ARTS WAY MANUFACTURING CO INC
Form 10-Q
April 16, 2002

Appendix A to Item 601(c) of Regulation S-K
Commercial and Industrial Companies
Article 5 of Regulation S-X
Quarter Ended February 28, 2002

Item Number	Item Description	Amount
5-02(1)	Cash and cash items	141,224
5-02(2)	Marketable securities	-
5-02(3)(a)(1)	Notes and accounts receivable-trade	1,424,583
5-02(4)	Allowances for doubtful accounts	59,801
5-02(6)	Inventory	4,231,338
5-02(9)	Total current assets	5,784,731
5-02(13)	Property, plant and equipment	10,583,740
5-02(14)	Accumulated depreciation	9,560,300
5-02(18)	Total assets	6,808,171
5-02(21)	Total current liabilities	4,038,213
5-02(22)	Bonds, mortgages and similar debt	2,139,341
5-02(28)	Preferred stock-mandatory redemption	0
5-02(29)	Preferred stock-no mandatory redemption	0
5-02(30)	Common stock	19,382
5-02(31)	Other stockholders' equity	2,496,334
5-02(32)	Total liabilities and stockholders' equity	6,808,171
5-03(b)1(a)	Net sales of tangible products	2,641,892
5-03(b)1	Total revenues	2,641,892
5-03(b)2(a)	Cost of tangible goods sold	2,071,292
5-03(b)2	Total costs and expenses applicable to sales and revenues	539,901
5-03(b)3	Other costs and expenses	14,111
5-03(b)5	Provision for doubtful accounts and notes	4,500
5-03(b)8	Interest and amortization of debt discount	60,589
5-03(b)10	Loss before taxes and other items	48,501
5-03(b)11	Income tax benefit	-
5-03(b)14	Loss continuing operations	48,501
5-03(b)(15)	Discontinued operations	0
5-03(b)(17)	Extraordinary items	0
5-03(b)(18)	Cumulative effect-changes in accounting principles	0
5-03(b)19	Net loss	48,501
5-03(b)20	Loss per share-primary	0.03
5-03(b)20	Loss per share-fully diluted	0.03

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarter Ended February 28, 2002 Commission File No. 0-5131

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of April 5, 2002:

1,938,176
Number of Shares

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

	Three Months Ended	
	February 28, 2002	February 28, 2001
NET SALES	$2,641,892	$2,990,487
COST OF GOODS SOLD	2,071,292	2,516,176
GROSS PROFIT	570,600	474,311
EXPENSES:		
Engineering	14,879	84,458
Selling	128,296	93,305
General and Administrative	401,226	408,176
Total	544,401	585,939
INCOME LOSS) FROM OPERATIONS	26,199	(111,628)
OTHER DEDUCTIONS:		
Interest expense	(60,589)	(122,824)
Other	(14,111)	(52,340)
Other deductions	(74,700)	(175,164)
LOSS BEFORE INCOME TAXES	(48,501)	(286,792)
INCOME TAX BENEFIT	-	-
NET LOSS	$(48,501)	$(286,792)
LOSS PER		

SHARE (NOTE 2):		
Basic	$ (0.03)	$ (0.23)
Diluted	$ (0.03)	$ (0.23)
COMMON SHARES AND EQUIVALENT OUTSTANDING:		
Basic	1,411,954	1,256,351
Diluted	1,411,954	1,256,351

See accompanying notes to financial statements.

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

	February 28, 2002 (Unaudited)	November 30, 2001
ASSETS		
CURRENT ASSETS		
Cash	$ 141,224	$ 4,375
Accounts receivable-customers, net of allowance for doubtful accounts of $59,801 and $55,301 in February and November, respectively	1,364,782	922,168
Inventories	4,231,338	4,690,008
Other current assets	47,387	54,157
Total current assets	5,784,731	5,670,708
PROPERTY, PLANT AND EQUIPMENT, at cost	10,583,740	10,583,740
Less accumulated depreciation	9,560,300	9,499,347
Net property, plant and equipment	1,023,440	1,084,393
TOTAL	$6,808,171	$6,755,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable to bank	$ 994,159	$ 2,073,704
Current portion of long-term debt	890,940	962,040
Accounts payable	837,411	984,052
Customer deposits	625,197	64,449
Accrued expenses	690,506	634,306
Total current liabilities	4,038,213	4,718,551
LONG-TERM DEBT, excluding current portion	254,242	272,333
STOCKHOLDERS' EQUITY:		
Common stock - $.01 par value. Authorized 5,000,000 shares; issued 1,938,176 shares in February and 1,340,778 shares in November	19,382	13,408
Additional paid-in capital	1,634,954	1,249,611
Retained earnings	861,380	909,881
	2,515,716	2,172,900
Less cost of common shares in treasury of 0 shares in February and 42,602 in November	0	408,683
Total stockholders' equity	2,515,716	1,764,217

TOTAL	$ 6,808,171	$ 6,755,101

See accompanying notes to financial statements.

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

	THREE MONTHS ENDED February 28, 2002	February 28, 2001
CASH FLOW FROM OPERATIONS:		
Net Loss	$ (48,501)	$ (286,792)
Adjustment to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	60,953	128,062
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(442,614)	(662,407)
Inventories	458,670	461,839
Other Assets	6,770	8,015
Increase (Decrease) in:		
Accounts payable	(146,641)	490,036
Customer deposits	560,748	36,497
Accrued expenses	56,200	(222,521)
Total adjustments	554,086	239,521
Net cash provided by (used in) operating activities	505,585	(47,271)
CASH FLOWS FROM INVESTING ACTIVITIES - Purchases of property, plant and equipment	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments of) notes payable to bank	(1,079,545)	145,265
Principal payments on term debt	(89,191)	(90,063)
Proceeds from issuance of common stock from treasury	53,253	-
Proceeds from issuance of common stock	746,747	-
Net cash provided by (used in) financing activities	(368,736)	55,202
Net increase in cash	136,849	7,931
Cash at beginning of period	4,375	4,375
Cash at end of period	$ 141,224	$ 12,306
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 64,033	$ 137,118
Income taxes	4,032	330

See accompanying notes to financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement Presentation

The financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended November 30, 2001. The results of operations for the first quarter ended February 28, 2002, are not necessarily indicative of the results for the fiscal year ending November 30, 2002.

2. LOSS PER SHARE

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

The difference in shares utilized in calculating basic and diluted loss per share represents the number of shares issued under the Company's stock option plans less shares assumed to be purchased with proceeds from the exercise of the stock options. Due to the net loss in 2002 and 2001, the anti-dilutive effect of the Company's stock option plans is not included in the calculation of diluted loss per share for those periods.

3. INVENTORIES

Major classes of inventory are:	February 28, 2002	November 30, 2001
Raw material	$ 709,300	$ 749,544
Work-in-process	1,029,893	1,181,870
Finished goods	2,492,145	2,758,594
Total	$ 4,231,338	$ 4,690,008

4. ACCRUED EXPENSES

Major components of accrued expenses are:

	February 28, 2002	November 30, 2001
Salaries, wages and commissions	$ 326,042	$ 294,961
Accrued warranty expense	74,451	67,426
Other	290,013	271,919
Total	$ 690,506	$ 634,306

5. LOAN AND CREDIT AGREEMENTS

Line of Credit

The Company has a credit agreement with a lending institution (lender) that provides for a revolving line of credit (credit facility) and a term loan. The credit facility allows for borrowings up to $4,500,000, subject to borrowing base limitations on the Company's accounts receivable and inventory, and allowing for letters of credit for $100,000. At February 28, 2002, the Company has borrowed $994,159 and has $100,000 in outstanding letters of credit. At November 30, 2001, the Company had borrowed $2,073,704 and had $100,000 in outstanding letters of credit. At February 28, 2002 and November 30, 2001, $802,000 and $68,000 were available for borrowings, respectively. The interest rate is based on the lender's referenced rate and is variable based upon certain performance objectives. Under the terms of the agreement, the Company will not pay more than 4% over the reference rate, nor less than the reference rate during the term of the agreement. The outstanding borrowings bear interest at 8.75% at February 28, 2002.

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

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

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

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

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

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

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

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

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

	February 28, 2002	November 30, 2001
Installment term debt payable in monthly installments of $23,700, plus interest at four percent over the bank's national money market rate (8.75%), secured by the cash, accounts receivable, inventories and property, plant and equipment	$ 818,671	$ 889,771
State of Iowa Community Development Block Grant promissory notes at zero percent interest, maturity 2006 with quarterly principal payments of $11,111	200,000	211,111
State of Iowa Community Development Block Grant local participation promissory notes at 4% interest, maturity 2006, with quarterly payments of $7,814	126,511	133,491
Total term debt	1,145,182	1,234,373
Less current portion of term debt	890,940	962,040
Term debt, excluding current portion	$ 254,242	$ 272,333

Item 2

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

(a) Liquidity and Capital Resources

The Company's main source of funds for the quarter ended February 28, 2002 included a reduction in inventory and an increase in payments received from customers for advance payments on sugar beet equipment to be delivered in the third quarter as well as the capital infusion by a private investor. These sources were offset by an increase in accounts receivable and payments on the Company's note payable and term debt. The increase in accounts receivable is comparable to one year ago and results from the high level of OEM sales in February 2002 which are sold on 30 day terms.

The conditions existing in the agriculture economy, in addition to adversely impacting sales, have also resulted in a deterioration of the Company's accounts receivable. The Company believes it has provided an adequate reserve for uncollectible accounts based on currently available information.

As of February 28, 2002, the Company had no material commitments for capital expenditures.

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

On February 13, 2002, the Company sold to J. Ward McConnell, Jr., a private investor, 640,000 shares of common stock for $800,000. The proceeds were used for the repayment of current obligations and for the reduction of bank debt. Mr. McConnell has agreed that without prior approval of the Board of Directors, excluding himself and his son, he will not acquire as much as fifty percent (50%) of the Company's common stock and will not take the Company private.

The Company has used approximately $200,000 of the proceeds in paying down its aged outstanding payables to its suppliers. The Company is mindful of the necessity to continue to control its costs, as it intends to finance its working capital and pay down its debt through cash from operations. The Company believes that the infusion of capital from Mr. McConnell will also enable it to successfully complete negotiations with its lender, although there are no assurances of such.

(b) Results of Operations

Overall sales for the first quarter were approximately $2,642,000, or 12% lower than last year's first quarter sales of approximately $2,990,000. Sales of Art's-Way products were 26% higher and OEM sales were 33% lower than one year ago. OEM sales included products for three original equipment manufacturers. The reduction in sales reflects the continuing weakness in the farm economy, although demand for our feed processing and land maintenance equipment is significantly higher than the same period one year ago.

Gross profit, as a percent of sales, was 22% for the quarter ended February 28, 2002, as compared to 16% for the same period in 2001. A combination of a favorable product mix in the current year and sales of distressed inventory at low margins in the prior year account for the improvement.

Operating expenses were slightly below last year. As a percent of sales, operating expenses were 21% and 20% for the three months ended February 28, 2002 and 2001, respectively. As a result of cost reduction programs, engineering expenses decreased by $70,000. We currently expect these lower engineering costs to continue throughout fiscal year 2002.

Other deductions decreased by $100,000 from the previous year. Reduction in bank borrowings combined with lower prime interest rate and reduced volume in our financed accounts receivable resulted in this reduction.

The order backlog as of February 28, 2002 is $2,292,000, compared to $1,409,000 one year ago. These orders primarily will be delivered by the end of the third quarter of the current fiscal year. The current year backlog includes $771,000 in orders for beet equipment compared to $50,000 last year at this time. OEM backlog is $421,000 to be shipped in the third quarter.

(c) Quantitative and Qualitative Disclosures About Market Risks

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

(d) Critical Accounting Policies

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

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

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

Inventory Valuation - The Company values its inventory based on a standard costing system which requires the inventory to be valued on the first in, first out method of valuing inventory. Any inventory product that has not moved within the past 3 years is considered significantly aged, and an appropriate reserve percentage is assigned to that inventory classification. As the agriculture industry changes inventory items can become outdated and the Company evaluates this on a regular basis. If a product is determined to be outdated, the Company will mark it down to its net realizable value and try and sell it at this discounted price.

Part II - Other Information

ITEM 1. LITIGATION AND CONTINGENCIES

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

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, 2002 /s/William T. Green
(William T. Green, Chief Financial Officer)

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