

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

FORM 10-Q

(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, 2015
or
[] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 0-5131

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

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

Number of common shares outstanding as of September 17, 2015: 4,061,052

Art's-Way Manufacturing Co., Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited)	
Assets	<u>August 31, 2015</u>	<u>November 30, 2014</u>
Current assets:		
Cash	\$ 643,540	\$ 511,716
Accounts receivable-customers, net of allowance for doubtful accounts of \$21,072 and \$35,175 in 2015 and 2014, respectively	1,875,735	2,961,834
Inventories, net	16,493,566	15,089,280
Deferred taxes	1,327,079	1,259,943
Cost and Profit in Excess of Billings	87,379	17,543
Income taxes receivable	265,013	100,417
Other current assets	320,740	125,228
Total current assets	<u>21,013,052</u>	<u>20,065,961</u>
Property, plant, and equipment, net	11,249,804	11,680,792
Assets held for lease, net	10,636	58,500
Goodwill	375,000	993,729
Other Assets	56,204	47,360
Total assets	<u>\$ 32,704,696</u>	<u>\$ 32,846,342</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Line of credit	\$ 4,031,278	\$ 2,569,106
Current portion of long-term debt	1,312,664	1,283,897
Accounts payable	1,225,767	874,653
Customer deposits	115,098	95,411
Billings in Excess of Cost and Profit	126,447	96,382
Accrued expenses	1,229,050	1,584,328
Total current liabilities	<u>8,040,304</u>	<u>6,503,777</u>
Long-term liabilities		
Deferred taxes	1,021,580	1,141,580
Long-term debt, excluding current portion	4,960,874	5,949,329
Total liabilities	<u>14,022,758</u>	<u>13,594,686</u>
Commitments and Contingencies (Notes 6 and 7)		
Stockholders' equity:		
Undesignated preferred stock - \$0.01 par value. Authorized 500,000 shares in 2015 and 2014; issued and outstanding 0 shares in 2015 and 2014.	-	-
Common stock – \$0.01 par value. Authorized 9,500,000 shares in 2015 and 2014; issued and outstanding 4,061,052 in 2015 and 4,048,552 in 2014	40,610	40,486
Additional paid-in capital	2,667,010	2,638,651
Retained earnings	15,974,318	16,572,519
Total stockholders' equity	<u>18,681,938</u>	<u>19,251,656</u>
Total liabilities and stockholders' equity	<u>\$ 32,704,696</u>	<u>\$ 32,846,342</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	<u>August 31, 2015</u>	<u>August 31, 2014</u>	<u>August 31, 2015</u>	<u>August 31, 2014</u>
Sales	\$ 6,886,077	\$ 11,584,707	\$ 21,979,317	\$ 27,291,037
Cost of goods sold	5,620,719	8,880,619	16,454,087	20,918,763
Gross profit	<u>1,265,358</u>	<u>2,704,088</u>	<u>5,525,230</u>	<u>6,372,274</u>
Expenses:				
Engineering	145,458	129,131	380,677	361,031
Selling	532,445	566,452	1,678,371	1,742,497
General and administrative	972,310	1,100,733	3,107,737	3,212,018
Impairment of goodwill	618,729	-	618,729	-
Total expenses	<u>2,268,942</u>	<u>1,796,316</u>	<u>5,785,514</u>	<u>5,315,546</u>
Income (Loss) from operations	<u>(1,003,584)</u>	<u>907,772</u>	<u>(260,284)</u>	<u>1,056,728</u>
Other income (expense):				
Interest expense	(85,458)	(94,112)	(246,524)	(269,274)
Other	<u>(96,058)</u>	<u>30,865</u>	<u>(79,456)</u>	<u>47,971</u>
Total other income (expense)	<u>(181,516)</u>	<u>(63,247)</u>	<u>(325,980)</u>	<u>(221,303)</u>
Income (loss) before income taxes	(1,185,100)	844,525	(586,264)	835,425
Income tax expense (benefit)	<u>(389,507)</u>	<u>286,317</u>	<u>(190,494)</u>	<u>282,374</u>
Net income (loss)	<u>\$ (795,593)</u>	<u>\$ 558,208</u>	<u>\$ (395,770)</u>	<u>\$ 553,051</u>
Net income per share:				
Basic net income (loss) per share	\$ (0.20)	\$ 0.14	\$ (0.10)	\$ 0.14
Diluted net income (loss) per share	\$ (0.20)	\$ 0.14	\$ (0.10)	\$ 0.14
Weighted average outstanding shares used to compute basic net income per share	4,061,052	4,048,552	4,057,496	4,047,544
Weighted average outstanding shares used to compute diluted net income per share	4,061,052	4,053,129	4,057,496	4,053,152

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	August 31, 2015	August 31, 2014
Cash flows from operations:		
Net income (loss)	\$ (395,770)	\$ 553,051
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation	28,484	14,504
(Gain)/Loss on disposal of property, plant, and equipment	(1,130)	(958)
Depreciation and amortization expense	692,680	633,123
Impairment of goodwill	618,729	-
Bad debt expense (recovery)	(4,042)	39,207
Deferred income taxes	(187,136)	(10,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,090,141	(2,023,321)
Inventories	(1,404,286)	103,537
Income taxes receivable	(164,596)	(3,821)
Other assets	(209,337)	(81,517)
Increase (decrease) in:		
Accounts payable	351,111	192,203
Contracts in progress, net	(39,771)	(64,514)
Customer deposits	19,687	(26,114)
Accrued expenses	(355,278)	(209,896)
Net cash provided by (used in) operating activities	39,486	(884,516)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(228,624)	(651,251)
Proceeds from sale of assets	20,906	958
Net cash (used in) investing activities	(207,718)	(650,293)
Cash flows from financing activities:		
Net change in line of credit	1,462,172	1,489,383
Proceeds from term debt	-	1,000,000
Repayment of term debt	(959,688)	(933,194)
Proceeds from the exercise of stock options	-	7,760
Dividends paid to stockholders	(202,428)	-
Net cash provided by financing activities	300,056	1,563,949
Net increase in cash	131,824	29,140
Cash at beginning of period	511,716	207,950
Cash at end of period	\$ 643,540	\$ 237,090
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 242,248	\$ 273,726
Income taxes	263,674	296,845

Notes to Unaudited Condensed Consolidated Financial Statements

1) Description of the Company

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

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

We have organized our business into four operating segments. Management separately evaluates the financial results of each segment because each is a strategic business unit offering different products and requiring different technology and marketing strategies. Our agricultural products segment (“Manufacturing”) manufactures farm equipment under the Art’s-Way Manufacturing label and private labels. Our pressurized vessels segment (“Vessels”) manufactures pressurized vessels. Our modular buildings segment (“Scientific”) manufactures modular buildings for various uses, commonly animal containment and research laboratories and our tools segment (“Metals”) manufactures steel cutting tools and inserts. For detailed financial information relating to segment reporting, see Note 13 “Segment Information.”

2) Summary of Significant Account Policies

Statement Presentation

The foregoing condensed consolidated financial statements of the Company are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K and the amendment thereto on Form 10-K/A for the fiscal year ended November 30, 2014. The results of operations for the three and nine months ended August 31, 2015 are not necessarily indicative of the results for the fiscal year ending November 30, 2015.

The financial books of our Canadian operation are kept in the functional currency of Canadian dollars and the financial statements are converted to U.S. Dollars for consolidation. When consolidating the financial results of the Company into U.S. Dollars for reporting purposes, the Company uses the All-Current translation method. The All-Current method requires the balance sheet assets and liabilities be translated to U.S. Dollars at the exchange rate as of quarter end. Owner’s equity is translated at historical exchange rates and retained earnings are translated at an average exchange rate for the period. Additionally, revenue and expenses are translated at average exchange rates for the periods presented. The resulting cumulative translation adjustment is carried on the balance sheet and distributed among various balance sheet accounts. The Company monitors the amount of the adjustment and considers it to be immaterial.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect

the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the three and nine months ended August 31, 2015. Actual results could differ from those estimates.

3) Net Income (Loss) Per Share of Common Stock

Basic net income (loss) per common share has been computed on the basis of the weighted average number of common shares outstanding. Diluted net income (loss) per share has been computed on the basis of the weighted average number of common shares outstanding plus equivalent shares assuming exercise of stock options. Potential shares of common stock that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Basic and diluted earnings (loss) per common share have been computed based on the following as of August 31, 2015 and August 31, 2014:

	For the three months ended	
	August 31, 2015	August 31, 2014
Basic:		
Numerator: net income (loss)	\$ (795,593)	\$ 558,208
Denominator: average number of common shares outstanding	4,061,052	4,048,552
Basic earnings (loss) per common share	\$ (0.20)	\$ 0.14
Diluted:		
Numerator: net income (loss)	\$ (795,593)	\$ 558,208
Average number of common shares outstanding	4,061,052	4,048,552
Effect of dilutive stock options	0	4,577
Denominator: dilutive average number of common shares outstanding	4,061,052	4,053,129
Diluted earnings (loss) per common share	\$ (0.20)	\$ 0.14

	For the nine months ended	
	August 31, 2015	August 31, 2014
Basic:		
Numerator: net income (loss)	\$ (395,770)	\$ 553,051
Denominator: average number of common shares outstanding	4,057,496	4,047,544
Basic earnings (loss) per common share	\$ (0.10)	\$ 0.14
Diluted:		
Numerator: net income (loss)	\$ (395,770)	\$ 553,051
Average number of common shares outstanding	4,057,496	4,047,544
Effect of dilutive stock options	0	5,608
Denominator: dilutive average number of common shares outstanding	4,057,496	4,053,152
Diluted earnings (loss) per common share	\$ (0.10)	\$ 0.14

4) Inventory

Major classes of inventory are:

	August 31, 2015	November 30, 2014
Raw materials	\$ 10,521,170	\$ 10,037,055
Work in process	444,320	467,110
Finished goods	9,116,182	8,504,062
	\$ 20,081,672	\$ 19,008,227
Less: Reserves	(3,588,106)	(3,918,947)
	\$ 16,493,566	\$ 15,089,280

5) Accrued Expenses

Major components of accrued expenses are:

	August 31, 2015	November 30, 2014
Salaries, wages, and commissions	\$ 534,331	\$ 673,934
Accrued warranty expense	278,269	234,266
Other	416,450	676,128
	\$ 1,229,050	\$ 1,584,328

6) Product Warranty

The Company offers warranties of various lengths to its customers depending on the specific product and terms of the customer purchase agreement. The average length of the warranty period is one year from the date of purchase. The Company's warranties require it to repair or replace defective products during the warranty period at no cost to the customer. The Company records a liability for estimated costs that may be incurred under its warranties. The costs are estimated based on historical experience and any specific warranty issues that have been identified. Although historical warranty costs have been within expectations, there can be no assurance that future warranty costs will not exceed historical amounts. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the balance as necessary. The accrued warranty balance is included in accrued expenses as shown in Note 5.

Changes in the Company's product warranty liability for the three and nine months ended August 31, 2015 and August 31, 2014 are as follows:

	For the three months ended	
	August 31, 2015	August 31, 2014
Balance, beginning	\$ 283,571	\$ 229,400
Settlements / adjustments	(70,327)	(70,683)
Warranties issued	65,025	126,379
Balance, ending	<u>\$ 278,269</u>	<u>\$ 285,096</u>

	For the nine months ended	
	August 31, 2015	August 31, 2014
Balance, beginning	\$ 234,266	\$ 220,719
Settlements / adjustments	(240,463)	(265,753)
Warranties issued	284,466	330,130
Balance, ending	<u>\$ 278,269</u>	<u>\$ 285,096</u>

7) Loan and Credit Agreements

On May 1, 2013, the Company began a banking relationship with U.S. Bank, which includes an \$8,000,000 revolving line of credit (the "Line of Credit") which was renewed in 2014 and was scheduled to mature on May 1, 2015. The Line of Credit is renewable annually with advances funding the Company's working capital needs and is secured by real property and fixed asset collateral. On May 1, 2015, we signed an extension for the line of credit extending the maturity date to July 1, 2015; on June 23, 2015 we signed an additional extension, extending the maturity date to May 1, 2016. We expect to renew the Line of Credit prior to its maturity date. The interest rate is U.S. Bank's prime interest rate, adjusted each time that the Federal prime rate changes, with a minimum rate of 3.50% per annum. As of August 31, 2015, the interest rate was the minimum of 3.50%. Monthly interest-only payments are required and the unpaid principal and accrued interest is due on the maturity date. As of August 31, 2015, the Company had a principal balance of \$4,031,278 outstanding against the Line of Credit, with \$3,141,324 remaining available, limited by the borrowing base calculation. The Line of Credit states that the borrowing base will be an amount equal to the sum of 75% of accounts receivable (discounted for aged accounts and customer

balances exceeding 20% of aggregate receivables), plus 50% of inventory (this component cannot exceed \$6,000,000 and only includes finished goods and raw materials deemed to be in good condition and not obsolete), less any outstanding loan balance of the Line of Credit, and less undrawn amounts of outstanding letters of credit issued by U.S. Bank or any affiliate. The Company's obligations under the Line of Credit are evidenced by a Revolving Credit Note effective May 1, 2013, a Revolving Credit Agreement dated May 1, 2013 and certain other ancillary documents.

In addition to the Line of Credit, on May 1, 2013, the Company obtained four U.S. Bank loans totaling \$6,319,000 at a fixed interest rate of 2.98% per annum (the "2013 U.S. Bank Term Loans"). As detailed in the Company's long-term debt summary below, monthly principal and interest payments in the aggregate amount of \$93,850 are required, with final payments of principal and accrued interest on the four loans, in the aggregate amount of \$1,372,000, due on May 1, 2018.

On May 29, 2014, the Company obtained \$1,000,000 in long-term debt from U.S. Bank to partially pay down the Line of Credit draw from 2013 that it had used to finance the purchase of the building and property of Ohio Metal Working Products Company in Canton, Ohio. The maturity date of this loan is May 25, 2017, with a final payment of principal and accrued interest in the amount of \$890,000 due May 25, 2017. This loan is secured by a mortgage on the building and property acquired from Ohio Metal Working Products Company in Canton, Ohio pursuant to a Mortgage, Security Agreement and Assignment of Rents between the Company and U.S. Bank, dated May 29, 2014, and is also subject to a Business Security Agreement between Ohio Metal Working Products/Art's Way, Inc. ("Ohio Metal") and U.S. Bank and a Continuing Guaranty (Unlimited) by Ohio Metal

On July 16, 2015, the Company obtained an additional \$1,500,000 revolving line of credit from U.S. Bank that matures on May 1, 2016 (the "2015 Line of Credit"). The Company has begun a new sales incentive program that offers extended payment terms up to 9 months on certain products for our dealers, subject to a Dealer's Note and Dealer's Security Agreement. These notes receivable would not be included in the borrowing base of our Line of Credit, so the 2015 Line of Credit was necessary to preserve our access to capital. The 2015 Line of Credit is secured by real property and fixed asset collateral, as well as all of the Company's right, title and interest in the Dealer's Notes and Dealer's Security Agreements related to advances under the 2015 Line of Credit. The interest rate is U.S. Bank's prime interest rate, adjusted each time that the Federal prime rate changes, with a minimum rate of 3.50% per annum. As of August 31, 2015, the interest rate was the minimum of 3.50%. Advances under the 2015 Line of Credit are due at the earlier of nine months after the date of the advancement, the 2015 Line of Credit maturity date or the sale by the dealer of the equipment relating to the applicable advance. Monthly interest-only payments are required and the unpaid principal and accrued interest is due on the maturity date. As of August 31, 2015, the Company had a principal balance of \$0 outstanding against the 2015 Line of Credit, with \$1,500,000 remaining available. The Company's obligations under the 2015 Line of Credit are evidenced by a Promissory Note effective July 16, 2015 and certain other ancillary documents.

Except for the 2015 Line of Credit and the U.S. Bank UHC Loan (as defined below), each of the Company's term loans from U.S. Bank is governed by a Term Note and a Term Loan Agreement. Each Term Loan Agreement and the Revolving Credit Agreement require the Company to provide monthly internally prepared financial reports, year-end audited financial statements, and a monthly aging of accounts receivable. The Company, as of the end of each fiscal quarter, must maintain a debt to tangible net worth ratio of not more than 1.5 to 1.0 and a fixed charge coverage ratio of at least 1.15 to 1.00. The loans are secured by a first position security interest on the assets of the Company and its subsidiaries, including but not limited to, inventories, machinery, equipment and

real estate, in accordance with the Business Security Agreements entered into by the Company and its subsidiaries, the Pledge Agreements entered into by the subsidiaries and the Collateral Assignment of Dealer's Notes and Security Agreements entered into by the Company. Additionally, the Company has mortgaged certain real property in favor of U.S. Bank as documented by mortgage agreements dated May 1, 2013 and May 29, 2014 (together, the "Mortgages").

If the Company or its subsidiaries (as guarantors pursuant to continuing guaranties) commits an event of default under the Term Loan Agreements, Business Security Agreements, Pledge Agreements, Mortgages, or Revolving Credit Agreement and fails or is unable to cure that default, the interest rate on each of the loans and Line of Credit could increase by 5.0% per annum and by 10.0% per annum with respect to the 2015 Line of Credit, and U.S. Bank can immediately terminate its obligation, if any, to make additional loans to the Company. In addition, U.S. Bank may accelerate the Company's obligations under the 2015 Line of Credit, collect any and all money otherwise due or to become due and shall have all other rights and remedies for default provided by the Uniform Commercial Code, as well as any other applicable law and the various loan agreements, including, without limitation, the right to repossess, render unusable and/or dispose of the collateral without judicial process. In addition, in an event of default, U.S. Bank may foreclose on mortgaged property pursuant to the terms of the Mortgages.

The Company was in compliance with all covenants under the Term Loan Agreements and the Revolving Credit Agreement as measured on August 31, 2015, other than its covenant to maintain a fixed charge coverage ratio of at least 1.15 to 1.00. The fixed charge coverage ratio is based on a rolling 12 month calculation and measures the Company's ability to cover fixed expenses such as loan payments, tax payments, rental payments, and dividends. The net loss in the third quarter of 2015 from operations was the main reason for the non-compliance result as of August 31, 2015. US Bank has issued a waiver forgiving the non-compliance for the quarter and no event of default occurred. The next measurement date is November 30, 2015.

On May 10, 2012, the Company obtained \$880,000 in long-term debt from U.S. Bank issued to acquire the building and property of Universal Harvester Co., Inc. located in Ames, Iowa (the "U.S. Bank UHC Loan"). The maturity date of this loan is May 10, 2017, with a final payment of principal and accrued interest in the amount of \$283,500 due May 10, 2017. This loan is secured by a mortgage on the building and property acquired from Universal Harvester Co., Inc. in Ames, Iowa, pursuant to a Mortgage, Security Agreement and Assignment of Rents between the Company and U.S. Bank, dated May 10, 2012. On May 1, 2013, the U.S. Bank UHC Loan and the mortgage were amended to extend the mortgage to secure the 2013 U.S. Bank Term Loans in addition to the U.S. Bank UHC Loan.

If the Company or its subsidiaries (as guarantors) commits an event of default under the agreement governing the U.S. Bank UHC Loan and fails or is unable to cure during any applicable cure periods, the lender may cause the entire amount of the loan to be immediately due and payable, may foreclose on the property, or may increase the interest rate to 5.00% per annum, plus the interest rate otherwise payable under the U.S. Bank UHC Loan.

On May 1, 2010, the Company obtained a loan to finance the purchase of an additional facility located in West Union, Iowa to be used as a distribution center, warehouse facility, and manufacturing plant for certain products under the Art's-Way brand. The funds for this loan were made available by the Iowa Finance Authority by the issuance of tax exempt bonds. This loan had an original principal amount of \$1,300,000, an interest rate of 3.5% per annum and a maturity date

of June 1, 2020. On February 1, 2013, the interest rate was decreased to 2.75% per annum. The other terms of the loan remain unchanged.

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

If the Company commits an event of default under the IFA Loan Agreement and does not cure the event of default within the time specified by the IFA Loan Agreement, the lender may cause the entire amount of the loan to be immediately due and payable and take any other action that it is lawfully permitted to take or in equity to enforce the Company’s performance.

The Company was in compliance with all covenants under the IFA Loan Agreement as measured on November 30, 2014. The next measurement date is November 30, 2015.

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

	<u>August 31, 2015</u>	<u>November 30, 2014</u>
U.S. Bank loan payable in monthly installments of \$42,500 including interest at 2.98%, due May 1, 2018	\$ 1,313,881	\$ 1,662,311
U.S. Bank loan payable in monthly installments of \$11,000 including interest at 2.98%, due May 1, 2018	770,351	850,930
U.S. Bank loan payable in monthly installments of \$12,550 including interest at 2.98%, due May 1, 2018	873,843	965,889
U.S. Bank loan payable in monthly installments of \$27,800 including interest at 2.98%, due May 1, 2018	1,186,756	1,407,366
U.S. Bank loan payable in monthly installments of \$11,700 including interest at 3.15%, due May 10, 2017	495,816	588,101
U.S. Bank loan payable in monthly installments of \$5,556 including interest at 2.98%, due May 25, 2017	952,818	980,940
Iowa Finance Authority loan payable in monthly installments of \$12,500 including interest at 2.75%, due June 1, 2020	680,073	777,689
	\$	\$
Total term debt	6,273,538	7,233,226
Less current portion of term debt	1,312,664	1,283,897
	\$	\$
Term debt, excluding current portion	4,960,874	5,949,329

8) Related Party Transactions

During the three- and nine-month periods ending August 31, 2015 the Company recognized revenues of \$0 and \$15,718, respectively, for transactions with a related party, compared to \$38,348 and \$47,588 in the same periods of fiscal 2014.

9) Goodwill

The Company's Agricultural Products segment contains goodwill related to our acquisition of the Miller Pro product line in 2007 and our acquisition of Universal Harvester in 2012. Changes in the Company's carrying amount of goodwill for the nine months ended August 31, 2015 are as follows:

	August 31, 2015	November 30, 2014
Balance, beginning	\$ 993,729	\$ 993,729
Accumulated impairment losses	(618,729)	-
Balance, ending	<u>\$ 375,000</u>	<u>\$ 993,729</u>

We typically test goodwill for impairment in the fourth quarter of our fiscal year. Based on the continued decreased demand for Universal Harvester reels and a decrease in the creditworthiness of a major customer, we determined that it was appropriate to test our goodwill for impairment prior to our fourth quarter. Based on these trends, we have prepared an estimated present value of future cash flows using our projections of sales for the next five years, which was used to evaluate the fair value of the carrying amount of the intangible asset relative to the probable future cash flows. In August 2015, a noncash goodwill impairment loss of \$618,729 was recognized in the Agricultural Products segment.

10) Recently Issued Accounting Pronouncements

Presentation of an Unrecognized Tax Benefit

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" that clarifies how an unrecognized tax benefit should be presented in the financial statements when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists; as a reduction to a deferred tax asset or as a liability. The amendments are meant to eliminate the diversity that exists in the financial statement presentation of the unrecognized tax benefits. The amendments in this ASU do not require new recurring disclosures and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. The effective date for the Company is our current fiscal year, which began on December 1, 2014. The Company currently has no unrecognized tax benefits that are impacted by the amendment and the implementation of this standard has not had a material impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" which supersedes the guidance in "Revenue Recognition (Topic 605)" and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. We are evaluating the new standard, but do not at this time expect this standard to have a material impact on our consolidated financial statements.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern" which is authoritative guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures, codified in ASC 205-40, *Going Concern*. The guidance provides a definition of the term substantial doubt, requires an evaluation every reporting period including interim periods, provides principles for considering the mitigating effect of management's plans, requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, requires an express statement and other disclosures when substantial doubt is not alleviated, and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU No. 2015-15 is effective for annual reporting periods ending after December 15, 2016. The Company will adopt this guidance for the fiscal year ending November 30, 2017, and it will apply to each interim and annual period thereafter. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

11) Equity Incentive Plan and Stock Based Compensation

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

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

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

Stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date and recognized over the relevant vesting period. We estimate the fair value of each stock-based award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical option exercise and termination data to estimate the expected term the options are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is calculated using historical dividend amounts and the stock price at the option issuance date. We incurred \$0 and \$28,484 of stock-based compensation expense during the three and nine months ended August 31, 2015, respectively, compared to \$0 and \$14,504 of stock-based compensation expense for the same respective periods of fiscal 2014.

12) Disclosures About the Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. At August 31, 2015, and November 30, 2014, the carrying amount approximated fair value for cash, accounts receivable, accounts payable, notes payable to bank, and other current and long-term liabilities. The carrying amounts approximate fair value because of the short maturity of these instruments. We performed a nonrecurring fair value assessment of goodwill related to the Universal Harvester acquisition using a present value of estimated future cash flows calculation, described in more detail in Note 9. The fair value of the Company's installment term loans payable also approximate recorded value because the interest rates charged under the loan terms are not substantially different than current interest rates.

13) Segment Information

There are four reportable segments: agricultural products, pressurized vessels, modular buildings and tools. The agricultural products segment fabricates and sells farming products as well as related equipment and replacement parts for these products in the United States and worldwide. The pressurized vessels segment produces and services pressurized tanks. The modular buildings segment manufactures and installs modular buildings for animal containment and various laboratory uses. The tools segment manufactures steel cutting tools and inserts.

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

Approximate financial information with respect to the reportable segments is as follows.

	Three Months Ended August 31, 2015				
	Agricultural Products	Pressurized Vessels	Modular Buildings	Tools	Consolidated
Revenue from external customers	\$4,911,000	\$372,000	\$1,103,000	\$500,000	\$6,886,000
Income (loss) from operations	(861,000)	(105,000)	45,000	(83,000)	\$(1,004,000)
Income (loss) before tax	(1,019,000)	(113,000)	38,000	(91,000)	\$(1,185,000)
Total Assets	24,540,000	2,511,000	2,691,000	2,963,000	\$32,705,000
Capital expenditures	71,000	8,000	6,000	6,000	\$91,000
Depreciation & Amortization	160,000	27,000	31,000	30,000	\$248,000

	Three Months Ended August 31, 2014				
	Agricultural Products	Pressurized Vessels	Modular Buildings	Tools	Consolidated
Revenue from external customers	\$9,362,000	\$606,000	\$820,000	\$797,000	\$11,585,000
Income (loss) from operations	1,034,000	(59,000)	7,000	(74,000)	\$908,000
Income (loss) before tax	991,000	(64,000)	-	(82,000)	\$845,000

Total Assets	26,426,000	2,489,000	2,842,000	3,334,000	\$35,091,000
Capital expenditures	39,000	-	-	1,000	\$40,000
Depreciation & Amortization	147,000	27,000	36,000	29,000	\$239,000

Nine Months Ended August 31, 2015

	Agricultural Products	Pressurized Vessels	Modular Buildings	Tools	Consolidated
Revenue from external customers	\$16,592,000	\$1,374,000	\$2,162,000	\$1,851,000	\$21,979,000
Income (loss) from operations	158,000	(171,000)	(119,000)	(128,000)	\$(260,000)
Income (loss) before tax	(83,000)	(191,000)	(139,000)	(173,000)	\$(586,000)
Total Assets	24,540,000	2,511,000	2,691,000	2,963,000	\$32,705,000
Capital expenditures	204,000	10,000	4,000	11,000	\$229,000
Depreciation & Amortization	426,000	80,000	98,000	89,000	\$693,000

Nine Months Ended August 31, 2014

	Agricultural Products	Pressurized Vessels	Modular Buildings	Tools	Consolidated
Revenue from external customers	\$21,366,000	\$1,504,000	\$1,818,000	\$2,603,000	\$27,291,000
Income (loss) from operations	1,430,000	(168,000)	(233,000)	28,000	\$1,057,000
Income (loss) before tax	1,292,000	(190,000)	(249,000)	(18,000)	\$835,000
Total Assets	26,426,000	2,489,000	2,842,000	3,334,000	\$35,091,000
Capital expenditures	629,000	11,000	-	11,000	\$651,000
Depreciation & Amortization	356,000	81,000	110,000	86,000	\$633,000

14) Subsequent Event

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

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

Forward-Looking Statements

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of Part I of this report and the audited consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K and the amendment thereto on Form 10-K/A for the fiscal year ended November 30, 2014. Some of the statements in this report may contain forward-looking statements

that reflect our current view on future events, future business, industry and other conditions, our future performance, and our plans and expectations for future operations and actions. In some cases you can identify forward-looking statements by the use of words such as “may,” “should,” “anticipate,” “believe,” “expect,” “plan,” “future,” “intend,” “could,” “estimate,” “predict,” “hope,” “potential,” “continue,” or the negative of these terms or other similar expressions. Many of these forward-looking statements are located in this report under “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” but they may appear in other sections as well. Forward-looking statements in this report generally relate to: (i) our expectations regarding our warranty costs and order backlog; (ii) our beliefs regarding the sufficiency of working capital and cash flows, and our continued ability to renew or obtain financing on reasonable terms when necessary; (iii) the impact of recently issued accounting pronouncements; (iv) our intentions and beliefs relating to our costs and business strategies; (v) our expected financial results; and (vi) our expectations concerning our primary capital and cash flow needs.

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

Critical Accounting Policies

Our critical accounting policies involving the more significant judgments and assumptions used in the preparation of the financial statements as of August 31, 2015 have remained unchanged from November 30, 2014. Disclosure of these critical accounting policies is incorporated by reference from Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended November 30, 2014.

Results of Operations

Net Sales and Cost of Sales

Our consolidated corporate sales for the three- and nine-month periods ended August 31, 2015 were \$6,886,000 and \$21,979,000, respectively, compared to \$11,585,000 and \$27,291,000 during the same respective periods in 2014, a \$4,699,000, or 40.6%, decrease for the quarter and a \$5,312,000 or 19.5% decrease year-to-date. The decreases in revenue are primarily due to decreased sales of our agricultural products segments. We are experiencing decreased demand for nearly all

agricultural products, but our Universal Harvester reel sales were down nearly 70% during the year-to-date as compared to the prior year. Consolidated gross margin for the three- and nine-month periods ended August 31, 2015 was 18.4% and 25.1%, respectively, compared to 23.3% and 23.4% for the same respective periods in fiscal 2014. The decreased revenue amounts coupled with relatively static fixed costs has put negative pressure on our gross margins both quarterly and year-to-date.

Our third quarter agricultural segment sales were \$4,911,000 compared to \$9,362,000 during the same period of 2014, a decrease of \$4,451,000, or 47.5%. This decrease is due to decreased demand for all of our agricultural products, but most specifically our Universal Harvester reels. Our year-to-date agricultural segment sales were \$16,592,000 in 2015 as compared to \$21,366,000 in 2014, a \$4,774,000, or 22.3% decrease. The gross margin of our agricultural products segment for the three- and nine-month periods ended August 31, 2015 was 18.0% and 27.2%, respectively, compared to 25.0% and 24.8% for the same respective periods in 2014. Our decreased gross margin for the third quarter of fiscal 2015 is directly related to our decreased sales volume. We have implemented several cost cutting measures to align our resources more closely with the current demand for agricultural products. We believe these measures will somewhat decrease the pressures on our gross margin profile moving forward.

Our third quarter and year-to-date sales at our pressurized vessels segment were \$372,000 and \$1,374,000, respectively, compared to \$606,000 and \$1,504,000 for the same respective periods in 2014. Gross margin for the quarter and year-to-date periods ended August 31, 2015 was 0.8% and 7.9% respectively, compared to 6.9% and 6.4% for the same respective periods in 2014. The year-to-date increase was due to efficiencies gained in our manufacturing process for our pressurized vessels. Our decrease in gross margin for the quarterly period was due to the decreased levels of revenue while maintaining the level of fixed costs.

Our three- and nine-month sales for our modular building segment were \$1,103,000 and \$2,162,000, respectively, compared to \$820,000 and \$1,818,000 for the same respective periods in fiscal 2014, an increase of \$283,000, or 34.5%, for the three-month period and a \$344,000, or 18.9%, increase for the nine-month period. Gross margin for the quarter and year-to-date periods ended August 31, 2015 was 24.8% and 20.5%, respectively, compared to 20.1% and 15.6% for the same respective periods in 2014. The increases were attributable to our higher levels of revenue resulting from higher sales volumes.

Our tools segment had sales of \$500,000 during the three months ended August 31, 2015, compared to \$797,000 for the same period in 2014, a 37.3% decrease. Year-to-date sales for our tools segment were \$1,851,000 in 2015 compared to \$2,603,000 in 2014, a \$752,000, or 28.9%, decrease. These decreases are largely due to a general decline in the energy industry. Gross margin for our tools segment was 20.6% and 25.1% for the three- and nine-month periods ending August 31, 2015, respectively, compared to 19.8% and 26.9% for the same respective periods of fiscal 2014.

Expenses

Our third fiscal quarter consolidated selling expenses were \$532,000 compared to \$566,000 for the same period in 2014. Our year-to-date consolidated selling expenses were \$1,678,000 in 2015 compared to \$1,742,000 for the same period in 2014. The decreases in selling expenses for the third quarter and year-to-date are largely due to decreased commission and salary expense compared to prior year periods. Selling expenses as a percentage of sales were 7.7% and 7.6% for the three- and nine-month periods ended August 31, 2015, respectively, compared to 4.9% and 6.4% for the same respective periods in 2014.

Consolidated engineering expenses were \$145,000 and \$381,000 for the three and nine month periods ended August 31, 2015, respectively, compared to \$129,000 and \$361,000 for the same respective periods in 2014. Engineering expenses as a percentage of sales were 2.1% and 1.7% for the three- and nine-month periods ended August 31, 2015, respectively, compared to 1.1% and 1.3% for the same respective periods in 2014.

Consolidated administrative expenses for the three and nine month periods ended August 31, 2015 were \$972,000 and \$3,108,000, respectively, compared to \$1,101,000 and \$3,212,000 for the same respective periods in 2014. Administrative expenses as a percentage of sales were 14.0% and 14.1% for the three- and nine-month periods ended August 31, 2015, respectively, compared to 9.5% and 11.8% for the same respective periods in 2014.

Income

Consolidated net income (loss) was \$(796,000) for the three-month period ended August 31, 2015, compared to net income of \$558,000 for the same period in 2014. The decrease was primarily due to the decreases in revenue described above and a noncash charge for impairment of the goodwill from our UHC reporting unit, part of the Agricultural Products segment. During the third quarter of fiscal 2015, we evaluated our goodwill for impairment based on economic factors related to that particular product line. As a result of our evaluation, and as further described in Note 9 to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report, we incurred a noncash impairment charge for the full amount of goodwill associated with our acquisition of the UHC product line of \$618,729. The remaining portion of the decreased net income is directly attributable to our decreased sales volume. Consolidated net income (loss) for the nine-month period ended August 31, 2015 was \$(396,000) compared to a net income of \$553,000 in the same period of 2014. This decrease in income reflects the noncash impairment charge along with decreased operating income across all our segments.

Order Backlog

The consolidated order backlog net of discounts as of September 29, 2015 was \$3,607,000 compared to \$5,198,000 as of September 29, 2014. The agricultural products segment order backlog was \$1,545,000 as of September 29, 2015 compared to \$3,534,000 in fiscal 2014. We continue to see decreased order volume as a result of the overall downturn in the agricultural economy. The backlog for the pressurized vessels segment was \$628,000 as of September 29, 2015, compared to \$312,000 in fiscal 2014. We are currently working on a large tank order that we expect to deliver in the next two fiscal quarters. The backlog for the modular buildings segment was \$890,000 as of September 29, 2015, compared to \$903,000 in fiscal 2014. The backlog for the tools segment was \$544,000 as of September 29, 2015, compared to \$449,000 in fiscal 2014. Our order backlog is not necessarily indicative of future revenue to be generated from such orders due to the possibility of order cancellations and dealer discount arrangements we may enter into from time to time.

Liquidity and Capital Resources

Our primary sources of funds for the nine months ended August 31, 2015 were proceeds from the U.S. Bank lines of credit and a reduction in our accounts receivable; our primary uses of cash were for inventories, payments on term debt, decreased accrued expenses, and dividends paid to stockholders. We expect our primary capital needs for the remainder of the fiscal year to relate to costs of operation, including production.

We have an \$8,000,000 revolving line of credit with U.S. Bank, which, as of August 31, 2015, had an outstanding principal balance of \$4,031,278, and a \$1,500,000 equipment financing line of credit with U.S. Bank, which, as of August 31, 2015 had an outstanding principal balance of \$0. The lines of credit are scheduled to mature on May 1, 2016, with the \$8,000,000 line of credit being renewable annually. For additional information about our financing activities, please refer to Note 8 to the audited consolidated financial statements and to the discussion entitled “Liquidity and Capital Resources,” each contained in our Annual Report on Form 10-K and our amendment thereto on Form 10-K/A for the fiscal year ended November 30, 2014, as well as Note 7 to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Report.

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

Off Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, we are not required to provide disclosure pursuant to this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

As a smaller reporting company, we are not required to provide disclosure pursuant to this item.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On July 16, 2015, the Company obtained a \$1,500,000 revolving line of credit (the “2015 Line of Credit”) from U.S. Bank National Association (the “Lender”). The 2015 Line of Credit is in addition to the Company’s existing \$8,000,000 revolving line of credit with the Lender and will be used for equipment financings. Advances under the 2015 Line of Credit will accrue interest at the Lender’s prime rate, with a minimum rate of 3.50% per annum. As of August 31, 2015, the interest rate was the minimum of 3.50%. The 2015 Line of Credit is scheduled to mature on May 1, 2016, with advances thereunder due at the earlier of nine months after the date of the advancement, the 2015 Line of Credit maturity date or the sale of the equipment relating to the applicable advance. Monthly interest-only payments are required; any unpaid principal and accrued and unpaid interest is due on the maturity date. As of August 31, 2015, the Company had a principal balance of \$0 outstanding against the 2015 Line of Credit, with \$1,500,000 remaining available.

If the Company or its subsidiaries (as guarantors) commits an event of default under the agreements governing the 2015 Line of Credit, which includes failing to make any payment when due, becoming insolvent, failing to provide collateral or evidence of perfection of security interests provided to secure advancements under the 2015 Line of Credit within the time specified therein, the Lender may, among other remedies, cause the entire outstanding principal and accrued interest to become immediately due and payable and may foreclose on the property securing the Company’s obligations. In addition, any payment under the 2015 Line of Credit that is not made within 10 days after the due date shall bear interest at a rate of 10.0% per annum.

The Company’s obligations under the 2015 Line of Credit are evidenced by a Promissory Note dated July 16, 2015, which is attached hereto as Exhibit 10.1 and secured by the Pledge Agreements, Business Security Agreements and Continuing Guaranties previously entered into among the Company and its subsidiaries and the Lender, which the Company has previously filed as exhibits 10.12 through 10.21 to Form 10-Q for the Quarterly Period Ending May 31, 2013 and exhibit 10.6 to Form 10-Q for the Quarterly Period Ended May 31, 2014, as well as a Business Security Agreement dated October 25, 2013 entered into among the Company and its subsidiaries and the Lender, which is attached hereto as Exhibit 10.2, a Continuing Guaranty dated October 25, 2013 entered into among the Company and its subsidiaries

and the Lender, which is attached hereto as Exhibit 10.3, and a Collateral Assignment of Dealer's Notes and Security Agreements dated July 16, 2015, which is attached hereto as Exhibit 10.4 and by which the Company has agreed to assign all of its right, title and interest in certain Dealer's Notes and Dealer's Security Agreements related to advances under the 2015 Line of Credit, in order to secure repayment of such advances. The foregoing summaries of the 2015 Line of Credit, the Collateral Assignment of Dealer's Notes and Security Agreements and other ancillary documents do not purport to be complete and are qualified in their entirety by reference to the full text of such documents, which are attached as the above-referenced exhibits to the Company's reports filed with the Securities and Exchange Commission and are incorporated by reference herein.

Item 6. Exhibits.

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

SIGNATURES

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

ART'S-WAY MANUFACTURING CO., INC.

Date: October 1, 2015

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

Date: October 1, 2015

By: /s/ Amber J. Murra
Amber J. Murra
Chief Financial Officer

Art's-Way Manufacturing Co., Inc.
Exhibit Index
Form 10-Q for the Quarterly Period Ended August 31, 2015

Exhibit No.	Description
10.1	Promissory Note dated July 16, 2015 – filed herewith.
10.2	Business Security Agreement, by Ohio Metal and U.S. Bank N.A., dated October 25, 2013 – filed herewith.
10.3	Continuing Guaranty (Unlimited), by Ohio Metal and U.S. Bank N.A., dated October 25, 2013 – filed herewith.
10.4	Collateral Assignment of Dealer's Notes and Security Agreements by Art's-Way Manufacturing Co., Inc., dated July 16, 2015 – filed herewith.
31.1	Certificate of Chief Executive Officer pursuant to 17 CFR 13a-14(a) – filed herewith.
31.2	Certificate of Chief Financial Officer pursuant to 17 CFR 13a-14(a) – filed herewith.
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 - filed herewith.
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 - filed herewith.
101	The following materials from this report, formatted in XBRL (Extensible Business Reporting Language) are filed herewith: (i) condensed consolidated balance sheets, (ii) condensed consolidated statement of operations, (iii) condensed consolidated statements of cash flows, and (iv) the notes to the condensed consolidated financial statements.

PROMISSORY NOTE**\$1,500,000.00****July 16, 2015**

FOR VALUE RECEIVED, the undersigned, Art's-Way Manufacturing Co., Inc., a Delaware corporation ("Borrower"), whose address for purposes of this Promissory Note ("Note") is 5556 Highway 9, Armstrong, Iowa 50514, promises to pay to the order of U.S. Bank National Association ("Lender"), whose address for purposes of this Note is 405 Main Street, Ames, Iowa 50010, the sum of **ONE MILLION FIVE HUNDRED THOUSAND DOLLARS** and 00/100 (51,500,000.00), together with interest on the principal balance of this Note at the Interest Rate (as defined in Par. 2 herein) in the amounts and in the manner set forth herein.

- 1. TERM.** The term of this Note shall commence on July 16, 2015 (the "Commencement Date") and shall mature on May 1, 2016 (the "Maturity Date").
- 2. INTEREST.** This Note shall accrue interest at a variable rate per annum equal to the prime rate announced by Lender and in effect from time to time (the "Interest Rate"), and shall commence on the Commencement Date. Notwithstanding, the Interest Rate under this Note shall not be less than three and five-tenths of a percent (3.5%) per annum. Interest on this Note shall be calculated on the basis of a 360-day year, counting each day as 1/30th of a month, and each month as 1/12th of a year.
- 3. DRAW FEATURE; DRAW CONDITIONS.** Except as expressly provided herein, Lender shall make available to Borrower one or more Advances (as defined herein) during the period that begins on the Commencement Date and which ends on May 1, 2016, in an aggregate amount not to exceed the principal amount of this Note. As a condition to the disbursement of any Advance, Borrower shall, at least two (2) Business Days (as defined herein) prior to the requested disbursement date, deliver to Lender a written notice (the "Borrowing Notice") setting out (a) that no default has occurred and is continuing; (b) the amount of the Advance (the "Advance Amount"); (c) the date on which the Advance is to be disbursed (the "Advance Disbursement Date"); (d) a copy of the Dealer's Note related to the Advance (each, a "Dealer's Note"); (e) a copy of the Security Agreement that secures the applicable Dealer's Note (each, a "Dealer's Security Agreement"); and (f) an identification of the equipment financed under the applicable Dealer's Note. Upon receipt of the Borrowing Notice, Lender shall make available to Borrower on the Advance Disbursement Date the amount set out in the Borrowing Notice in immediately available funds.

For purposes of this Note, (i) the terms "Advance" or "Advances" shall mean each and every disbursement made hereunder by Lender to Borrower, (ii) the terms "Business Day" or "Business Days" shall mean a day other than Saturday, Sunday, or other day on which commercial banks in Ames, Iowa are authorized or required by law to close; and (iii) the term "Advance Maturity Date" shall mean, with respect to each Advance, the earlier to occur of the date that is nine (9) months after the Advance Disbursement Date, the Maturity Date, or the date of the sale to a third party of the equipment identified in the Borrowing Notice related to each applicable Advance.

Lender is authorized to record on the grid attached hereto as Exhibit 1 each Advance made to Borrower and each payment or prepayment thereof. The entries made by Lender shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amounts of the obligations of Borrower therein recorded; provided, however, that the failure of Lender to record such payments or prepayments, or any inaccuracy therein, shall not in any manner affect the obligation of Borrower to repay (with applicable interest) the Advances in accordance with the terms of this Note.

4. PAYMENT. Payments under this Note shall be made in the following manner:

- (i) Monthly, interest-only payments in amounts to be determined by Lender based on the then unpaid principal balance due under this Note and the Interest Rate shall be paid by Borrower to Lender on the 15th day of each month commencing August 15, 2015 and continuing to and until the Maturity Date;
- (ii) With respect to each Advance, the entire Advance Amount shall be paid by Borrower to Lender on the Advance Maturity Date.
- (iii) The entire remaining principal balance and accrued and unpaid interest under this Note shall be due and payable in full on the Maturity Date; and
- (iv) Any payment accruing under the provisions of this Note which may be due Lender which shall not be paid within ten (10) days after the date when due shall bear interest at ten percent (10%), per annum (the "Default Rate").

Unless otherwise agreed or required by law, payments will be first applied to fees and expenses, including attorney fees, due to Lender hereunder, then unpaid interest, and any remaining amount to principal. Borrower may prepay the principal balance, in whole or in part, at any time without premium or penalty upon three (3) business days' prior notice to Lender.

5. DEFAULT. Borrower and this Note shall be in default upon the occurrence of any of the following: (a) Borrower fails to make any payment when due; (b) Borrower becomes insolvent; a receiver is appointed for any part of Borrower's property and such receiver has not been removed or discharged within thirty (30) days of its appointment; Borrower makes an assignment for the benefit of creditors; or any proceeding is commenced either by or against Borrower under any bankruptcy or insolvency laws and such proceeding has not been vacated, discharged or stayed within thirty (30) days of the commencement of the proceeding; (c) a default or an event of default occurs under any document given to secure or guaranty this Note; (d) Borrower fails to provide Lender with an original Dealer's Note within five (5) Business Days after an Advance Disbursement Date; or (e) Borrower fails to provide Lender, within five (5) Business Days after an Advance Disbursement Date, with adequate documentation related to the perfection of any and every security interest or lien created in favor of Borrower pursuant to a Dealer Security Agreement with respect to the equipment identified in the Borrowing Notice.

6. SECURITY. This Note is secured by the following:

- (i) Pledge Agreement dated June I, 2014 between Ohio Metal Working Products/Art's-Way, Inc. ("Ohio Metal"), as Assignor therein, and Lender

- (“Pledge Agreement-1”) (a copy of Pledge Agreement-I is attached hereto as Exhibit A and by this reference incorporated herein as if fully set forth);
- (ii) Pledge Agreement dated May 1, 2013 between Art’s-Way Vessels, Inc. (“Vessels”), as Assignor therein, and Lender (“Pledge Agreement-2”) (a copy of Pledge Agreement-2 is attached hereto as Exhibit B and by this reference incorporated herein as if fully set forth);
 - (iii) Pledge Agreement dated May 1, 2013 between Art’s-Way Scientific, Inc. (“Scientific”), as Assignor therein, and Lender (“Pledge Agreement-3”) (a copy of Pledge Agreement-3 is attached hereto as Exhibit C and by this reference incorporated herein as if fully set forth);
 - (iv) Pledge Agreement dated May 1, 2013 between Universal Harvester by Art’s-Way, Inc. (“UHAW”), as Assignor therein, and Lender (“Pledge Agreement-4”) (a copy of Pledge Agreement-4 is attached hereto as Exhibit D and by this reference incorporated herein as if fully set forth);
 - (v) Business Security Agreement dated May 1, 2013 between Borrower, as Debtor therein, and Lender, as Bank therein (“Security Agreement-1”) (a true and accurate copy of Security Agreement-1 is attached hereto as Exhibit E and by this reference incorporated herein as if fully set forth);
 - (vi) Business Security Agreement dated May 1, 2013 between Vessels, as Debtor therein, and Lender, as Bank therein (“Security Agreement-2”) (a true and accurate copy of Security Agreement-2 is attached hereto as Exhibit F and by this reference incorporated herein as if fully set forth);
 - (vii) Business Security Agreement dated May 1, 2013 between Scientific, as Debtor therein, and Lender, as Bank therein (“Security Agreement-3”) (a true and accurate copy of Security Agreement-3 is attached hereto as Exhibit G and by this reference incorporated herein as if fully set forth);
 - (viii) Business Security Agreement dated May 1, 2013 between UHAW, as Debtor therein, and Lender, as Bank therein (“Security Agreement-4”) (a true and accurate copy of Security Agreement-4 is attached hereto as Exhibit H and by this reference incorporated herein as if fully set forth);
 - (ix) Business Security Agreement dated October 25, 2013 between Ohio Metal, as Debtor therein, and Lender, as Bank therein (“Security Agreement-5”) (a true and accurate copy of Security Agreement-5 is attached hereto as Exhibit I and by this reference incorporated herein as if fully set forth);
 - (x) Continuing Guaranty (Unlimited) dated May 1, 2013 between Vessels, as Guarantor therein, and Lender (“Guaranty-1”) (a copy of Guaranty-1 is attached hereto as Exhibit J and by this reference incorporated herein as if fully set forth);

- (xi) Continuing Guaranty (Unlimited) dated May 1, 2013 between Scientific, as Guarantor therein, and Lender (“Guaranty-2”) (a copy of Guaranty-2 is attached hereto as Exhibit K and by this reference incorporated herein as if fully set forth);
- (xii) Continuing Guaranty (Unlimited) dated May 1, 2013 between UHAW, as Guarantor therein, and Lender (“Guaranty-3”) (a copy of Guaranty-3 is attached hereto as Exhibit L and by this reference incorporated herein as if fully set forth);
- (xiii) Continuing Guaranty (Unlimited) dated October 25, 2013 between Ohio Metal, as Guarantor therein, and Lender (“Guaranty-4”) (a copy of Guaranty-4 is attached hereto as Exhibit M and by this reference incorporated herein as if fully set forth); and
- (xiv) Collateral Assignment of Dealer’s Notes and Security Agreements of even date herewith between Borrower, as Company therein, and Lender (the “Assignment”) (a copy of the Assignment is attached hereto as Exhibit N and by this reference incorporated herein as if fully set forth).

7. LATE FEES. In the event that any payment required to be made pursuant to this Note is not made on or before ten (10) days from the date same is due, and if Lender shall not have theretofore declared a default hereunder, a late charge of five cents (\$.05) for each dollar (\$1.00) so overdue shall become immediately due and payable as liquidated damages for defraying expenses incident to handling such delinquent payment and by reason of failure to make prompt payment, and the same shall be deemed to be evidenced by this Note. In the event of the failure of Borrower to pay any such late charge within ten (10) days after demand, then the unpaid principal balance and accrued interest shall, at the option of Lender, become immediately due and payable without further notice and demand, such notice and demand being expressly waived, but in such event said late charge shall be voided and shall not be payable by Borrower nor receivable by Lender and the Default Rate interest shall be applicable.

8. ACCELERATION. Time is of the essence hereof and it is expressly agreed that should default be made in the payment of any installment of principal or interest more than ten (10) days of the date when due under this Note, or if any other default shall occur, then the entire unpaid principal balance and accrued interest shall, at the option of Lender, become immediately due and payable, without further notice and demand, such notice and demand being expressly waived, anything contained herein or in any instrument now or hereafter securing this Note to the contrary notwithstanding. Said option shall continue until all such defaults have been cured.

9. ATTORNEY’S FEES. Borrower agrees that if, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce Lender’s rights hereunder or under any instrument securing payment hereof, whether suit be brought or not, Borrower will pay to Lender its reasonable attorneys’ fees and all court costs and other expenses incurred in connection therewith.

10. WAIVERS. Borrower and all other persons who may become liable for all or any part of this obligation severally waive demand, presentment for payment, protest and notice of nonpayment. Said parties consent to any extension of time (whether one or more) of payment

hereof, or release of any party liable for payment of this obligation. Any such extension or release may be made without notice to any party and without discharging said party's liability hereunder.

11. NO WAIVER. Lender shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by Lender and then, only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event.

12. REMEDIES. The remedies of Lender, as provided herein and in the documents hereinabove referenced, shall be cumulative and concurrent and may be pursued singularly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefor shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

13. USURY. All agreements between Borrower and Lender as contained in this Note are expressly limited so that in no event whatsoever shall the amount paid or agreed to be paid to Lender exceeds the highest lawful rate of interest permissible under the laws of the State of Iowa. If, from any circumstances whatsoever, fulfillment of any provision of this Note or any other document securing the indebtedness, at the time performance of such provision shall be due, shall involve the payment of interest exceeding the highest rate of interest permitted by law which a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligation to be fulfilled shall be reduced to the highest lawful rate of interest permissible under the laws of Iowa; and if for any reason whatsoever Lender shall ever receive as interest an amount which would be deemed unlawful, such interest shall be applied to the payment of the last maturing installment or installments of the principal indebtedness hereunder (whether or not then due and payable) and not to the payment of interest.

14. NOTICE. Any notice or demand to be given under this Note (a "Notice") shall be in writing and may be given by personal delivery, by facsimile transmission, by Electronic Transmission, by a nationally recognized overnight delivery service, or by United States mail, postage prepaid, sent certified or registered, and addressed to the addresses set forth herein, or to such other address as either party may hereafter designate in writing. A Notice shall be effective on receipt or refusal if by personal delivery or Electronic Transmission, the first business day after the deposit of such Notice with an overnight courier service by the time deadline for next business day delivery if by commercial courier and the earlier of actual receipt or refusal (which shall include a failure to respond to notification of delivery by the U.S. Postal Service) or three (3) business days following mailing if sent by U.S. Postal Service mail. By Notice complying with the foregoing, each party may from time to time change the address to be subsequently applicable to it for the purpose of the foregoing.

For purposes of this Note, "Electronic Transmission" means any process of communication not directly involving the physical transfer of paper that is suitable for the retention, retrieval, and reproduction of information by the recipient.

15. MISCELLANEOUS. This Note may not be amended or modified except by written agreement signed by Borrower and Lender. This Note shall be governed by and construed in accordance with the laws of the State of Iowa. The terms of this Note are severable, and if any provision, or the application of any provision shall be declared invalid or unenforceable, the remaining provisions and all other applications of such provisions shall remain in full force and effect, and shall not be impaired in any way. Any suit, action or proceeding arising out of or relating to this Note, or any action or proceeding to execute on or otherwise enforce any judgment arising out of an event of default or other default under this Note may be brought by Lender in the applicable federal district court or in the state court having jurisdiction for Story County, Iowa. Whenever used herein, the singular number shall include the plural, the plural the singular, and the words "Borrower" or "Lender" shall be deemed to include their successors and assigns.

THE PARTIES HERETO, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED ON OR ARISING OUT OF THIS AGREEMENT OR INSTRUMENT, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS, WHETHER ORAL OR WRITTEN, OR ACTION OF ANY PARTY HERETO. NO PARTY SHALL SEEK TO CONSOLIDATE BY COUNTERCLAIM OR OTHERWISE, ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY ANY PARTY HERETO EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL PARTIES.

IMPORTANT: READ BEFORE SIGNING. THE TERMS OF THIS AGREEMENT SHOULD BE READ CAREFULLY BECAUSE ONLY THOSE TERMS IN WRITING ARE ENFORCEABLE. NO OTHER TERMS OR ORAL PROMISES NOT CONTAINED IN THIS WRITTEN CONTRACT MAY BE LEGALLY ENFORCED. BORROWER MAY CHANGE THE TERMS OF THIS AGREEMENT ONLY BY ANOTHER WRITTEN AGREEMENT. THIS NOTICE ALSO APPLIES TO ANY OTHER CREDIT AGREEMENTS (EXCEPT EXEMPT TRANSACTIONS) NOW IN EFFECT BETWEEN YOU AND THIS LENDER.

Borrower acknowledges receipt of a copy of this Note at the time of its execution.

IN WITNESS WHEREOF, Borrower has executed this Note on the date set forth above.

ART'S-WAY MANUFACTURING CO., INC., Borrower

By: /s/ Carrie Majeski
Carrie Majeski, President & CEO

STATE OF IOWA, COUNTY OF STORY, SS:

This record was acknowledged before me on this 16th day of July, 2015, by Carrie Majeski, as the President of Art's-Way Manufacturing Co., Inc.

/s/ Brooke J Brewington
Notary Public in and for the State of Iowa
My commission expires March 29, 2016

BUSINESS SECURITY AGREEMENT

This Business Security Agreement (“**Agreement**”) is made and entered into by the undersigned borrower, guarantor and/or other obligator/pledger (the “**Debtor**”) in favor of U.S. Bank N.A.

_____ (the “**Bank**”) as of the date set forth on the last page of this Agreement.

ARTICLE I. SECURITY INTEREST

1.1 Grant of Security Interest. Debtor hereby grants a security interest in and collaterally assigns the Collateral (defined below) to Bank to secure all of Debtor’s Obligations (defined below) to Bank. The intent of the parties hereto is that the Collateral secures all Obligations of Debtor to Bank, whether or not such Obligations exist under this Agreement or any other agreements, whether now or hereafter existing, between Debtor and Bank or in favor of Bank, including, without limitation, any note, any loan or security agreement, any lease, any mortgage, deed of trust or other pledge of an interest in real or personal property, any guaranty, any letter of credit or banker’s acceptance, any agreement for any other services or credit extended by Bank to Debtor even though not specifically enumerated herein, and any other agreement with Bank (together and individually, the “**Loan Documents**”).

1.2 “Collateral” means all of the following whether now owned or existing or hereafter acquired by Debtor (or by Debtor with spouse), wherever located (including all document, general intangibles, additions and accessions, spare and repair parts, special tools, replacements, returned or repossessed goods and books and records relating to the following; and all proceeds, supporting obligations and products of the following) **[check all that apply]:**

- All accounts, instruments, documents, chattel paper, general intangibles, contract rights, investment property (including any securities entitlements and/or securities accounts held by Debtor), certificates of deposit, deposit accounts, and letter of credit rights; and
- All inventory; and
- All equipment; and
- All fixtures; and
- Specific Collateral (the following, whether constituting instruments, chattel paper, general intangibles, equipment, accounts, inventory, fixtures or other collateral):

In the event only the first three boxes are checked, Debtor acknowledges and agrees that the foregoing collateral description covers all assets (except fixtures) of Debtor. Bank may at any time and from time to time file financing and continuation statements and amendments thereto reflecting the same.

1.3 “Obligations” means all Debtor’s debts (except for consumer credit if Debtor is a natural person), liabilities, obligations, covenants, warranties, and duties to Bank and/or any affiliate of Bank (including, without limitation, any credit card debt, but specifically excluding any type of consumer credit), whether now or hereafter existing or incurred, whether liquidated or unliquidated, whether absolute or contingent, whether arising out of the Loan Documents or otherwise, and all other debts and obligations due Bank under any lease, agricultural, real estate or other financing transaction and regardless of whether such financing is related in time or type to the financing provided at the time of grant of this security interest, and regardless of whether such Obligations arise out of existing or future credit granted by Bank to any Debtor, to any Debtor and others, to others guaranteed, endorsed or otherwise secured by any Debtor or to any debtor-in-possession or other

successor-in-interest of any Debtor, and including principal, interest, fees, expenses and charges relating to any of the foregoing.

1.4 Other Definitions. Unless otherwise defined, the terms set forth in this Agreement shall have the meanings set forth in the Uniform Commercial Code as adopted in the Loan Documents and as amended from time to time. The defined terms hereunder shall be interpreted in a manner most favorable to Bank.

ARTICLE II. WARRANTIES AND COVENANTS

In addition to all other warranties and covenants of Debtor under the Loan Documents which are expressly incorporated herein as part of this Agreement and while any part of the credit granted Debtor under the Loan Documents is available or any Obligations of Debtor to Bank are unpaid or outstanding, Debtor continuously warrants and agrees as follows:

2.1 Debtor's Name, Location; Notice of Location Changes. Except as otherwise disclosed to Bank in writing, Debtor's name and organizational structure have remained the same during the past five (5) years. Debtor will continue to use only the name set forth with Debtor's signature unless Debtor gives Bank prior written notice of any change. Furthermore, Debtor shall not do business under another name nor use any trade name without giving ten (10) days prior written notice to Bank. Debtor will not change its status or organizational structure without the prior written consent of Bank. Debtor will not change its location or registration (if Debtor is a registered organization) to another state without prior written notice to Bank.

2.2 Status of Collateral. All Collateral is genuine and validly existing. Except for items of insignificant value or as otherwise reflected in writing by Debtor to Bank under a borrowing base or otherwise, (i) Collateral constituting inventory, equipment and fixtures is in good condition, not obsolete and is either currently saleable or usable; and (ii) Collateral constituting accounts, contract rights, notes, chattel paper and other third-party obligations to pay if sully enforceable in accordance with its terms and not subject to return, dispute, setoff, credit allowance or adjustment, except for discounts for prompt payment. Unless Debtor provides Bank with written notice to the contrary, Debtor has no notice or knowledge of anything that would impair the ability of any third-party obligor to pay any debt to Debtor when due.

2.3 Ownership; Maintenance of Collateral; Restrictions on Liens and Dispositions. Debtor is the sole owner of the Collateral free of all liens, claims, other encumbrances and security interests except as permitted in writing by Bank. Debtor shall: (i) maintain the Collateral in good condition and repair (reasonable wear and tear excepted), and not permit its value to be impaired; (ii) not permit waste, removal or loss of identity of Collateral; (iii) keep the Collateral free from all liens, executions, attachments, claims, encumbrances and security interest (other than Bank's paramount security interest and those permitted in writing by Bank); (iv) defend the Collateral against all claims and legal proceedings by persons other than Bank; (v) pay and discharge when due all taxes, levies and other charges or fees upon the Collateral except for payment of taxes contested by Debtor in good faith by appropriate proceedings so long as no levy or lien has been imposed upon the Collateral; (vi) not lease, sell or transfer the Collateral to any party nor move it to any new location outside of the ordinary course of business; (vii) not permit the Collateral, without the consent of Bank, to become a fixture or an accession to other goods; (viii) not permit the Collateral to be used in violation of any applicable law, regulation or policy of insurance; and, (ix) as to the Collateral consisting of instruments and chattel paper, preserve Bank's rights in it against all other parties. Notwithstanding the above, Debtor may sell, lease or transfer inventory in the ordinary course of its business provided that no sale, lease or transfer shall include any transfer or sale in satisfaction (partial or complete) of a debt owed by Debtor; title will not pass to buyer until Debtor physically delivers the goods to buyer or Debtor ships the goods F.O.B. to buyer's destination; and sales and/or leases to Debtor's affiliates shall be for fair market value, cash on deliver, with the proceeds remitted to Bank.

2.4 Maintenance of Security Interest; Purchase Money Security Interests. Debtor shall take any action requested by Bank to preserve the Collateral and to establish the value of, the priority of, to perfect, to continue the perfection of or to enforce Bank's interest in the Collateral and Bank's rights under this Agreement; and shall pay all costs and expenses related thereto. Debtor shall also cooperate with Bank in obtaining control (for purposes of perfection under the Uniform Commercial Code) of Collateral consisting of deposit accounts,

investment property, letter of credit rights, electronic chattel paper and any other collateral where Bank may obtain perfection through control. Debtor hereby authorizes Bank to take any and all actions described above and in place of Debtor with respect to the Collateral and hereby ratifies any such actions Bank has taken prior to the date of this Agreement and hereafter, which actions may include, without limitation, filing UCC financing statements and obtaining or attempting to obtain control agreements from holders of the Collateral. Debtor and Bank intend to maintain the full effect of any purchase money security interest granted in favor of Bank notwithstanding the fact that the Collateral so purchased is also pledged as security for other Obligations under the Loan Documents.

2.5 Collateral Inspections; Modifications and Changes in Collateral. At reasonable times, Bank may examine the Collateral and Debtor's records pertaining to it, wherever located, and make copies of such records at Debtor's expense; and Debtor shall assist Bank in so doing. Without Bank's prior written consent, Debtor shall not alter, modify, discount, extend, renew or cancel any Collateral, except for ordinary discounts for prompt payment on accounts, physical modifications to the inventory occurring in the manufacturing process or alterations to equipment which do not materially affect its value. Debtor shall promptly notify Bank in writing of any material change in the condition of the Collateral and of any change in location of the Collateral.

2.6 Collateral Records, Reports and Statement. Debtor shall keep accurate and complete records respecting the Collateral in such form as Bank may approve. At such times as Bank may require, Debtor shall furnish to Bank any records/information Bank might require, including, without limitation, a statement certified by Debtor and in such form and containing such information as may be prescribed by Bank showing the current status and value of the Collateral.

2.7 Chattel Paper, Instruments, Etc. Chattel paper, instruments, drafts, notes, acceptances, and other documents which constitute Collateral shall be on forms satisfactory to Bank. Debtor shall promptly mark chattel paper to indicate conspicuously Bank's security interest therein, shall not deliver any chattel paper or negotiable instruments to any other entity and, upon request, shall deliver all original chattel paper, instruments, drafts, notes, acceptances and other document which constitute Collateral to Bank.

2.8 United States Government Contracts. If any accounts or contract rights arose out of contracts with the United States or any of its departments, agencies or instrumentalities, Debtor shall promptly notify Bank and execute any writings required by Bank so that all money due or to become due under such contracts shall be assigned to Bank under the Federal Assignment of Claims Act.

2.9 Environmental Matters. Except as disclosed in a written schedule attached to this Agreement (if no schedule is attached, there are no exceptions), there exists no uncorrected violation by Debtor of any federal, state or local laws (including statutes, regulations, ordinances or other governmental restrictions and requirements) relating to the discharge of air pollutants, water pollutants or process waste water or otherwise relating to the environment or Hazardous Substances as hereinafter defined, whether such laws currently exist or are enacted in the future (collectively "**Environmental Laws**"). The term "**Hazardous Substances**" shall mean any hazardous or toxic wastes, chemicals or other substances, the generation, possession or existence of which is prohibited or governed by any Environmental Laws. Debtor is not subject to any judgment, decree, order or citation, or a party to (or threatened with) any litigation or administrative proceeding, which asserts that Debtor (i) has violated any Environmental Laws; (ii) is required to clean up, remove or take remedial or other action with respect to any Hazardous Substances (collectively "**Remedial Action**"); or (iii) is required to pay all or a portion of the costs of any Remedial Action, as a potentially responsible party. There are not now, nor to Debtor's knowledge after reasonable investigation have there ever been, any Hazardous Substances (or tanks or other facilities for the storage of Hazardous Substances) stored, deposited, recycled or disposed of on, under or at any real estate owned or occupied by Debtor during the periods that Debtor owned or occupied such real estate, which if present on the real estate or in soils or ground water, could require Remedial Action. To Debtor's knowledge, there are no proposed or pending changes in Environmental Laws which would adversely affect Debtor or its business, and there are no conditions existing currently or likely to exist while the Loan Documents are in effect which would subject Debtor to Remedial Action or other liability. Debtor currently complies with and will continue to timely comply with all applicable Environmental Laws; and will provide Bank, immediately upon receipt, copies of any correspondence, notice, complaint, order or other document from any source asserting or alleging any circumstance or condition which requires or may require a financial contribution by Debtor or Remedial Action or other response by or on the part of Debtor under

Environmental Laws, or which seeks damages or civil, criminal or punitive penalties from Debtor for an alleged violation of Environment Laws.

2.10 Insurance. Debtor will maintain insurance to such extent, covering such risks and with such insurers as is usual and customary for businesses operating similar properties, and as is satisfactory to Bank, including insurance for fire and other risks insured against by extended or comprehensive coverage, public liability insurance and workers' compensation insurance; and will designate Bank as loss payee with a "Lender's Loss Payable" endorsement on any casualty policies and take such other action as Bank may reasonably request to ensure that Bank will receive (subject to no other interests) the insurance proceeds of the Collateral. Debtor hereby assigns all insurance proceeds to and irrevocably directs, while any Obligations remain unpaid, any insurer to pay to Bank the proceeds of all such insurance and any premium refund; and authorizes Bank to endorse Debtor's name to conduct the same, to make, adjust or settle, in Debtor's name, any claim on any insurance policy relating to the Collateral; and, at the option of Bank, to apply such proceeds and refunds to the Obligations or to restoration of the Collateral, returning any excess to Debtor. In the event of any failure of the Debtor to obtain or maintain any insurance required hereunder, the Bank shall have the authority, but not the obligation, to obtain any such insurance coverage, and the Debtor shall immediately reimburse the Bank for the cost thereof, together with interest on such amount at the highest rate of interest then accruing on any of the Obligations.

ARTICLE III. RIGHTS AND DUTIES OF BANK

In addition to all other rights (including setoff) and duties of Bank under the Loan Documents which are expressly incorporated herein as a part of this Agreement, the following provisions shall also apply:

3.1 Authority to Perform for Debtor. Debtor presently appoints any officer of Bank as Debtor's attorney-in-fact (coupled with an interest and irrevocable while any Obligations remain unpaid) to do any of the following upon default by Debtor hereunder (notwithstanding any notice requirements or grace/cure periods under this or other agreements between Debtor and Bank): (i) to file, endorse or place the name of Debtor on any invoice or document of title relating to accounts, drafts against customers, notices to customers, notes, acceptances, assignments of government contracts, instruments, financing statements, checks, drafts, money orders, insurance claims or payments or other documents evidencing payment or a security interest relating to the Collateral; (ii) to receive, open and dispose of all mail addressed to Debtor and to notify the Post Office authorities to change the address for delivery of mail addressed to Debtor to an address designated by Bank; (iii) to do all such other acts and things necessary to carry out Debtor's duties under this Agreement and the other Loan Documents; and (iv) to perfect, protect and/or realize upon Bank's interest in the Collateral. If the collateral includes funds or property in depository accounts, Debtor authorizes each of its depository institutions to remit to Bank, without liability to Debtor, all of Debtor's funds on deposit with such institution upon written direction by Bank after default by Debtor hereunder. All acts by Bank are hereby ratified and approved, and Bank shall not be liable for any acts of commission or omission, nor for any errors of judgment or mistakes of fact or law.

3.2 Verification and Notification; Bank's Rights. Bank may verify Collateral in any manner, and Debtor shall assist Bank in so doing. Upon the occurrence of a default hereunder, Bank may at any time and Debtor shall, upon request of Bank, notify the account debtors to make payment directly to Bank; and Bank may enforce collection of, sell, settle, compromise, extend or renew the indebtedness of such account debtors; all without notice to or the consent of Debtor. Until account debtors are so notified, Debtor, as agent of Bank, shall make collections on the Collateral. Bank may at any time notify any bailee possessing Collateral to turn over the Collateral to Bank.

3.3 Collateral Preservation. Bank shall use reasonable care in the custody and preservation of any Collateral in its physical possession but in determining such standard of reasonable care, Debtor expressly acknowledges that Bank has no duty to: (i) insure the Collateral against hazards; (ii) ensure that the Collateral will not cause damage to property or injury to third parties; (iii) protect it from seizure, theft or conversion by third parties, third parties' claims or acts of God; (iv) give to Debtor any notices received by Bank regarding the Collateral; (v) perfect or continue perfection of any security interest in favor of Debtor; (vi) perform any services, complete any work-in-process or take any other action in connection with the management or

maintenance of the Collateral; or (vii) sue or otherwise effect collection upon any accounts even if Bank shall have made a demand for payment upon individual account debtors. Notwithstanding any failure by Bank to use reasonable care in preserving the Collateral, Debtor agrees that Bank shall not be liable for consequential or special damages arising therefrom.

3.4 Setoff. As additional security for the payment of the Obligations, Debtor hereby grants to Bank a security interest in, a lien on and an express contractual right to set off against all depository account balances, cash and any other property of Debtor now or hereafter in the possession of Bank and the right to refuse to allow withdrawals from any account (collectively “**Setoff**”). Bank may, at any time upon the occurrence of a default hereunder (notwithstanding any notice requirements or grace/cure periods under this or other agreements between Debtor or Borrower and Bank), Setoff against the Obligations **whether or not the Obligations (including future installments) are then due or have been accelerated, all without any advance or contemporaneous notice or demand of any kind to Debtor, such notice and demand being expressly waived.**

ARTICLE IV. DEFAULTS AND REMEDIES

4.1 Defaults. Bank may enforce its rights and remedies under this Agreement upon default. A default shall occur if Debtor fails to comply with the terms of any Loan Documents (including this Agreement or any guaranty by Debtor), a demand for payment is made under a demand loan, or any other obligor fails to comply with the terms of any Loan Documents for which Debtor has given Bank a guaranty or pledge.

4.2 Cumulative Remedies; Notice; Waiver. In addition to the remedies for default set forth in the Loan Documents, Bank upon default shall have all other rights and remedies for default provided by the Uniform Commercial Code, as well as any other applicable law and this Agreement, including, without limitation, the right to repossess, render unusable and/or dispose of the collateral without judicial process. The rights and remedies specified herein are cumulative and are not exclusive of any rights or remedies which Bank would otherwise have. With respect to such rights and remedies;

- (a) **Assembling Collateral; Storage; Use of Debtor’s Name/Other Property.** Bank may require Debtor to assemble the Collateral and to make it available to Bank at any convenient place designated by Bank. Debtor recognizes that Bank will not have an adequate remedy in Law if this obligation is breached and accordingly, Debtor’s obligation to assemble the Collateral shall be specifically enforceable. Bank shall have the right to take immediate possession of said Collateral and Debtor irrevocable authorizes Bank to enter any of the premises wherever said Collateral shall be located, and to store, repair, maintain, assemble, manufacture, advertise and sell, lease or dispose of (by public sale or otherwise) the same on said premises until sold, all without charge or rent to Bank. Bank is hereby granted an irrevocable license to use, without charge, Debtor’s equipment, inventory, labels, patents, copyrights, franchises, names, trade secrets, trade names, trademarks and advertising matter and any property of a similar nature; and Debtor’s rights under all licenses and franchise agreements shall inure to Bank’s benefit. Further, Debtor releases Bank from obtaining a bond or surety with respect to any repossession and/or disposition of the Collateral.
- (b) **Notice of Disposition.** Written notice, when required by law, sent to any address of Debtor in this Agreement, at least five (5) calendar days (counting the day of pending) before the date of a proposed disposition of the Collateral is reasonable notice but less notice may be reasonable under the circumstances. Notification to account debtors by Bank shall not be deemed a disposition of the Collateral. Notice of any record shall be deemed delivered when the record has been (a) deposited in the United States Mail, postage pre-paid, (b) received by overnight delivery service, (c) received by telex, (d) received by telecopy, (e) received through the internet, or (f) when personally delivered.
- (c) **Possession of Collateral/Commercial Reasonableness.** Bank shall not, at any time, be obligated to either take or retain possession or control of the Collateral. With respect to Collateral in the possession or control of Bank, Debtor and Bank agree that as a standard for determining commercial reasonableness, Bank need to liquidate, collect, sell or otherwise dispose of any of the

Collateral if Bank believes, in good faith, that disposition of the Collateral would not be commercially reasonable, would subject Bank to third-party claims or liability, that other potential purchasers could be attracted or that a better price could be obtained if Bank held the Collateral for up to 2 years. Bank may sell Collateral without giving any warranties and may specifically disclaim any warranties of title or the like. Furthermore, Bank may sell the Collateral on credit (and reduce the Obligations only when payment is received from the buyer), at wholesale and/or with or without an agent or broker; and Bank need not complete, process, repair, clean-up or otherwise prepare the Collateral Prior to disposition. If the purchaser fails to pay for the Collateral, Bank may resell the Collateral and Debtor shall be credited with the cash proceeds of the sale. Bank may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

- (d) **Waiver by Debtor.** Bank has no obligation and Debtor waives any obligation to attempt to satisfy the Obligations by collecting the obligations from any third parties and Bank may release, modify or waive any collateral provided by any third party to secure any of the Obligations, all without affecting Bank's rights against Debtor. Debtor further waives any obligation on the part of Bank to marshal any assets in favor of Debtor or in payment of the Obligations. Notwithstanding any provisions in this Agreement or any other agreement between Debtor and Bank, Debtor does not waive any statutory rights except to the extent that the waiver thereof is permitted by law.
- (e) **Waiver by Bank.** Bank may permit Debtor to attempt to remedy any default without waiving its rights and remedies hereunder, and Bank may waive any default without waiving any other subsequent or prior default by Debtor. Furthermore, delay on the part of Bank in exercising any right, power or privilege hereunder or at law shall not operate as a waiver thereof, nor shall any single or partial exercise of such right, power or privilege preclude other exercise of any other right, power or privilege. **No waiver or suspension shall be deemed to have occurred unless Bank has expressly agreed in writing specifying such waiver or suspension.**

ARTICLE V. MISCELLANEOUS

All other provisions in the Loan Documents are expressly incorporated as a part of this Agreement.

5.1 Deposit with Bank. At any time upon default, Bank may require that all proceeds of Collateral received by Debtor shall be held by Debtor upon an express trust for Bank, shall not be commingled with any other funds or property of Debtor and shall be turned over to Bank in precisely the form received (but endorsed by Debtor, if necessary for collection) not later than the business day following the day of their receipt. All proceeds of Collateral received by Bank directly or from Debtor shall be applied against the Obligations in such order and at such times as Bank shall determine.

5.2 Attachments. All documents attached hereto, including any appendices, schedules, riders, and exhibits to this Agreement, are hereby expressly incorporated by reference.

IN WITNESS WHEREOF, the undersigned has/have executed this BUSINESS SECURITY AGREEMENT as

 October 23, 2013

Ohio Metal Working Products/Art's Way
 A Ohio Corporation
 By /s/ Carrie L. Majeski
 Name and Title Carrie L. Majeski, Secretary

REAFFIRMATION OF GUARANTY

1. Guarantee. For value received, and to induce U. S. Bank N.A.
 _____ (the "**Bank**") to extend or continue credit or other financial accommodations now or
 in the future Art's Way Manufacturing Co., Inc.
 _____ (the "**Borrower**"), the undersigned (the
 "**Guarantor**") hereby absolutely and unconditionally jointly and severally guarantees prompt payment of and
 promises to pay or cause to be paid to the Bank the Obligations (as hereinafter defined), whether or not the
 Obligations are valid and enforceable against the Borrower, whenever the Obligations become due, whether on
 demand, at maturity or by reason of acceleration, or at the time the Borrower and Guarantor shall become the
 subject of any bankruptcy or insolvency proceeding.

As used herein, the term "**Obligations**" shall mean all loans, drafts, overdrafts, checks, notes and
 all other debts, liabilities and obligations of every kind owing by the Borrower to the Bank, whether direct or
 indirect, absolute or contingent, liquidated or unliquidated whether of the same or a different nature and
 whether existing now or in the future, including interest thereon and all costs, expenses and reasonable
 attorneys' fees (including fees of inside counsel) paid or incurred by the Bank at any time before or after
 judgment in attempting to collect any of the foregoing, to realize on any collateral securing any of the foregoing
 or this Guaranty, and to enforce this Guaranty. The definition of "Obligations" also includes the amount of any
 payments made to the Bank or another on behalf of the Borrower (including payments resulting from
 liquidation of collateral) which are recovered from the Bank by a trustee, receiver, creditor or other party
 pursuant to applicable Federal and State law (the "**Surrendered Payments**"). In the event that the Bank makes
 any Surrendered Payments (including pursuant to a negotiated settlement), the Surrendered Payments shall
 immediately be reinstated as Obligations, regardless of whether the Bank has surrendered or cancelled this
 Guaranty prior to returning the Surrendered Payments.

2. Consent to Bank Actions; No Discharge. The Guarantor agrees that the Bank does not have
 to take any steps whatsoever to realize upon any collateral securing the Obligations, or to proceed against the
 Borrower or any other guarantor or surety for the Obligations either before or after proceeding against the
 Guarantor; and the Guarantor waives any claim of marshalling of assets against the Bank or any collateral. The
 Guarantor also agrees that the Bank may do or refrain from doing any of the following without notice to, or the
 consent of, the Guarantor, without reducing or discharging the Guarantor's liability under this Guaranty: (i)
 renew, amend, modify, extend or release any existing or future Obligations (including making additional
 advances, or changing the interest rate or amount, time or manner of payment of any Obligations), and make
 additional extensions of credit to the Borrower (which will become additional Obligations, regardless of when
 such modifications or additional extensions of credit are made, and regardless of whether they are similar to
 or different from any other Obligations; (ii) amend, supplement and waive compliance with any of the
 provisions of documents evidencing or related to any of the Obligations; (iii) settle, modify, release,
 compromise or subordinate any Obligation, any collateral securing any Obligation or this Guaranty, or the
 liability of any other party responsible for payment of any Obligation; and (iv) accept partial payments, and
 apply any payments and all other amounts received from the Borrower, from liquidation of any collateral or
 from any other guarantor to the Obligations (or any other amounts due to the Bank) in any manner that the
 Bank elects. The Guarantor also expressly agrees that the Guarantor's liability will not be reduced or discharged
 by the Bank's failure or delay in perfecting (or to continue perfection of) any security interest, mortgage or
 other lien on any collateral securing the Obligations or this Guaranty, or to protect the value or condition of any
 such collateral. **THE GUARANTOR SPECIFICALLY ACKNOWLEDGES THAT THIS GUARANTY COVERS ALL
 EXISTING AND FUTURE OBLIGATIONS OF THE BORROWER TO THE BANK REGARDLESS OF THE
 AMOUNT OF THOSE OBLIGATIONS; THAT THE BANK CAN MAKE ADDITIONAL EXTENSIONS OF CREDIT
 TO THE BORROWER WITHOUT NOTIFYING THE GUARANTOR; AND THAT THE BANK CAN DEMAND**

PAYMENT FROM AND IMPOSE LIABILITY ON THE GUARANTOR WITHOUT FIRST TRYING TO COLLECT FROM THE BORROWER OR ANY OTHER GUARANTOR.

3. Waivers. The Guarantor expressly waives all rights of setoff and counterclaims, as well as diligence in collection or prosecution, presentment, demand of payment or performance, protest, notice of dishonor, nonpayment or nonperformance of any Obligation. The Guarantor also expressly waives notice of acceptance of this Guaranty, and the right to receive all other notices and demands of any kind relating to the Obligations or this Guaranty. The Guarantor agrees that any right of subrogation as to payment or enforcement of any security interest securing the Obligations shall not be enforceable by any Guarantor until the Bank is paid in full. In addition to, and not in substitution or lieu of, all of the other waivers and releases contained herein from the Guarantor, Guarantor hereby specifically, unconditionally and jointly and severally waives any and all defenses predicated upon: (i) change of ownership of any collateral covered by any mortgage, deed of trust or security agreement or other security instrument securing the Obligations; (ii) acquiring additional collateral; (iii) substitution of different collateral in exchange or exchanges for part or parts of any original collateral; (iv) sale or other disposition, either in whole or in part, of any collateral for the Obligations, without notice to the Guarantor unless otherwise required by applicable law; (v) the fact that there may be persons other than the Guarantor solvent and responsible for the payment of the Obligations; (vi) release, death, dissolution, liquidation or termination of the existence of the Borrower or any other guarantor; (vii) an election of remedies; or (viii) any other defenses based on suretyship or impairment of collateral.

4. Financial Information. The Guarantor warrants that all financial information previously provided to the Bank was accurate when given, and that no material adverse change has occurred in the Guarantor's financial status since such information was given to the Bank. The Guarantor agrees to provide to the Bank from time to time upon request any information regarding the Guarantor's financial condition which the Bank reasonably requests; and without request, the Guarantor will provide annual financial statements in form and content satisfactory to the Bank within 60 days of the end of each year.

5. Borrower's Financial Condition. The Guarantor warrants and represents to the Bank that (i) the Guarantor is sufficiently knowledgeable and experienced in financial and business matters to evaluate and understand the risks assumed in connection with the execution of this Guaranty; (ii) the Guarantor has had the opportunity to examine the records, reports, financial statements, and other information relating to the financial condition of the Borrower; (iii) the Guarantor has relied solely upon investigations of the Borrower's financial condition conducted by the Guarantor or the Guarantor's authorized representative in deciding to execute this Guaranty; and (iv) the Guarantor, or its authorized representative, shall continue to independently review, monitor and investigate the financial condition of the Borrower while this Guaranty is in effect. **The Guarantor specifically relieves the Bank of any duty, obligation or responsibility of any nature whatsoever to advise the Guarantor of any change in the Borrower's financial condition.**

6. Collateral; Setoff. The Guarantor grants to the Bank a security interest in all property in which the Guarantor has an ownership interest which is now or in the future in the possession of the Bank to secure payment under this Guaranty. The Guarantor hereby authorizes the Bank, without further notice to anyone, to change any account of the Guarantor for the amount of any and all Obligations due under this Guaranty, and grants the Bank a contractual right to set off (without notice or demand) amounts due hereunder against all depository account balances, cash and other property now or hereafter in the possession of the Bank and the right to refuse to allow withdrawals from any account (collectively "**Setoff**"). This Guaranty is also secured by any and all security interests, pledges or liens now or hereafter in existence granted to the Bank to secure indebtedness of the Guarantor to the Bank, including without limitation as described in the following documents: _____

7. Duration of Guaranty; Revocation; Continuing Obligations. This is a continuing Guaranty and shall not be revoked by death, dissolution, merger, bankruptcy, incompetency or insolvency of the Guarantor. This Guaranty shall remain in full force and effect with respect to the Guarantor until the Bank

receives written notice from the Guarantor revoking this Guaranty as to the Guarantor. In the event that this Guaranty is revoked by the Guarantor, said revocation shall have no effect on the continuing liability of the Guarantor to guarantee unconditionally the prompt payment of all Obligations which are contracted or incurred before the revocation becomes effective, including such prior Obligations which are subsequently renewed, modified or extended after the revocation becomes effective, as well as all extensions of credit made after revocation pursuant to commitments made prior to such revocation. Revocation of this Guaranty by any Guarantor shall not relieve any other Guarantor of any liability hereunder after the effective date of such revocation.

8. Acceleration of Obligations; Successors; Multiple Guarantors. If the Guarantor shall die or cease to exist, become the subject of any incompetency proceedings, become the subject of any bankruptcy or insolvency proceedings, or fail to comply with the terms of this Guaranty, any document securing this guaranty or any related document, the Guarantor's liability hereunder to pay the Obligations shall become immediately due and payable whether or not the Obligations are then due and payable by the Borrower or any other guarantor. The Guaranty shall inure to the benefit of the Bank, its successors and assigns and of the holder and owner of any of the Obligations, and shall be binding on heirs, executors, administrators, successors, and assigns of the Guarantor. If there is more than one Guarantor, the liability of the Guarantors shall be joint and several, and the reference to the "Guarantor" shall be deemed to refer to all Guarantors.

9. Severability; Prior Agreements; Amendment. Invalidity of any provision of this Guaranty shall not affect the validity of any other provision. This Guaranty, the collateral documents securing this Guaranty and the documents evidencing the Obligations contain the entire agreement of the parties regarding this matter; and any prior representations, promises or agreements (whether oral or written) which are not part of this Guaranty or the documents described above are not enforceable. The terms of this Guaranty may not be altered, amended or waived except by another written agreement signed by the Guarantor and the Bank. Unless specifically limited in scope this Guaranty shall not supersede this Guaranty. The effect of any earlier or later guaranty shall be cumulative with this Guaranty.

10. Copies; Entire Agreement; Modification. The Guarantor hereby acknowledges the receipt of a copy of this Guaranty. This Guaranty is a "transferable record" as defined in applicable law relating to electronic transactions. Therefore, the holder of this Guaranty may, on behalf of Guarantor, create a microfilm or optical disk or other electronic image of this Guaranty that is an authoritative copy as defined in such law. The holder of this Guaranty may store the authoritative copy of such Guaranty in its electronic form and then destroy the paper original as part of the holder's normal business practices. The holder, on its own behalf, may control and transfer such authoritative copy as permitted by such law.

IMPORTANT: READ BEFORE SIGNING. THE TERMS OF THIS AGREEMENT SHOULD BE READ CAREFULLY BECAUSE ONLY THOSE TERMS IN WRITING, EXPRESSING CONSIDERATION AND SIGNED BY THE PARTIES ARE ENFORCEABLE. NO OTHER TERMS OR ORAL PROMISES NOT CONTAINED IN THIS WRITTEN CONTRACT MAY BE LEGALLY ENFORCED. THE TERMS OF THIS AGREEMENT MAY ONLY BE CHANGED BY ANOTHER WRITTEN AGREEMENT. THIS NOTICE SHALL ALSO BE EFFECTIVE WITH RESPECT TO ALL OTHER CREDIT AGREEMENTS NOW IN EFFECT BETWEEN GUARANTOR AND THE BANK. A MODIFICATION OF ANY OTHER CREDIT AGREEMENTS NOW IN EFFECT BETWEEN GUARANTOR AND THE BANK, WHICH OCCURS AFTER RECEIPT BY GUARANTOR OF THIS NOTICE, MAY BE MADE ONLY BY ANOTHER WRITTEN INSTRUMENT. ORAL OR IMPLIED MODIFICATIONS TO SUCH CREDIT AGREEMENTS ARE NOT ENFORCEABLE AND SHOULD NOT BE RELIED UPON.

11. Governing Law; Jurisdiction. This Guaranty shall be governed by the internal laws of the State of _____, except to the extent superseded by Federal law. THE GUARANTOR HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT SITUATED IN THE COUNTY OR FEDERAL JURISDICTION OF THE BANK'S BRANCH WHERE THE LOAN WAS ORIGINATED, AND WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS, WITH REGARD TO ANY ACTIONS, CLAIMS, DISPUTES OR PROCEEDINGS

RELATED TO THIS GUARANTY, THE COLLATERAL, ANY RELATED DOCUMENT, OR ANY TRANSACTIONS ARISING THEREFROM, OR ENFORCEMENT AND/OR INTERPRETATION OF ANY OF THE FOREGOING. Nothing herein shall affect the Bank's right to serve process in any manner permitted by law, or limit the Bank's right to bring proceedings against the Guarantor in the competent courts of any other jurisdiction or jurisdictions.

12. Waiver of Jury Trial. THE GUARANTOR AND THE BANK HEREBY JOINTLY AND SEVERALLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS GUARANTY, ALL DOCUMENTS RELATING TO THIS GUARANTY, THE OBLIGATIONS HEREUNDER OR ANY TRANSACTION ARISING HEREFROM OR CONNECTED HERETO. THE GUARANTOR AND THE BANK EACH REPRESENTS TO THE OTHER THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

13. Confession of Judgment. Guarantor hereby irrevocably authorizes and empowers any attorney-at-law to appear for Guarantor in any action upon or in connection with this Continuing Guaranty at any time after the obligations under this Continuing Guaranty become due, as herein provided, in any court in or of the State of Ohio or elsewhere, and waives the issuance and service of process with respect thereto, and irrevocably authorizes and empowers any such attorney-at-law to confess judgment in favor of Bank against Guarantor, the amount due thereon or hereon, plus interest as herein provided, and all costs of collection, and waives and releases all errors in any said proceedings and judgments and all rights of appeal from the judgment rendered. The Guarantor agrees and consents that the attorney confessing judgment on behalf of the Guarantor hereunder may also be counsel to the Bank and/or any of the Bank's affiliates, and the Guarantor hereby further waives any conflict of interest which may otherwise arise and consents to the Bank paying such confessing attorney a legal fee or allowing such attorneys' fees to be paid from proceeds of collection of this Continuing Guaranty and/or any and all collateral and security for the obligations.

WARNING - - BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF THE COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

Dated: October 25, 2013 _____

Ohio Metal Working Products/Art's Way

a Ohio Corporation

Name and Title Carrie L. Majeski, Secretary

**COLLATERAL ASSIGNMENT OF
DEALER'S NOTES AND SECURITY AGREEMENTS**

THIS COLLATERAL ASSIGNMENT OF DEALER'S NOTES AND SECURITY AGREEMENTS (this "Assignment") is made this 16th day of July, 2015 by and between Art's-Way Manufacturing Co., Inc., a Delaware corporation (the "Company") to U.S. Bank National Association (the "Lender").

RECITALS

WHEREAS, the Company, as Borrower thereunder, and Lender, as Lender thereunder, are parties to that certain Promissory Note of even date herewith (the "Note"), pursuant to which Lender has agreed to make Advances to the Company up to ONE MILLION FIVE HUNDRED THOUSAND DOLLARS and 00/100 (\$1,500,000.00) on the terms and conditions set forth in the Note; and

WHEREAS, in order to induce Lender to make the Advances to the Company as provided for in the Note, the Company has agreed to collaterally assign all of its right, title and interest in and to those certain Dealer's Notes (collectively, the "Dealer's Notes", and each, a "Dealer's Note") and Dealer's Security Agreements (collectively, the "Dealer's Security Agreements", and each a "Dealer's Security Agreement") as may be identified on Schedule A attached hereto and as may be later identified by inserting into Schedule A any subsequent Dealer's Note and Dealer's Security Agreement related to any and every Advance given by Lender to the Company under the Note (the Dealer's Notes and the Dealer's Security Agreements are hereinafter collectively referred to as the "Collateral Documents");

NOW, THEREFORE, for and in consideration of the premises, the covenants herein contained, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the Company and Lender hereby covenant and agree, as follows:

1. **DEFINED TERMS.** Capitalized terms not defined herein shall have the meanings given them in the Note.
2. **COLLATERAL ASSIGNMENT OF COLLATERAL DOCUMENTS.** In order to secure repayment of the Advances and the other obligations and liabilities at any time owing by the Company to Lender on account of Note (all such indebtedness, obligations and liabilities being hereinafter collectively referred to as the "Obligations"), the Company hereby collaterally transfers, assigns and conveys to Lender any and all of the right, title and interest of the Company in and with respect to the Collateral Documents as more specifically described on Schedule A, and as may be subsequently added to Schedule A at the time of an Advance. Schedule A is attached hereto and by this reference incorporated herein as if fully set forth.

The Company does hereby agree to warrant and forever defend the title to such Collateral Documents unto Lender, its successors and assigns against any claims of any person whatsoever. The Company represents and warrants to Lender, its successors and assigns that such Collateral

Documents are collaterally assigned hereunder, free and clear of any lien, claim or encumbrances of any nature any lien, claim or encumbrances of any nature.

3. THE COMPANY'S RIGHTS UNTIL DEFAULT. So long as no default shall exist under the Obligations and the Note, the Company shall have the right to exercise all of the Company's rights and benefits under, in and to the Collateral Documents.

4. LENDER'S RIGHTS IN EVENT OF DEFAULT.

(a) Immediately upon the occurrence of a default under the Obligations or the Note, and until such default shall have been cured, as hereinafter defined, the Lender is hereby expressly and irrevocably authorized to assume any or all of the Company's rights with respect to the Collateral Documents without further authorization, notice or demand and without the commencement of any action.

(b) The Company hereby constitutes and appoints the Lender irrevocably, and with full power of substitution and revocation, the true and lawful attorney, for and in the name, place and stead of the Company, to exercise any and all rights and remedies of the Company under the Collateral Documents. The Company hereby grants unto said attorney full power and authority to do and perform each and every act whatsoever requisite to be done with respect to the Collateral Documents, as fully to all intents and purposes, as the Company could do if personally present, hereby ratifying and confirming all that said attorney shall lawfully do or cause to be done by virtue hereof, provided, however, that any acts or omissions by the Lender after default shall be at the Lender's discretion and shall not be or become the basis for any liability of the Company.

(c) Acceptance of this Assignment by the Lender shall not constitute a satisfaction of all or any part of the Obligations of the Company.

(d) The rights and powers of the Lender hereunder shall continue and remain in full force and effect until all Obligations are satisfied in full. Lender shall not be liable to the Company or anyone claiming under or through the Company by reason of any act or omission by the Company hereunder.

(e) A default shall be cured when the Company shall have satisfied applicable provisions for cure in the Note.

5. TERMINATION. Upon satisfaction in full of the Obligations, this Assignment shall be void and of no effect and, in that event, upon the Company's request, the Lender agrees to execute and deliver to the Company instruments evidencing the termination of this Assignment and/or release of Lender's interest in the Collateral Documents.

6. RECORDATION OF ASSIGNMENT. At Lender's request, the Company will cause this Assignment and amendments thereto to be properly recorded, filed, registered and maintained in such manner and in such places as Lender may reasonably deem necessary or advisable for the purpose of fully protecting and perfecting the rights of Lender hereunder; and (ii) execute, acknowledge, deliver and record all such further instruments as Lender may

reasonably deem necessary or advisable for the purpose of better assuring, granting, conveying and assigning the Company's rights, title, interests, claims and liens arising out of the Collateral Documents to Lender, and as may be required to perfect, preserve and protect the security interest therein granted hereby; provided, however, that any recording or filing expenses incurred in connection herewith shall be borne by Lender.

7. GOVERNING LAW. THIS ASSIGNMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF IOWA WITHOUT REGARD TO ANY CHOICE OF LAW RULES WHICH WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION

8. NO WAIVER. Neither this Assignment nor any provision hereof may be changed, waived, discharged or terminated orally, but shall be changed, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

9. BINDING EFFECT. This Assignment shall be binding upon and inure to the benefit of the parties hereto, all future holders of the Note and their respective successors and assigns, except that the Company may not transfer or assign any of its rights or obligations hereunder without the prior written consent of Lender.

10. COUNTERPARTS. This Assignment may be executed in any number of counterparts, all of which, when taken together, shall constitute one and the same instrument, and any party hereto may execute this Assignment by signing any such counterpart.

IN WITNESS WHEREOF, the undersigned has executed this instrument as of the 16th day of July, 2015.

ART'S-WAY MANUFACTURING CO., INC., the Company

By: /s/ Carrie Majeski
Carrie Majeski, President & CEO

STATE OF IOWA, COUNTY OF STORY, SS:

This record was acknowledged before me on this 16th day of July, 2015, by Carrie Majeski, as the President of Art's-Way Manufacturing Co., Inc.

/s/ Brooke J Brewington
Notary Public in and for the State of Iowa
My commission expires March 29, 2016

**CERTIFICATION PURSUANT TO 17 CFR 240.13(a)-14(a)
(SECTION 302 CERTIFICATION)**

I, Carrie L. Majeski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Art's-Way Manufacturing Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

ART'S-WAY MANUFACTURING CO., INC.

Date: October 1, 2015

/s/ Carrie L. Majeski
Carrie L. Majeski
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 17 CFR 240.13(a)-14(a)
(SECTION 302 CERTIFICATION)**

I, Amber J. Murra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Art's-Way Manufacturing Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

ART'S-WAY MANUFACTURING CO., INC.

Date: October 1, 2015

/s/ Amber J. Murra

Amber J. Murra
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Art's-Way Manufacturing Co., Inc. (the "Company") for the fiscal quarter ended August 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carrie L. Majeski, as the President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

ART'S-WAY MANUFACTURING CO., INC.

Date: October 1, 2015

/s/ Carrie L. Majeski
Carrie L. Majeski
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Art's-Way Manufacturing Co., Inc. (the "Company") for the fiscal quarter ended August 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Amber J. Murra, as the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

ART'S-WAY MANUFACTURING CO., INC.

Date: October 1, 2015

/s/ Amber J. Murra
Amber J. Murra
Chief Financial Officer