ARTS WAY MANUFACTURING CO INC
Form 10KSB
February 20, 2008

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

FORM 10-KSB

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x	**Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the fiscal year ended November 30, 2007

o	**Transition report under Section 13 or 15(d) of the Exchange Act.**

Commission file number 0-5131

ART'S-WAY MANUFACTURING CO., INC.
(Name of small business issuer in its charter)

Delaware	**42-0920725**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(712) 864-3131
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

Common stock $.01 par value

Securities registered under Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

Check whether the issuer: (1) 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. x Yes o No

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

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

State issuer's revenues for its most recent fiscal year. $25,517,750

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity as of a specified date written the past 60 days: The average bid and asked prices of our common stock were $27.50 and $28.99, respectively, on January 7, 2008.

As of January 4, 2008, there were 1,985,176 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the registrant's 2008 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2007, are incorporated by reference into Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): o Yes x No

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Art's-Way Manufacturing Co., Inc.
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FORWARD LOOKING STATEMENTS

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," "potent negative of these terms or other similar expressions. Many of these forward-looking statements are located in this report under "Item 1. DESCRIPTION OF BUSINESS;" "Item 2. "DESCRIPTION OF PROPERTY" and "Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS," but they may appear in other sections as well.

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 the reasons described in this report. We are not under any duty to update the forward-looking statements contained in this report. We cannot guarantee future results, levels of activity, performance or achievements. 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.

PART I

Item 1. DESCRIPTION OF BUSINESS.

General

Art's-Way Manufacturing Co., Inc., a Delaware corporation, 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.

Art's-Way Manufacturing manufactures farm equipment under our own and private labels. Art's-Way Manufacturing has two wholly-owned operating subsidiaries. Art's-Way Vessels manufactures pressure vessels and Art's-Way Scientific manufactures modular buildings for various uses, commonly animal containment and research laboratories.

Art's-Way Manufacturing manufactures a variety of specialized farm machinery under our own label, including: portable and stationary animal feed processing equipment and related attachments used to mill and mix feed grains into custom animal feed rations; a high bulk mixing wagon to mix animal feeds containing silage, hay and grain; a line of stalk shredders; sugar beet and potato harvesting equipment; and a line of land maintenance equipment, edible bean equipment, moldboard plows and grain drill equipment. We sell our labeled products through independent farm equipment dealers throughout the United States. In addition, we manufacture moldboard plows and supply hay blowers under an original equipment manufacturer (OEM) agreement with Case New Holland (CNH). Sales under our OEM agreement with CNH accounted for 7.6% of our consolidated sales for the fiscal year ended November 30, 2007.

Business of Our Subsidiaries

Business of Art’s-Way Vessels

Art’s-Way Vessels is an Iowa corporation with its principal place of business located in Dubuque, Iowa. Art’s-Way Vessels produces and sells pressurized vessels, both American Society of Mechanical Engineers (ASME) code and non-code. Art's-Way Vessels provides a combination of services as a manufacturer and supplier of steel vessels and steel containment systems. We build in carbon steel and stainless steel, ranging from atmospheric (0 PSI) storage vessels up to any PSI pressure rating required. We provide vessels ranging in size from 4-inches to 168-inches in diameter and in various lengths as our customers require. The vessels are primarily sold to manufacturing facilities that will use the vessel as a component part of their end product. We primarily serve the following industries: water treatment, air receivers, refineries, co-generation, chemical, petrochemical, storage tanks, agriculture, marine, refrigeration, hydropneumatic, heavy equipment, pharmaceuticals and mining. In addition to our role as a fabricator of vessels, we provide services including: custom CAD drawing, welding, interior linings and exterior finishing, passivation of stainless steel, hydrostatic and pneumatic testing, design, build and finishing of skids, installation of piping, non-destructive examination and heat treating.

Business of Art’s-Way Scientific

Art’s-Way Scientific is an Iowa corporation with its principal place of business located in Monona, Iowa.
Art’s-Way Scientific produces and sells modular buildings. The buildings are custom designed to meet the research needs of our customers. Buildings commonly produced range from basic swine buildings to complex containment research laboratories. In 2008, we plan to focus on providing research facilities for academic research institutions, government research and diagnostic centers, public health institutions and private research and pharmaceutical companies, as those are our primary market sectors. Art’s-Way Scientific provides services from start to finish by designing, manufacturing, delivering and installing our building units.

Material Asset Purchases

In October 2005, we purchased certain assets of Vessel Systems Inc., a manufacturer of pressurized tanks and vessels, located in Dubuque, Iowa. We purchased the inventory, fixed assets and accounts receivable, and we operate this new business through our wholly-owned subsidiary, Art’s-Way Vessels, Inc.

In August 2006, we purchased certain assets of Techspace, Inc., a manufacturer of modular laboratories, located in Monona, Iowa. We purchased the inventory, fixed assets and accounts receivable, and we operate this business through our wholly-owned subsidiary, Art’s-Way Scientific, Inc.

In September 2007, we purchased certain assets of Miller-St. Nazianz, Inc., specifically portions of its Miller Pro and Badger lines of agricultural products. These product lines are hay and forage lines, and our purchase generally included all customer lists, inventories, tooling and other proprietary rights to these product lines. Under the purchase agreement, Miller-St. Nazianz also granted us a license to use the Badger product line trademark in connection with the sale and production of the Badger product line which consists of forage boxes, forage blowers, running gears, dump boxes and options for any of those products. We can only use the Badger trademark on any of those products that we sell; any other products that are manufactured or marketed using the Badger trade name or trademark were not included in our asset purchase. We also purchased the entire Miller Pro product line except for pole-type sprayers marketed under the Miller Pro brand and products manufactured by Ziegler. The Miller Pro product line consists of forage boxes, receiver boxes, running gears and tires, forage blowers, dump boxes, rotary rakes, finger-wheel rakes, Miller produced hay-mergers and all “Hay Buddy” equipment and options for any of those products. In addition to purchasing rights to certain trade names and goodwill relating to those names, we purchased the Hay Buddy trademark, the Miller Pro trademark and a patent.

In addition, our purchase included all distribution agreements with manufacturers pertaining to the product lines. Further, the purchase agreement included all dealership agreements; as such, Miller Pro and Badger dealers are now Art’s-Way distributors. Currently, both names appear on the hay and forage products. We moved the production of the lines to our main manufacturing facility in Armstrong, Iowa, as the purchased lines were incorporated into our existing Art’s-Way Manufacturing business.

Miller-St. Nazianz and its President, John Miller, agreed to sign non-compete agreements in consideration for the purchase of the product lines. For a period of five years after the closing, Miller-St. Nazianz and Mr. Miller agreed not to compete with the products or activities of the purchased assets.

We will continue to seek acquisitions as they fit into our strategic plans and goals. At this time, however, we are not actively pursuing any material asset purchases outside of our current product lines, and no significant dispositions of assets are planned.

Our Principal Products

From our beginnings as a producer of portable grinder mixers, we have grown through developing several new products. Today, our products include an array of feed processing, forage blending, land management and sugar beet harvesting equipment. We also maintain a high volume of OEM work for the industry's leading manufacturers. Our brand names include Art's-Way, Peerless Rollermills, SupRaMix vertical tub mixer and Eversman land management equipment.

Grinder mixer line. The grinder mixer line represents our original product line. Our founder, Arthur Luscombe, designed the original PTO powered grinder-mixer prior to the company's inception. The grinder mixer line was expanded to include doing OEM work for companies such as Case New Holland. Grinder mixers are used to grind grain and mix in proteins for animal feed. They have several agricultural applications, and are commonly used in livestock operations. Our grinder mixers have wide swing radiuses to allow users to reposition the discharge tube from one side of the tank to the other in one step. Our PM25 grinder mixer offers a 105-bushel tank with a 20-inch hammermill, and it was recently upgraded to our new 5105 grinder mixer model. Our 5165 grinder mixer is the largest in the industry, with a 165-bushel tank and a 26-inch hammermill.

Feed grain processing line. We offer stationary hammermills and rollermills. Our Cattle Maxx products offer consistent feed grain rations for beef and dairy operations and are available in 105-bushel and 165-bushel capacities. Harvesting leaves various amounts of extraneous materials that must be removed through processing the seeds. Hammermills are aggressive pre-cleaners that are designed to remove appendages, awns and other chaff from seeds by vigorously scraping the seed over and through the screen. The screen has holes that are big enough to let the seed pass through undamaged, but are small enough to catch and remove the appendages. Our rollermills roll the feed grain to minimize dust, and they fracture the outside hull to release the digestive juices more rapidly. Rolling feed provides more palatable and digestible feed for use in animal feeding operations.

Forage blending line. Our no-till drills are farm implements designed to plant seed and spread fertilizer in one operation and are generally used by farmers to plant or improve their pastures. Art's-Way shredders assure maximum crop shredding and destroy insect habitats. The shredded crop material allows for faster decomposition and restores nutrients to the soil more quickly while providing ground cover to reduce wind and water erosion.

Land management line. Land planes are used to ensure even distribution of rainfall or irrigation by eliminating water pockets, furrows and implement scars in fields. Our land planes have a patented Art's-Way floating hitch design. Our moldboard plows are designed to slice and invert the soil to leave a rough surface exposed, and they are primarily used on clean-tilled cropland with high amounts of crop residue. We offer pull-type graders to help our customers perform many tasks such as maintaining terraces and waterways, leveling ground, cleaning ditches and removing snow. The pull-type graders follow close to the back of a tractor for leveling uneven areas or for turning in smaller spaces. Because of the wide array of depths and widths available, our adjustable ditchers are ideal for digging irrigation or drainage channels. Optional models of our ditchers can be adjusted from inside the tractor for added convenience.

Sugar beet harvesting line. Our sugar beet defoliators and harvesters are innovative products in the industry because we continuously improve our products, both in reaction to customer requests and in anticipation of our customers' needs. Our machines can do six, eight, or twelve rows at one time, and we were the first manufacturer to introduce a larger, 12-row harvester. We have obtained patents on certain components of our sugar beet harvesting line. Our sugar beet defoliators cut and remove the leaves of the sugar beets without damaging them, and the leaf particles are then incorporated back into the soil. Our sugar beet harvesters use digger wheels to lift the beets out of the ground.

Product Distribution and Markets

We distribute our products primarily through a network of approximately 1,650 U.S. and Canadian independent dealers whose customers require specialized agricultural machinery. We have sales representation in 47 states and seven Canadian provinces; however, many dealers sell only service parts for our products. The company’s dealers sell our products to various agricultural and commercial customers. We also maintain a local sales force in our Armstrong, Iowa facility to provide oversight services for our distribution network, communicate with end users and recruit and train dealers on the uses of our products. Our local service parts staff is available to help customers and dealers with their service parts needs.

We began exporting new products during the latter part of 2006, and we currently export products to six foreign countries. In July 2006, we exported our newly-designed sugar beet harvesters and defoliators. In September 2006, our first shipment of grinder mixers sold internationally left our Armstrong facility. At the Agritechnica 2007 exhibition in Germany, we met with prospective European distributors. We look forward to strengthening these relationships and developing new international markets as well.

Backlog. Our backlogs of orders vary on a daily basis. As of February 6, 2008, Art's-Way Vessels had $100,699 of backlog, Art's-Way Scientific had approximately $4,987,224 of backlog and Art's-Way Manufacturing had a backlog of $10,318,226. We expect that our order backlogs will continue to fluctuate as orders are received and filled.

Recent Product Developments

In November 2007, we introduced our 5105 and 5165 Grinder Mixers at the Agritechnica 2007 show in Hanover, Germany. Agritechnica is the world's largest agricultural equipment exhibition. We featured the 5105 grinder mixer, which has a 105-bushel tank and a 20-inch hammermill. The 5105 model is an upgraded version of our PM25 grinder mixer. In addition, our portable, 165-bushel 5165 model was highlighted at the exhibition and is the largest grinder mixer in the industry.

During the 2005 sugar beet harvesting season, we field tested a new single pass defoliator and placed this product in production and in the field for the 2006 sugar beet harvest. This year, we upgraded the sugar beet defoliator to make it high-speed. The new high-speed defoliator is in production and went in the field for the 2007 harvest season. We also tested a new exportable sugar beet harvester in 2006. The export unit is designed off of our model 6812 but down-sized to fit in a cargo container for shipping. In July 2006, we exported our newly-designed sugar beet harvester and defoliator, and we exported units during our 2007 fiscal year as well.

Competition, Our Competitive Position and Strategies

Competition. The agricultural equipment industry is highly competitive. We compete with larger manufacturers and suppliers that have broader product offerings and significant resources at their disposal; however, we believe that our competitive strengths allow us to compete effectively in our market.

Management believes that grain and livestock producers, as well as those who provide services to grain and livestock operations, are the primary purchasers of agricultural equipment. Many factors influence a buyer's choice for agricultural equipment. Any one or all factors may be determinative, but they include brand loyalty, the relationship with the company's dealers, product quality and performance, product innovation, product availability, parts and warranty programs, price and customer service. While our larger competitors may have resources greater than ours, we believe we compete effectively in the farm equipment industry by serving smaller markets rather than directly competing with larger competitors across an extensive range of products.

We expect continued competition from Art's-Way Scientific's existing competitors as well as competition from new entrants into the modular building market. To some extent, we believe barriers to entry in the modular building industry limit the competition we face in the industry. Barriers to entry in the market consist primarily of access to capital, access to a qualified labor pool, and the bidding process that accompanies many jobs in the health and education markets. Despite these barriers, manufacturers who have a skilled work force and adequate production facilities could adapt their manufacturing facilities to produce modular structures. We expect that the threat of entry posed by other manufacturers is strongest during economic downturns in the manufacturing industry.

To continue sales growth in the pressurized vessel industry, Art's-Way Vessels must offer quality tanks at competitive prices. The company believes that competition in the industry is intense. However, management believes our competitive strengths will allow us to compete effectively in the industry.

Competitive Strengths. The company believes that our competitive strengths include competitive pricing, product quality and performance, diversified revenues, a network of worldwide and domestic distributors and our strong market share for many of our products.

Art's-Way Manufacturing caters to niche markets in the agricultural industry. We do not have a direct competitor that has the same product offerings that we do; instead, each of our product lines for Art's-Way Manufacturing competes with similar products of many other manufacturers. Some of our product lines face greater competition than others, but we believe that our products are competitively priced with greater diversity than most competitor product lines. Other companies produce feed processing equipment, sugar beet harvesting and defoliating equipment, grinders, shredders and other products similar to ours; therefore, we focus on providing the best product available at a reasonable price. Overall, we believe our products are competitively priced with above average quality and performance, in a market where price, product performance and quality are principal elements.

Management believes that our purchase of the Miller Pro hay and forage product lines from Miller-St. Nazianz, Inc. benefited the company in a number of ways. We believe we will be able to capitalize on the use of the Miller Pro name and its popularity in the agricultural community. In addition, the asset purchase led to an increase in the number of dealers who sell our products, as the Miller Pro dealers continue to sell the Miller Pro products, but with the Art's-Way Manufacturing name attached.

We believe our company has a diversified revenue base due to its various product lines and those of its subsidiaries, geography, and customer base. We have numerous product lines produced under our label and private labels. In addition, we provide after market service parts which are available to keep our branded and OEM-produced equipment operating to the satisfaction of the customer. Our subsidiaries produce and sell pressurized vessels and tanks and modular buildings, which allows us to have diversified revenues rather than solely relying on the agricultural machinery sector. We also have a diversified revenue base due to geography. We sell products to customers in the United States and six foreign countries through a network of approximately 1,650 independent dealers in the United States and Canada, as well as overseas dealers in the United Kingdom and Australia. Although we have a material license agreement with Case New Holland, no single customer or product class represented more than 10% of the company's sales over the past two fiscal years.

We believe the main competitive strength of Art's-Way Vessels is the company's ability to provide products and services under one entity. Often, the services provided by Art's-Way Vessels are handled by two or more of our competing suppliers. We have the ability to fabricate pressurized vessels to our customers' specifications, and we also provide a variety of services before and after installation. Our high quality products and services save our customers time in an industry where time and quality are of utmost importance.

We believe the competitive strength of Art's-Way Scientific is the company's ability to design and produce high-tech modular buildings in a fraction of the time of conventional design/build firms. Conventional design/build construction may take two to five years, while our modular laboratories can be delivered in as little as six months. As one of the few companies in the industry to supply turnkey modular buildings and laboratories, the company manages to provide high quality buildings at reasonable prices to meet our customers' time, flexibility and security expectations. No single customer or product class of Art's-Way Scientific represented more than 10% of the company's consolidated sales over the past two fiscal years.

Raw Materials, Principal Suppliers and Customers

Raw materials for Art's-Way Manufacturing, Art's-Way Vessels and Art's-Way Scientific are acquired from domestic and foreign sources and normally are readily available. In the past, the lifter wheels used to manufacture our sugar beet harvesters were bought only from China. However, we have located domestic sources for lifter wheels and no longer import them solely from China.

We have an original equipment manufacturer (OEM) supplier agreement with Case New Holland (CNH). Under the OEM agreement, we have agreed to supply CNH's requirements for certain feed processing and service parts, primarily blowers, under CNH's label. The agreement has no minimum requirements and can be cancelled upon certain conditions. For the years ended November 30, 2007 and 2006, sales under the CNH label aggregated approximately 7.6% and 8% of consolidated sales, respectively, demonstrating CNH's value as a major customer.

Intellectual Property

We maintain manufacturing rights on several products covering unique aspects of design and have trademarks covering product identification. We believe our trademarks and licenses help us to retain existing business and secure new relationships with customers. We currently have no pending applications for intellectual property rights.

We pay royalties for our use of certain manufacturing rights. We entered into a material OEM and royalty agreement on moldboard plows and hay blowers with Case New Holland (CNH) on September 30, 2003. Under the agreement, CNH sold us the license to manufacture, sell and distribute certain plow products designed by CNH and their replacement and component parts. We pay semi-annual royalty payments based on the invoiced price of each licensed product and service part we sell. The agreement with CNH ran through September 2006, but the agreement continues in force until terminated or cancelled. We have not terminated or cancelled the agreement as of November 30, 2007.

Research and Development Activities

Art’s-Way Manufacturing is continually engaged in research and development activities to improve and enhance our existing products. We perform research and development activities internally, and the cost of our research and development activities is not borne by our customers. Our research and development expenses are cyclical; in one year, they may be high, and then the next year we tend to see lower research and development expenses and an increase in production expenses as our new ideas are manufactured. Research and development expenses during our 2007 fiscal year accounted for $178,000 of our overall engineering expenses. For more information please see “Item 6. MANAGEMENT’S DISCUSSION AND ANALYSIS.”

Art’s-Way Vessels produces custom tanks and vessels that are manufactured in accordance with specifications provided by our customers. Similarly, Art’s-Way Scientific engineers modular buildings in accordance with customer specifications. Art’s-Way Vessels and Art’s-Way Scientific did not incur any research and development costs in 2007.

Government Relationships and Regulations; Environmental Compliance

Art’s-Way Scientific must design, manufacture and install its modular buildings in accordance with state building codes, and the company has been able to achieve the code standards in all instances. Except for building our modular buildings up to state building code standards, we currently do not do business with any local, state or federal government agencies that must approve our products.

We are subject to various federal, state and local laws and regulations pertaining to environmental protection and the discharge of materials into the environment. In 2006, Art’s-Way Manufacturing completed the installation of a liquid paint system for our whole goods which significantly improved the quality of our paint, in terms of luster, hardness and longevity. The paint system is situated in a new location within the plant, and we redesigned our workflow to optimize productivity. We obtained the necessary permits that allowed us to change the paint system and we remain in compliance with all applicable laws and regulations. During our 2007 fiscal year, we expended $2,787 on environmental compliance.

Employees

During the fiscal year ended November 30, 2007, we employed 107 employees at Art’s-Way Manufacturing, five of whom were employed on a part-time basis. For the same period, we had 22 full-time employees and one part-time employee at Art’s-Way Vessels. In addition,Art’s-Way Scientific employed 35 employees, one of whom was a part-time employee. Employee levels fluctuate based upon the seasonality of the product line, and the numbers provided above represent our peak employment during our 2007 fiscal year. In addition, the number of employees at Art’s-Way Vessels decreased substantially following the expiration of our lease in Dubuque. See “Item 2.

DESCRIPTION OF PROPERTY."

Item 1A. RISK FACTORS.

Risks Related to Our Shares

Our stock is publicly traded, but the trading volume and price is subject to change and you may not be able to resell your shares on favorable terms. The bid price of our common stock ranged from $6.19 to $26.78 per share during our 2007 fiscal year. In our 2006 fiscal year, it ranged from $4.74 to $9.19 per share. Our stock price may fluctuate in response to the risk factors set forth below or in response to a number of other factors. These factors include variations in our financial results, recommendations made by analysts, stock performance of other companies and the general strength of the economy.

Future sales of our common stock may depress the market price of our common stock. Future sales of substantial amounts of our common stock could depress the prevailing market price and impair our ability to raise capital through additional sales of our securities. If we or our existing shareholders undertake to sell a significant amount of our stock in the public market, or if there is a public perception that these sales may occur, the market price of our stock could decline.

You may experience dilution due to the future issuance of additional shares of our common stock. As of January 4, 2008, we have 3,014,824 previously authorized and unissued shares of common stock, and 1,985,176 shares issued and outstanding. If we issue these shares in the future, it will result in dilution of the ownership interests of our current shareholders. In addition, we have additional shares available for grant under our 2007 Non-Employee Directors' Stock Option Plan and 2007 Employee Stock Option Plan. Additional stock options or other compensation plans or amendments to our existing plans may be adopted. We may also issue additional shares of our common stock for other business purposes such as acquisitions or hiring of personnel, or we may choose to conduct a future private or public offering to raise additional capital. This would result in further dilution to our existing shareholders.

There is no assurance that we will declare dividends or have cash available to pay them. We do not declare and pay dividends on a consistent basis, and there is no guarantee that we will declare dividends in the future or that funds will be available for this purpose. Our declaration and payment of dividends is conditioned by the terms of our loan agreement and revolving line of credit agreement with West Bank. We may issue dividends without the permission of West Bank if we meet all of our financial covenants which include, but are not limited to, providing financial statements to the bank, maintaining our primary deposit accounts at West Bank and meeting certain financial performance ratios.

One of our shareholders owns a significant amount of our common stock, and his interests may conflict with those of our other shareholders. J. Ward McConnell, Jr., our Executive Chairman, owns approximately 40% of our outstanding common stock. As a result, he may be able to significantly influence the direction of our company, the election of our Board of Directors and any other matter requiring shareholder approval. His interests may conflict with the interests of our other shareholders.

Risks Related to Our Business

A downturn in the economy may negatively impact our results of operations and financial condition. The profitability and success of our business depends on the overall demand for our products. Our sales revenues are subject to general economic conditions. Consumers are generally less likely to purchase farm equipment, vessels or modular buildings during periods of economic uncertainty. Levels of interest rates also affect our customers' buying decisions. A downturn in the general economy or the economy of a particular region containing a large part of our customer base could result in fewer customers purchasing our products and would adversely affect our financial results.

Our success depends on our ability to enhance our existing product lines through research and development. The long-term financial success of our business depends on our ability to introduce and market new products successfully, which requires significant expenditures on research and development, production and marketing. As we refine our existing products, our success will depend upon a number of factors that are largely beyond our control. These factors include customer acceptance, the availability of component parts from our suppliers, the strength of our dealer system, the intensity of competition in the industry and the economy in general. To continue our strategy to introduce new versions of our products, we expect to use a substantial amount of capital. Such expenditures could adversely affect our financial condition.

We depend on suppliers for our raw materials and component parts for our products, and any failure of our suppliers to meet our demands will harm our ability to manufacture and sell our products on a timely basis. Our products are made from component parts that are manufactured by others. At any particular time, we depend on a number of suppliers so that we may efficiently manufacture our products, develop enhancements to existing products and deliver products to our dealers and customers. The failure of our suppliers to meet our expectations will result in fewer products being manufactured and sold, and our financial results could be negatively impacted.

The price and availability of raw materials, component parts and fuel are subject to price fluctuations which can increase our production costs and negatively impact our financial results. We have no control over price fluctuations in, for example, the price of steel and fuel. Additionally, although we are typically able to procure our supplies from a network of domestic and foreign suppliers, we could experience disruptions in the availability of our supplies for a number of reasons and may have to obtain the supplies from a higher-priced supplier. We may not be able to offset increased production costs by passing these costs on to our customers. A significant increase in the price or change in the availability of any raw material, component part or fuel could adversely affect our profitability.

Our businesses operate in highly competitive industries, and many of our competitors have greater resources that may enable them to compete more effectively. We compete with several large domestic and international companies that offer a broader range of products than us, in addition to local and regional manufacturers that supply a more limited product range. Some of our competitors have greater resources than we do, and having greater resources at their disposal may enable them to compete more effectively. Our competitors may devote their resources to developing and marketing products that will directly compete with our product lines, and new competitors may enter the market. Our inability to compete with existing companies and new entrants to the markets in which we operate will have a negative impact on our business and financial condition.

The markets that we serve vary, and we face a challenge in adequately meeting each market's needs. We offer products for a number of markets, including agricultural equipment, modular building and scientific research laboratories, and pressurized vessels. Because we operate in multiple markets, we must work constantly to understand the needs, standards and technical requirements of several different industries and must devote significant resources to developing products for these industries. If we do not accurately predict our customers' needs, we may expend valuable resources in developing products that do not achieve broad acceptance across the markets. If we fail to adequately meet our customers' needs and our product offerings in any particular market are not competitive, our business and results of operations would be harmed.

Like other manufacturers, we are subject to an ongoing risk of product liability claims. We may be exposed to product liability claims in the event that any of our products results, or is claimed to have resulted in, bodily injury or property damage. We cannot provide assurance that we will not suffer material losses due to product liability claims in the future, and we may incur significant costs in order to defend against such claims. Our insurance may be insufficient to cover these claims; as such, significant product liability claims may damage our reputation and harm our financial condition.

We are subject to environmental, health and safety and employment laws and regulations which lead to significant compliance costs. Like other manufacturers, our business is heavily regulated with regard to hazardous substances, waste materials, workplace safety and equal employment opportunities. We have incurred and will continue to incur expenses associated with complying with the laws and regulations that impact our operations. These laws and regulations are continually subject to change, and we cannot predict the cost of future compliance. If we face unexpected obligations or are unable or unwilling to comply with these laws and regulations, our business and financial condition could suffer.

If we do not retain key personnel and hire highly skilled employees, our business will suffer. Our ability to maintain and improve our financial results will depend on, among other things, the efforts and skills of our management and employees. We depend primarily on our executive officers to move forward with our business plans and strategies, and we also depend on our ability to attract and retain qualified technical, manufacturing and sales personnel. We do not maintain “key person” life insurance for any of our employees or management, and all of our employees and management are employed at will. The loss of a key member of management or key employees could have an adverse effect on our business and financial results.

Although we have no planned acquisitions at this time, our strategy in acquiring businesses or product lines in the future may adversely affect our business. We intend to evaluate the possibility of acquiring additional product lines or businesses in the future as opportunities arise. We cannot provide assurance that we will be able to identify targets, obtain financing for acquisitions on favorable terms, or successfully acquire and integrate target companies or product lines. Competition for acquisitions may prevent us from following through with acquisition plans. Once acquired, integration of product lines into our existing operations may lead to substantial costs, delays and other challenges. We may not be able to successfully produce and distribute new product lines in a cost-effective manner. In addition, acquisitions may divert our management’s time and expertise away from production. Any one or all of these factors may adversely affect our financial condition.

We have incurred substantial amounts of long-term debt with West Bank which could have adverse consequences to our financial results. Our indebtedness to West Bank requires us to divert a substantial portion of our cash flow from operations to payments on our indebtedness. These payments may reduce our available cash flow for working capital, capital expenditures, acquisitions and pursuing other business opportunities. Indebtedness could also increase our susceptibility to downturns in the industry and the economy in general. Our failure to maintain financial performance ratios or to meet certain financial covenants in our loan and credit agreements with West Bank may require us to request West Bank’s permission to pay dividends. Finally, indebtedness could place us at a competitive disadvantage compared to our competitors that may have less indebtedness.

Risks Related to the Production of Agricultural Equipment

Our financial results for our Art’s-Way Manufacturing segment primarily depend upon the agricultural industry, and factors that adversely affect the agricultural industry may also negatively impact our business. Sales of agricultural equipment are closely tied to the well-being of the agricultural industry. Historically, the agricultural industry has been cyclical and is often impacted by factors beyond our control, including general economic conditions, weather patterns and legislation. Adverse weather conditions, crop pest or animal disease outbreaks during important sales seasons may dramatically impact our business. In the United States, legislation such as the 2007 Farm Bill may significantly affect commodity prices and our customers’ ability to purchase our products. Our business will likely be subject to fluctuations in the farm industry, and we expect downturns in the industry to negatively impact our financial results.

The continuing globalization of the agricultural industry may alter our business in unpredictable and potentially negative ways. Our competition, customer base and products may change significantly due to the globalization of the agricultural industry. To some extent, our success depends on the development of the global agricultural market, and we may have to adapt quickly in order to maintain our position in the industry. Our failure to keep pace with the globalization of the industry may adversely impact our financial condition.

The agricultural equipment industry is seasonal, and seasonal fluctuations in our operations may negatively impact our financial results. Sales often fluctuate as a result of our customers’ tax planning considerations, planting and harvest times and dealer incentives. As a result, our quarterly results and available cash flow fluctuates due to the seasonality of our agricultural equipment sales.

Changing demand for farm outputs could affect the demand for our agricultural equipment. Worldwide demand for food coupled with increased demand for crop-based renewable fuels could have an effect on prices and demand for farm commodities. As such, the demand for our agricultural equipment may experience fluctuations along with the demand for agricultural products. As with other factors impacting the agricultural industry, we have no control over demand for farm outputs, and our business is subject to both positive and negative changes in demand.

We recently began exporting our agricultural machinery internationally, which will expose us to the risks of doing business abroad. Selling our products to other countries exposes us to various risks, including: import and export restrictions, tariffs and quotas; uncertain political environments, economic conditions and foreign business cycles; changes in laws and policies; cultural differences; and changes in currency exchange rates. Political developments and policies, such as changes in farm subsidies, could directly impact the demand for our products. Further, our profitability is affected by fluctuations in the value of the U.S. dollar as compared to the currencies of countries in which we sell our products. Significant fluctuations in exchange rates could prevent us from realizing the advantages of exporting our products. Our lack of experience in exporting may impact our ability to adapt to these risks which could adversely affect our success as an exporter.

Our failure to accurately predict and maintain adequate inventory to meet our customers' demands may reduce our profitability. The modular building and research laboratory industry is somewhat cyclical in nature, mainly due to the budgeting processes of health centers and educational institutions. We cannot reliably forecast the timing and size of our customers' orders. In order to meet expected demand, we order raw materials and build a quantity of inventory to anticipate purchase orders. Our financial results could be harmed if we do not accurately estimate our customers' demands and are unable to adapt to the cyclical nature of our business.