ARTS WAY MANUFACTURING CO INC
Form 10QSB
October 15, 2007

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

FORM 10-QSB

(Mark One)

[x] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended August 31, 2007

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ______ to ______

Commission File No. 0-5131

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

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

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

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

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

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

Number of common shares outstanding as of October 12, 2007: 1,978,176

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

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

(Unaudited)

	Three Months Ended		Year to Date	
	August 31, 2007	August 31, 2006	August 31, 2007	August 31, 2006

Net sales	$ 8,191,523	$ 6,056,267	$ 19,165,728	$ 14,470,084
Cost of goods sold	5,410,688	4,655,972	13,201,569	10,405,029
Gross profit	2,780,835	1,400,295	5,964,159	4,065,055
Expenses:				
Engineering	59,401	101,263	273,510	301,161
Selling	297,522	217,684	750,573	602,921
General and administrative	575,348	665,461	1,846,250	1,944,265
Total expenses	932,271	984,408	2,870,333	2,848,347
Income from operations	1,848,564	415,887	3,093,826	1,216,708
Other income (expense):				
Interest expense	(154,440)	(112,446)	(332,651)	(294,757)
Other	(177,309)	30,412	176,644	71,870
Total other expense	(331,749)	(82,034)	(156,007)	(222,887)
Income before income taxes	1,516,815	333,853	2,937,819	993,821
Income tax (benefit)	586,767	153,488	1,069,312	388,317
Net income	$ 930,048	$ 180,365	$ 1,868,507	$ 605,504
Net income per share:				
Basic	$ 0.47	$ 0.09	$ 0.94	$ 0.31
Diluted	0.47	0.09	0.94	0.31
Common shares and equivalent outstanding:				
Basic	1,978,176	1,973,176	1,978,176	1,970,037
Diluted	1,987,952	1,979,701	1,983,425	1,978,092

See accompanying notes to consolidated financial statements.

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

Assets	(Unaudited) August 2007	November 2006
Current assets:		
Cash	$ 2,240,304	$ 2,072,121
Accounts receivable-customers, net of allowance for doubtful accounts of $136,296 and $108,372 in August and November, respectively	2,734,917	2,313,290
Inventories, net	7,489,817	5,998,175
Profit in excess of billings	137,770	0
Deferred taxes	728,599	672,000
Insurance Receivable	248,872	0
Other current assets	193,716	163,114
Total current assets	13,773,995	11,218,700
Property, plant, and equipment, net	3,871,545	3,185,298
Deferred taxes	0	100,000
Other assets	0	110,240
Total assets	$ 17,645,540	$ 14,614,238
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable to bank	$ 390,531	$ 0
Current portion of term debt	222,948	220,559
Accounts payable	867,890	587,555
Customer deposits	282,552	424,205

Billings in excess of cost and profit	350,821	57,266
Accrued expenses	1,640,157	1,427,658
Total current liabilities	3,754,899	2,717,243
Deferred taxes	111,948	0
Term debt, excluding current portion	3,822,797	3,852,372
Total liabilities	7,689,644	6,569,615
Stockholders equity:		
Common stock $0.01 par value. Authorized 5,000,000 shares; issued 1,978,176 and 1,978,176 shares in 2007 and 2006	19,782	19,782
Additional paid-in capital	1,808,463	1,765,697
Retained earnings	8,127,651	6,259,144
Total stockholders equity	9,955,896	8,044,623
Total liabilities and stockholders equity	$ 17,645,540	$ 14,614,238

See accompanying notes to consolidated financial statements.

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

	Year to Date August 2007	August 2006
Cash flows from operations:		
Net income	$ 1,868,507	$ 605,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	42,766	4,020
(Gain) Loss on sale of property, plant, and equipment	(329,258)	(41,048)
Depreciation and amortization	244,112	222,901
Fire loss of operating supplies	(364,409)	0
Deferred income taxes	155,349	132,000
Other net	110,240	863
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(421,627)	(718,595)
Inventories	(1,561,847)	508,017
Other current assets	(30,602)	(13,987)
Increase (decrease) in:		
Accounts payable	280,335	168,950
Contracts in progress, net	(223,590)	0
Customer deposits	(141,653)	(406,808)
Accrued expenses	212,499	502,080
Net cash provided by operating activities	(159,178)	963,897
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(1,269,618)	(743,522)
Proceeds from insurance recoveries	1,233,633	0
Purchases of assets of Tech Space, Inc.	0	(1,137,606)
Proceeds from sale of property, plant, and equipment	0	132,089
Net cash (used in) investing activities	(35,985)	(1,749,039)
Cash flows from financing activities:		
Net change in line of credit	390,531	0
Payments of notes payable to bank	(27,185)	(158,275)
Loan Origination Fee Paid	0	(27,070)
Proceeds from term debt	0	1,500,000

Proceeds from the exercise of stock options	0	23,200
Net cash provided by (used in) financing activities	363,346	1,337,855
Net increase/(decrease) in cash	168,183	552,713
Cash at beginning of period	2,072,121	1,198,238
Cash at end of period	$ 2,240,304	$ 1,750,951
Supplemental disclosures of cash flow information:		
Cash paid/(received) during the period for:		
Interest	$ 330,534	$ 294,758
Income taxes	863,129	25,217
Supplemental disclosures of noncash investing activities:		
Proceeds from insurance recoveries	$ 1,233,633	$ 0
Insurance recoveries receivable	248,872	0
Net book value of assets destroyed		
Property, plant and equipment	(339,258)	0
Cost incurred on contracts in progress	(379,375)	0
Cost incurred for plant supplies	(364,409)	0
Inventories	(70,205)	0
Gain on insurance recovery	$ 329,258	$ 0
Supplemental schedule of investing activities:		
Tech Space Inc. acquisition:		
Accounts Receivable	$ 0	$ 325,825
Inventories	0	447,639
Property, plant and equipment	0	678,395
Customer deposits	0	(314,253)
Cash paid	$ 0	$ 1,137,606
Noncash financing activity:		
Refinanced existing debt with West Bank	$ 4,100,000	$ 0

See accompanying notes to consolidated financial statements.

ART'S-WAY MANUFACTURING CO., INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement Presentation

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

2. INVENTORIES

Major classes of inventory are:

	August 31, 2007	November 30, 2006

Raw material	$ 4,658,678	$ 3,260,897
Work-in-process	938,510	981,979
Finished goods	2,934,714	2,886,860
Total	$ 8,531,902	$ 7,129,736
Less reserves	1,042,085	1,131,561
Inventories	$ 7,489,817	$ 5,998,175

3. ACCRUED EXPENSES

Major components of accrued expenses are:

	August 31, 2007	November 30, 2006
Salaries, wages and commissions	$ 546,553	$ 464,609
Accrued warranty expense	362,531	230,740
Income tax	407,546	356,712
Other	323,527	375,597
Total	$ 1,640,157	$ 1,427,658

4. PRODUCT WARRANTY

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

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

	Three Months Ended		Nine Months Ended	
	Aug 31, 2007	Aug31, 2006	Aug 31, 2007	Aug 31, 2006
Balance, beginning	$253,853	$167,487	$230,740	$131,832
Settlements made in cash or in-kind	58,112	(76,898)	(60,707)	(224,216)
Warranties issued	50,566	144,098	192,498	327,071
Balance, ending	$362,531	$234,687	$362,531	$234,687

5. LOAN AND CREDIT AGREEMENTS

The Company has a revolving line of credit for $3,500,000 with advances funding the working capital, letter of credit and corporate credit card needs that will mature on April 30, 2008. The interest rate is West Bank's prime interest rate, adjusted daily. Monthly interest only payments are required and the unpaid principal is due on the maturity date. Collateral consists of a first position on assets owned by the Company including, but not limited to inventories, accounts receivable, machinery and equipment. As of August 31, 2007 and 2006, the Company had borrowed approximately $391,000 and $0, respectively. Total amount available for borrowing at August 31, 2007 was $3,109,000. Other terms and conditions of the debt with West Bank include providing monthly internally prepared financial reports including accounts receivable aging schedules and borrowing base certificates and year-end audited financial statements. The borrowing base shall limit advances from line of credit to 60% of accounts receivable less than 90 days, 60% of finished goods inventory, 50% of raw material inventory and 50% of workin-process inventory plus 40% of appraisal value of machinery and equipment.

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

J. Ward McConnell, Jr. was required to personally guarantee the debt on the old loans with West Bank on an unlimited and unconditional basis. The guarantee of the term debt was reduced after the first three years to a percentage representing his ownership of the Company. Mr. McConnell's guarantee would have been removed from the term debt in the event that his ownership interest in the Company was reduced to a level less than 20% after the first three years of the loan. The Company compensated Mr. McConnell for his personal guarantee at an annual percentage rate of 2% of the outstanding balance to be paid monthly. Guarantee fee payments to Mr. McConnell were approximately $30,000 and $45,000, for the nine months ended August 31, 2007, and 2006, respectively.

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

	August 31, 2007	November 30, 2006
West Bank loan payable in monthly installments of $17,776 including interest at Bank's prime rate plus 1.5%, due March 31, 2023 (A) (B)	$ 0	$ 1,701,843
West Bank loan payable in monthly installments of $10,000 including interest at Bank's prime rate plus 1.5%, due March 31, 2015 (A) (B)	$ 0	$ 943,034
West Bank loan payable in monthly installments of $22,063 including interest at Bank's prime rate plus 1.0% due April 2016 (A) (B)	$ 0	$1,428,054
West Bank loan payable in monthly installments of $42,500 including interest at the U.S daily 5-year treasury index plus 2.75 bps fixed for 5 years and ten due May 1, 2017 (B)	$4,045,746	$ 0
Total term debt	$ 4,045,746	$ 4,072,931
Less current portion of term debt	$ 222,949	$ 220,559
Term debt, excluding current portion	$ 3,822,797	$ 3,852,372

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

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

6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (Issued 6/06). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. For the Company, the Statement is effective for fiscal years beginning after December 15, 2006. The Company is assessing the effects of Financial Interpretation No. 48.

7. STOCK OPTION PLANS

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

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

8. SUBSEQUENT EVENTS

On June 26, 2007 the Company announced the signing of a letter of intent with Miller - St. Nazianz, Inc. The letter of intent calls for Miller - St. Nazianz to sell to Art's-Way Manufacturing Co., Inc. portions of its Miller Pro product offerings, specifically the hay and forage lines. The sale is to include all inventories, tooling and other proprietary rights of these products. On September 5th of 2007 the Company closed on the asset purchase agreement with Miller - St. Nazianz. The Company has moved the production of the Miller lines to its Armstrong, Iowa location where it produces its other agricultural equipment.

On October 4, 2007 the Company's lease expired with Markee on the facility in Dubuque, Iowa. The Company has started construction on a new facility. The Company's new production facility for Art's-Way Vessels will be located in the same Industrial Park in Dubuque, Iowa. Construction is expected to be completed in January of 2008. The facility will be 25,000 square feet and is expected to cost approximately $1.500,000.

9. SEGMENT INFORMATION

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

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

There are three reportable segments: agricultural products, pressurized vessels and modular buildings. The agricultural products segment fabricates and sells farming products as well as replacement parts for these products in the United States and worldwide. Export sales year to date amounted to $1,059,824 and $457,584 in 2007 and 2006 respectively. The pressurized vessel segment produces pressurized tanks. The modular building segment produces modular buildings for animal containment and various laboratory uses.

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

Approximate financial information with respect to the reportable segments is as follows. The agricultural products, pressurized vessels, and modular building segment information are for the three and nine months ended August 31, 2007 and August 31, 2006.

Three Months Ended August 31, 2007

	Agricultural Products	Pressurized Vessels	Modular Buildings	Consolidated
Revenue from external customers	4,552,000	1,319,000	2,321,000	8,192,000
Income from operations	943,000	286,000	620,000	1,849,000
Income before tax	679,000	266,000	572,000	1,517,000
Segment profit	417,000	159,000	354,000	930,000
Total Assets	11,956,000	2,094,000	3,596,000	17,646,000
Capital expenditures	34,000	55,000	1,017,000	1,106,000
Depreciation	60,000	14,000	0	74,000

Three Months Ended August 31, 2006

	Agricultural Products	Pressurized Vessels	Modular Buildings	Consolidated
Revenue from external customers	4,804,000	1,151,000	101,000	6,056,000
Income from operations	316,000	170,000	(70,000)	416,000
Income before tax	253,000	151,000	(70,000)	334,000
Segment profit	116,000	134,000	(70,000)	180,000
Total Assets	10,776,000	1,853,000	1,706,000	14,335,000
Capital expenditures	26,000	6,000	0	32,000
Depreciation	68,000	17,000	6,000	91,000

Nine Months Ended August 31, 2007

	Agricultural Products	Pressurized Vessels	Modular Buildings	Consolidated
Revenue from external customers	10,927,000	3,573,000	4,666,000	19,166,000
Income from operations	1,329,000	816,000	949,000	3,094,000
Income before tax	1,008,000	752,000	1,178,000	2,938,000

Segment profit	634,000	481,000	754,000	1,869,000
Total Assets	11,956,000	2,094,000	3,596,000	17,646,000
Capital expenditures	150,000	72,000	1,048,000	1,270,000
Depreciation	189,000	39,000	16,000	244,000

Nine Months Ended August 31, 2006

	Agricultural Products	Pressurized Vessels	Modular Buildings	Consolidated
Revenue from external customers	11,733,000	2,636,000	101,000	14,470,000
Income from operations	900,000	387,000	(70,000)	1,217,000
Income before tax	686,000	378,000	(70,000)	994,000
Segment profit	401,000	275,000	(70,000)	606,000
Total Assets	10,776,000	1,853,000	1,706,000	14,335,000
Capital expenditures	707,000	37,000	0	744,000
Depreciation	179,000	38,000	6,000	223,000

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

(a) Plan of Operation

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

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

(i) Critical Accounting Policies

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

(ii) Results of Operations

Our consolidated net sales for the nine months ended were $19,166,000, representing a 32% increase compared to the same period one year ago. A majority of this increase was due to the inclusion of Art's-Way Scientific, Inc., net sales of $4,666,000, for the nine months just ended. Art's-Way Scientific, Inc. was acquired in August of 2006 and therefore only included $101,000 of year to date sales for 2006. Art's-Way Manufacturing had revenues totaling $10,926,000 for the nine months just ended, compared to $11,733,000 for the same period in 2006. This decrease was due to a reduction in sales to our OEM dealers for blowers as well as our delivery schedule for beet equipment being later than last year pushing some of our beet equipment sales into the fourth quarter. Art's-Way Vessels had revenues totaling $3,573,000 for the nine months just ended, compared to $2,636,000 for the same period in 2006. Art's-Way Vessels has succeeded in increasing sales since the acquisition date through on time delivery of a quality product, to new and existing customers.

Consolidated gross profit increased during the quarter to 34% compared to 23% in 2006. Year to date gross profit is 31% compared to 28% in 2006. When we purchased Art's-Way Scientific we also purchased their backlog and had to honor pricing from the prior owners. Art's-Way Scientific's gross profit was 20% for the first quarter of 2007, year to date, gross profit has increased to 29%. Art's-Way Manufacturing's gross profit was 30% while Art's-Way Vessel's was 34% year to date.

Operating expenses for the quarter decreased $52,000 compared to 2006. As a percent of sales, operating expenses decreased by five percentage points- 11% in 2007 compared to 16% in 2006. Year to date operating expenses are 15% compared to 20% in 2006. Art's-Way Manufacturing's year to date operating expense as a percentage of sales was 19%, Art's-Way Vessel 11% and Art's-Way Scientific was 9%.

General and administrative expenses for the quarter decreased $90,000 as compared to 2006. Year to date general and administrative expenses as a percentage of sales was 10% compared to 13% in 2006.

Engineering expenses are down $42,000 for the quarter compared to the same quarter in 2006. As a percent of year to date sales, engineering expenses are down for 2.1% to 1.5%. We are currently looking for replacements for two engineers that left in June of 2007 for our engineering department.

Selling expenses were up for the quarter by $80,000 compared to the same quarter in 2006. However as a percent of sales, selling expenses are consistent for the quarter at 3.6%, as sales increase commission expense also increases. As a percent of sales, year to date selling expenses are 3.9% compared to 4.2% in 2006.

Interest expense quarter to date and year to date have increased due to the addition of $1,500,000 loan in the third quarter of 2006. Other income increased by $104,000 in 2007 compared to 2006. Of that increase, $312,000 is the result of our accounting for the fire and insurance recoveries in Monona, Iowa, offset by $200,000 additional expenses related to early payoff penalties and amortization costs on our loan refinancing package.

As previously disclosed on January 16th, 2007, one of our buildings in Monona, Iowa, was completely destroyed by fire. The building housed the production and offices for Art's-Way Scientific. The 36,000 square foot building was a stick built structure with steel siding. We were insured for the loss of the building, its contents as well as the disruption in business. We are currently working with our insurance company to settle the claim. At this time we have received $1,234,000 towards the claim and we have booked a receivable for the estimated loss of the building of $249,000. We have incurred costs in excess of $1,153,000 related to the fire, including $334,000 in losses of fixed assets. We are currently working from one of our other buildings in Monona, Iowa. We have started construction on our replacement building. The new building will be located in Monona on the same site as the building that was destroyed. It is our intent to be in a new building by October 31, 2007. We continue to manufacture buildings and have not lost any orders to date.

The consolidated order backlog as of October 2007 is $12,453,000 compared to $4,210,000 one year ago. Art's-Way Manufacturing's order backlog as of October is $2,773,000 compared to $980,000 in 2006. This backlog is due primarily to strong grinder sales as well as shredders for the 2007 season that have yet to ship. Art's-Way Vessels backlog is $417,000 compared to $1,894,000 in 2006. The difference in Vessel's backlog is due to a large blanket order with a major customer in 2006 that covered several months that has not been renewed. We were required to be out of our leased building on October 4. We have moved out of the leased building and will not be in our new facility until January of 2008. While we do expect to have some disruption in the fourth quarter of 2007 and into the first quarter of 2008, we expect it to have a minor impact on the consolidated result, as we have been able to cut expenses significantly. Art's-Way Scientific's backlog is $9,263,000 compared to $1,336,000 in 2006.

The Companies new production facility for Art's-Way Vessels will be located in the same Industrial Park in Dubuque, Iowa. Construction is expected to be completed in January of 2008. The facility will be 25,000 square feet and is expected to cost approximately $1.500,000. Art's-Way Vessels has lost a number of employees but is working on having a full staff by the time we move into the new facility in January.

(iii) Liquidity and Capital Resources

Our main source of funds year to date came from net income of $1,869,000. We are working to settle the insurance claim for the building, inventory and assets that were destroyed in Monona, Iowa. We have currently recorded a gain of $694,000 as the result of the difference between anticipated fire insurance proceeds and the net book value of assets destroyed in the fire. We are also showing proceeds from insurance recoveries of $1,234,000 that relates directly to the expected insurance proceeds on the building. We have spent $1,270,000 on the purchase of property, plant and equipment. Of that $1,010,000 has been spent on our new replacement production facility that was lost in the fire. Another $55,000 was spent on our new production facility for Art's-Way Vessels. Inventories increased $1,562,000. We have bought in large quantities of steel for our current build of sugar beet equipment and shedders.

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

Item 3

CONTROLS AND PROCEDURES

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

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

Part II - Other Information

ITEM 1. Legal Proceedings

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

ITEM 6. Exhibits

See Exhibit Index on page 15 of this report.

SIGNATURES

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

ART'S-WAY MANUFACTURING CO., INC.

By: ______________________________	By: ______________________________
E.W. Muehlhausen	Carrie L. Majeski
President	Chief Financial Officer
Date:_________________________	Date:_________________________

Exhibits Index

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