |

(13) Subsequent Event

Management evaluated all activity of the Company and concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes to the condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of Part I of this report and the audited consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended November 30, 2012. Some of the statements in this report may contain forward-looking statements that reflect our current view on future events, future business, industry and other conditions, our future performance, and our plans and expectations for future operations and actions. In some cases you can identify forward-looking statements by the use of words such as "may," "should," "anticipate," "believe," "expect," "plan," "future," "intend," "could," "estimate," "predict," "hope," "potential," "continue," these terms or other similar expressions. Many of these forward-looking statements are located in this report under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" but they may appear in other sections as well. Forward-looking statements in this report generally relate to: (i) our order backlog; (ii) our beliefs regarding the sufficiency of working capital and our continued ability to renew or obtain financing on reasonable terms when necessary; (iii) expected future expenses and operating results; (iv) growth strategy and expected benefits from acquisitions, and (v) our ability to capture additional sales and retain repeat customers in Vessels.



You should read this report thoroughly with the understanding that our actual results may differ materially from those set forth in the forward-looking statements for many reasons, including events beyond our control and assumptions that prove to be inaccurate or unfounded. We cannot provide any assurance with respect to our future performance or results. Our actual results or actions could and likely will differ materially from those anticipated in the forward-looking statements for many reasons, including but not limited to: (i) the impact of tightening credit markets on our ability to continue to obtain financing on reasonable terms; (ii) our ability to continue to meet debt obligations and comply with financial covenants; (iii) obstacles related to integration of Universal Harvester Co., Inc.; (iv) the effect of general economic conditions on the demand for our products and the cost of our supplies and materials; (v) unforeseen costs or delays in implementing production of new products; (vi) unexpected effects from changes to our production schedule; (vii) an inability to retain new customers for our modular buildings and pressurized vessels; and (viii) other factors described from time to time in our reports to the SEC. We do not intend to update the forward-looking statements contained in this report other than as required by law. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. You should read this report and the documents that we reference in this report and have filed as exhibits completely and with the understanding that our actual future results may be materially different from what we currently expect. We qualify all of our forward-looking statements by these cautionary statements.

#### Critical Accounting Policies

Our critical accounting policies involving the more significant judgments and assumptions used in the preparation of the financial statements as of February 28, 2013 have remained unchanged from November 30, 2012. These policies include revenue recognition, inventory valuation, income taxes and stock-based compensation. Disclosure of these critical accounting policies is incorporated by reference from Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended November 30, 2012.

#### Results of Operations

##### Net Sales and Cost of Sales

Our consolidated corporate sales for the three-month period ended February 28, 2013 were \$8,415,000 compared to \$6,312,000 during the same respective period in 2012, a \$2,103,000, or 33.3%, increase for the quarter and year-to-date. The agricultural products segment ("Manufacturing") had a three-month sales increase of \$3,016,000. The modular buildings segment ("Scientific") had a three-month sales decrease of \$977,000. The pressurized vessels segment ("Vessels") had a three-month sales increase of \$64,000.

Consolidated gross profit margin for the first fiscal quarter and year-to-date of 2013 was 28.2% compared to 23.4% during the first fiscal quarter and year-to-date of 2012.

Our first fiscal quarter and year-to-date sales at Manufacturing were \$7,004,000, compared to \$3,988,000 during the same period of 2012, an increase of \$3,016,000, or 75.6%. The year over year increase in revenue was primarily due to the additional sales of \$1,221,000 attributable to the acquisition of Universal Harvester Co., Inc. ("UHC") in May 2012 and the timing of sales of \$1,177,000 attributable to OEM. Gross margin for the quarter ended February 28, 2013 was 28.0%, compared to 26.3% for the same period in 2012. The additional sales provided more volume in which to spread the fixed portion of manufacturing expenses.

Our first fiscal quarter and year-to-date sales at Vessels were \$394,000, compared to \$330,000 for the same period in 2012, an increase of \$64,000, or 19.4%. We have been working diligently to improve the consistency of our quality of goods and delivery of product. These improvements have helped us to capture additional sales as well as retain

repeat customers. Gross margin for the quarter ended February 28, 2013 was (12.5%) compared to (12.6%) for the same period in 2012. Despite the increase in sales, our production levels were not sufficient to absorb our fixed overhead costs; consequently Vessels continued to experience negative gross margins.

Our first fiscal quarter and year-to-date sales at Scientific were \$1,017,000, compared to \$1,994,000 for the same period in fiscal 2012, a decrease of \$977,000, or (49.0%). The decrease was primarily attributable to the near completion of an approximately \$7 million fabrication and delivery contract executed in January 2012 and an approximately \$1.7 million installation contract executed in April 2012. Scientific was hired to design, fabricate, and install twenty-four modular units over the course of approximately one year for one of the world's leading research and teaching institutions. Most of the revenue for the contract was recognized during 2012. Scientific uses percent complete accounting to calculate revenue and gross margins for all contracts. Gross margin for the quarter ended February 28, 2013 was 44.9% compared to 23.5% for the same period in 2012. The gross margin increase was primarily due to the finalization of costs as compared to estimates. The team worked hard to control costs as projects were finalized.

#### Expenses

Our first fiscal quarter and year-to-date consolidated selling expenses were \$490,000 compared to \$367,000 for the same period in 2012. The first fiscal quarter and year-to-date increase was primarily due to increases in advertising and literature expenses and commissions related to our Manufacturing segment. Revenue increases were in product lines that were subject to commissions. Selling expenses as a percentage of sales were 5.8% for the three-month period ended February 28, 2013, compared to 5.8% for the same respective period in 2012.

Consolidated engineering expenses were \$103,000 for the three months ended February 28, 2013, compared to \$85,000 for the same period in 2012. These increases were primarily due to the hiring of engineering staff at the Armstrong, Iowa facility (two positions were filled in the third fiscal quarter of 2012). Engineering expenses as a percentage of sales were 1.2% for the three-month period ended February 28, 2013, compared to 1.3% for the same respective period in 2012.

Consolidated administrative expenses for the three months ended February 28, 2013 were \$1,064,000 compared to \$662,000 for the same period in 2012. The increase is mainly due to management bonus accruals, which are tied to key performance measures, and the incremental expenses associated with the UHC acquisition. Administrative expenses as a percentage of sales were 12.6% for the three-month period ending February 28, 2013, compared to 10.5% for the same respective period in 2012.

#### Gain/Loss-Asset Disposal

The Company had been leasing approximately 88 acres of excess land to third parties for farming. In December of 2012, we sold this excess land as 3 separate tracts. Tract 1 was farmland northwest of the Armstrong Manufacturing plant located at 5556 Highway 9 in Armstrong, Iowa. The net gain on the sale totaled \$316,000 (sales price of \$372,000 less land cost of \$43,000 and less closing costs of \$13,000). Tract 2 was farmland north of railroad tracks that run on the north side of the Armstrong Manufacturing plant located at 5556 Highway 9 in Armstrong, Iowa. The net gain on the sale totaled \$320,000 (sales price of \$380,000 less land cost of \$50,000 and less closing costs of \$10,000). Tract 3 was pasture land east of the Armstrong Manufacturing plant located at 5556 Highway 9 in Armstrong, Iowa. The net gain on the sale totaled \$3,000 (sales price of \$33,000 less land cost of \$25,000 and less closing costs of \$5,000).

To better utilize our production facilities, our auger production was moved from our Salem, South Dakota facility to our West Union, Iowa production facility in July 2011. The Salem, South Dakota facility was sold in December 2012. An impairment of \$95,000 was recognized in fiscal year 2012 on the production facility due to the Company's carrying value exceeding the bid price. A net loss of \$9,000 was recognized in December 2012 which were the closing costs associated with the sale.

The pre-tax net gain for the three months ended February 28, 2013 on the sale of the 3 tracts of land and the Salem, South Dakota facility totaled \$630,000. The accrued taxes for the quarter on the gain totaled \$221,000.

Net Income

Consolidated net income was \$819,000 for the three months ended February 28, 2013, compared to \$193,000 for the same respective period in 2012. The changes to net income for the three-month period were primarily attributable to the net gain realized from the sale of the land near Armstrong.

### Order Backlog

The consolidated order backlog net of discounts as of March 31, 2013 was \$9,603,474 compared to \$13,809,960 as of March 31, 2012. The decrease is due to the completion of a major contract from our modular buildings segment that began in early 2012 offset by sales attributable to the acquisition of UHC. The agricultural products segment order backlog was \$8,729,438 as of March 31, 2013, compared to \$7,500,410 in fiscal 2012. The backlog for the pressurized vessels segment was \$765,248 as of March 31, 2013, compared to \$390,324 in fiscal 2012. The backlog for the modular buildings segment was \$108,788 as of February 28, 2013, compared to \$5,919,226 in fiscal 2012. Our order backlog is not necessarily indicative of future revenue to be generated from such orders due to the possibility of order cancellations and dealer discount arrangements we may enter into from time to time.

### Liquidity and Capital Resources

Our primary sources of funds for the three months ended February 28, 2013 were customer deposits for Manufacturing. Those funds have been deposited in an interest bearing account at West Bank to be used to meet future production needs. We have a \$6,000,000 revolving Line of Credit with West Bank, which, as of February 28, 2013 and November 30, 2012, had an outstanding principal balance of \$0. The Line of Credit is renewable annually and is scheduled to mature on April 30, 2013. We are currently assessing the need to renew the Line of Credit as it pertains to future business needs. In addition, we have four term loans from West Bank, which had outstanding principal balances of approximately \$2,337,000, \$1,007,000, \$1,144,000, and \$1,813,000 as of February 28, 2013, respectively. We have one term loan from U.S. Bank, which had an outstanding principal balance of approximately \$795,000 as of February 28, 2013. We have also received funds pursuant to three promissory notes from the Iowa Department of Economic Development. These notes had outstanding principal balances of approximately \$35,000, \$12,000, and \$49,000 as of February 28, 2013, respectively. In May 2010, the Iowa Finance Authority extended us a loan to finance the purchase of a facility. As of February 28, 2013, the outstanding principal balance on this loan was approximately \$998,000. In September 2010, we obtained an interest-free \$13,000 loan from the West Union Community Development Corporation, which requires annual principal payments of \$4,333 on September 1 of 2011, 2012, and 2013. On February 28, 2013, the outstanding principal balance on this loan was approximately \$4,000.

Our loans require us to comply with various covenants, including maintaining certain financial ratios. We were in compliance with all financial ratio covenants as of November 30, 2012, our last measurement date.

For additional information about our financing activities, please refer to Note 9 to the audited consolidated financial statements and the discussion entitled "Liquidity and Capital Resources," each contained in our Annual Report on Form 10-K for the fiscal year ended November 30, 2012, as well as Note 7 to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report.

We believe that our current financing arrangements provide sufficient cash to finance operations for the next twelve months. We expect to continue to rely on cash from financing activities to supplement our cash flows from operations in order to meet our liquidity and capital expenditure needs in the near future. We expect to continue to be able to procure financing upon reasonable terms.

### Off Balance Sheet Arrangements

None.

### Item 4. Controls and Procedures.





#### Evaluation of Disclosure Controls and Procedures

The person serving as our principal executive officer and principal financial officer has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e), as of the end of the period subject to this Report. Based on this evaluation, the person serving as our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective and provide reasonable assurance that information required to be disclosed by us in the periodic and current reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the periods specified by the Securities and Exchange Commission's rules and forms.

#### Changes to Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

We are currently not a party to any material pending legal proceedings.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

Effective as of February 1, 2013, the Company entered into a First Amendment to Loan Agreement between the Company and the Iowa Finance Authority (the "Amendment"), which modified certain terms of the Loan Agreement between the Company and the Iowa Finance Authority, dated May 1, 2010 (the "Loan Agreement"). The Amendment provides that the interest rate reflected in the Company's Manufacturing Facility Revenue Note, dated May 28, 2010, as amended February 1, 2013 (the "Note"), in the original principal amount of \$1,300,000, was lowered from 3.5% per annum to 2.75% per annum as of February 1, 2013. All other terms of the Loan Agreement and the Note remain unchanged. For a further description of the terms of the Note and the Loan Agreement, see Note 7, "Loan and Credit Agreements," to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report.

The foregoing descriptions of the Amendment and the Note do not purport to be complete and are qualified in their entirety by reference to the Amendment and the Note, which are attached hereto as Exhibits 10.2 and 10.3, respectively, and are incorporated herein by reference.

On January 25, 2013, the Board of Directors of the Company, upon a recommendation by the Compensation Committee, approved compensation arrangements for fiscal 2013, which were retroactively effective to December 1, 2012. The arrangements approved by the Board of Directors included annual retainers of \$255,000 and \$85,000 for the Company's Chairman of the Board and Vice Chairman of the Board, respectively, as described in the Company's proxy statement filed with the Securities and Exchange Commission on Schedule 14A on March 25, 2013.

In addition, the Board of Directors of the Company decided to continue the incentive compensation pool previously approved for fiscal year 2012 and set the maximum cash incentives and objectives for fiscal year 2013. This pool provides incentive compensation for the Company's Chairman of the Board, Vice Chairman of the Board and Chief Executive Officer, as well as certain other key employees. Under the approved incentive arrangements, the foregoing individuals will be eligible for maximum cash incentives as follows: Chairman of the Board, \$191,250; Vice Chairman of the Board, \$55,250; and Chief Executive Officer, \$97,500. Each individual has the potential to earn specified levels of incentive compensation, up to the established maximum amounts, upon achievement of growth objectives related to earnings per share, staff development and reporting in the accounting department, profitability in the Pressurized Vessels segment, and strategic growth. These objectives, and the target incentive compensation thresholds and gradations, are based on an analysis of market data conducted by the Compensation Committee, along with consideration of the Company's circumstances and opportunities. They reflect the belief of the Board of Directors and Compensation Committee that defined annual incentives should be closely aligned with financial performance and opportunities for long-term growth.

Item 6. Exhibits.

See "Exhibit Index" on page 20 of this report.

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: April 15, 2013

By: /s/ Carrie L. Majeski  
Carrie L. Majeski  
President Chief Executive Officer and  
interim  
Chief Financial Officer

Art's-Way Manufacturing Co., Inc.  
Exhibit Index  
Form 10-Q for the Quarterly Period Ending February 28, 2013

| Exhibit No. | Description  |
|-------------|--|
| 10.1        | Employment Agreement, by and between the Company and Michael Furness, dated March 18, 2013 – incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed March 20, 2013.   |
| 10.2        | Manufacturing Facility Revenue Note, dated May 28, 2010, as amended February 1, 2013 – filed herewith.   |
| 10.3        | First Amendment to Loan Agreement between the Company and the Iowa Finance Authority, dated February 1, 2013 – filed herewith.   |
| 31.1        | Certificate of Chief Executive Officer and interim Chief Financial Officer pursuant to 17 CFR 13a-14(a) – filed herewith.  |
| 32.1        | Certificate of Chief Executive Officer and interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350 - filed herewith.  |
| 101*        | The following materials from this report, formatted in XBRL (Extensible Business Reporting Language) are filed herewith: (i) condensed consolidated balance sheets, (ii) condensed consolidated statement of operations, (iii) condensed consolidated statements of cash flows, and (iv) the notes to the condensed consolidated financial statements.   |
| *           | Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings. |