



Securities registered pursuant to Section 12(b) of the Act:

**Common stock \$.01 par value**    **The NASDAQ Stock Market LLC**  
(Title of each class)                      (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes   No

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter, based on the closing sale price on May 31, 2017 as reported on the NASDAQ Stock Market LLC (\$3.0384 per share), was approximately \$12,648,106.

As of January 30, 2018, there were 4,156,914 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Registrant's 2018 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2017 are incorporated by reference into Part III of this Form 10-K.

Art's-Way Manufacturing Co., Inc.

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## FORWARD LOOKING STATEMENTS

Some of the statements in this report may contain forward-looking statements that reflect our current view on future events, future business, industry and other conditions, our future performance, and our plans and expectations for future operations and actions. In some cases you can identify forward-looking statements by the use of words such as “may,” “should,” “anticipate,” “believe,” “expect,” “plan,” “future,” “intend,” “could,” “estimate,” “predict,” “hope,” “potential,” or other similar expressions, or the negative of these terms or other similar expressions. Forward-looking statements in this report generally relate to: our expectations regarding our plan to sell and liquidate the assets of our discontinued Pressurized Vessels segment; our expectations regarding our warranty costs and order backlog; 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; the impact of recently issued accounting pronouncements; our intentions and beliefs relating to our costs and business strategies; our expected operating and financial results; our expectations concerning our primary capital and cash flow needs; our beliefs regarding competitive factors and our competitive strengths; expectations regarding capabilities and demand; our predictions regarding the impact of seasonality; our beliefs regarding the impact of the farming industry on our business; our beliefs regarding internal controls; and our intentions for paying dividends. Many of these forward-looking statements are located in this report under “Item 1. BUSINESS” and “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” but they may appear in other sections as well.

You should read this report thoroughly with the understanding that our actual results may differ materially from those set forth in the forward-looking statements for many reasons, including events beyond our control and assumptions that prove to be inaccurate or unfounded. We cannot provide any assurance with respect to our future performance or results. Our actual results or actions could and likely will differ materially from those anticipated in the forward-looking statements for many reasons, including but not limited to: the impact of tightening credit markets on our ability to continue to obtain financing on reasonable terms; our ability to repay current debt, continue to meet debt obligations and comply with financial covenants; obstacles related to integration of acquired product lines and businesses; obstacles related to liquidation of product lines and segments; 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; fluctuations in seasonal demand and our production cycle; the ability of our suppliers to meet our demands for raw materials and component parts; our OEM customers’ decisions regarding supply chain structure, inventory levels, and overall business conditions; fluctuations in the price of raw materials, especially steel; our ability to predict and meet the demands of each market in which our segments operate; our ability to predict and respond to any seasonal fluctuations in demand; our ability to maintain intellectual property rights; the existence and outcome of product liability claims and other ordinary course litigation; changes in environmental, health and safety regulations and employment laws; our ability to retain our executive officers; the cost of complying with laws, regulations, and standards relating to corporate governance and public disclosure, and the demand such compliance places on management’s time; our ability to liquidate the assets of our discontinued Pressurized Vessels segment; our ability to continue as a going concern; and other factors described in this report and from time to time in our other 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.

## **PART I**

### **Item 1. BUSINESS.**

#### **General**

Art's-Way Manufacturing Co., Inc., a Delaware corporation (“we,” “us,” “our,” and the “Company”), began operations as a farm equipment manufacturer in 1956. Since that time, we have become a worldwide manufacturer of agricultural equipment, specialized modular science buildings and steel cutting tools. Our principal manufacturing plant is located in Armstrong, Iowa.

We have organized our business into three operating segments. Management separately evaluates the financial results of each segment because each is a strategic business unit offering different products and requiring different technology and marketing strategies. Our Agricultural Products segment manufactures and distributes farm equipment under our own and private labels and includes the operations of our wholly-owned subsidiary, Art's-Way Manufacturing International LTD, a Canadian company ("International"). Our Modular Buildings segment manufactures modular buildings for various uses, commonly animal containment and research laboratories, through our wholly-owned subsidiary, Art's-Way Scientific, Inc., an Iowa corporation. Our Tools segment manufactures standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools through our wholly-owned subsidiary, Ohio Metal Working Products/Art's Way, Inc., an Ohio corporation ("Ohio Metal"). During the third quarter of the 2016 fiscal year, we discontinued operations of a fourth segment, Pressurized Vessels, which manufactured pressure vessels through our wholly-owned subsidiary, Art's-Way Vessels, Inc., an Iowa corporation, which was merged into the Company effective October 31, 2016. For detailed financial information relating to discontinued operations and segment reporting, see Note 2 and Note 17, respectively, to our financial statements in Item 8 of this Annual Report on Form 10-K.

## **Business of Our Segments**

### *Agricultural Products*

Our Agricultural Products segment, which accounted for 74.4% of our net revenue in the 2017 fiscal year and 73.1% of our net revenue in the 2016 fiscal year, is located primarily in our Armstrong, Iowa facility. This segment manufactures a variety of specialized farm machinery under our own label, including portable and stationary animal feed processing equipment and related attachments used to mill and mix feed grains into custom animal feed rations; a line of hay and forage equipment consisting of forage boxes, blowers, running gear, and dump boxes; a line of portable grain augers; a line of manure spreaders; sugar beet harvesting equipment; a line of land maintenance equipment; moldboard plows; and reels for combines and swathers. We also previously manufactured industrial grade snow blowers under the Agro Trend label, but we sold the Agro Trend product line to Metco, Inc. on December 15, 2017. We sell our labeled products through independent farm equipment dealers throughout the United States and Canada. In addition, we manufacture and supply silage blowers and reels under original equipment manufacturer ("OEM") agreements. Sales to our OEM customers accounted for 4% of our consolidated sales for the 2017 fiscal year and 5% of our consolidated sales for the 2016 fiscal year. We also provide after-market service parts that are available to keep our branded and OEM-produced equipment operating to the satisfaction of the end user of our products.

### *Modular Buildings*

Our Modular Buildings segment, which accounted for 13.0% of our net revenue in the 2017 fiscal year and 17.0% of our net revenue in the 2016 fiscal year, is located in Monona, Iowa. This segment produces and sells modular buildings, which are custom-designed to meet the specific research needs of our customers. The buildings we



commonly produce range from basic swine buildings to complex containment research laboratories. We plan to continue our focus on providing research facilities for academic research institutions, government research and diagnostic centers, public health institutions and private research and pharmaceutical companies, as those are our primary market sectors. We provide services from start to finish by designing, manufacturing, delivering and installing these facilities to meet customers' critical requirements. In addition to selling these facilities, we also offer a lease option to customers in need of temporary facilities.

### *Tools*

Our Tools segment, which is located in Canton, Ohio, accounted for 12.6% of our net revenue in the 2017 fiscal year and 9.9% of our net revenue in the 2016 fiscal year. This segment produces and sells standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools. The tools are used by manufacturers in various industries to cut and shape various parts, pipes, and fittings. The marketing of the tools is primarily through independent distributors supplying manufacturers with industrial tools and supplies. We plan to continue our focus on providing cutting tools to industries such as automotive, aerospace, oil and gas piping, and appliances.

### *Pressurized Vessels – Discontinued Segment*

Our Pressurized Vessels segment was discontinued during the third quarter of the 2016 fiscal year and was located in Dubuque, Iowa. The operations of the Pressure Vessels segment are reported in the accompanying financial statements as discontinued operations in accordance with GAAP. The Pressurized Vessels segment produced and sold pressurized vessels, both American Society of Mechanical Engineers code and non-code. It provided a combination of services as a manufacturer and supplier of steel vessels and steel containment systems. We built in carbon steel and stainless steel, ranging from atmospheric (0 PSI) storage vessels up to any PSI pressure rating required. We provided vessels ranging in size from 4 inches to 168 inches in diameter and in various lengths as our customers required. The vessels were primarily sold to manufacturing facilities that used the vessel as a component part of their end product. We primarily served the following industries: water treatment; air receivers; refineries; co-generation; chemical; petrochemical; storage tanks; agriculture; marine; refrigeration; hydro pneumatic; heavy equipment; pharmaceuticals and mining. In addition to our role as a fabricator of vessels, we provided various services, including custom CAD drawing; welding; interior linings and exterior finishing; passivation of stainless steel; hydrostatic and pneumatic testing; design, build and finishing of skids; installation of piping; non-destructive examination; and heat treating. For detailed financial information relating to discontinued operations, see Note 2 to our financial statements in Item 8 of this Annual Report on Form 10-K.

## **Our Principal Agricultural Products**

From our beginnings as a producer of portable grinder mixers, our Agricultural Products segment has grown through developing several new products and with our acquisitions. In 2012, we acquired the assets of Universal Harvester Co., Inc. (“UHC”) in Ames, Iowa and began selling reels for combines and swathers as UHC by Art’s-Way. In 2013, we acquired the Agro Trend product line based in Clifford, Ontario and we sold Agro Trend industrial snow blowers and agricultural trailers through our International subsidiary. On December 15, 2017, we sold the Agro Trend product line to Metco, Inc. Today, our Agricultural Products segment manufactures a wide array of products relating to feed processing, crop production, augers, spreaders, hay and forage, tillage and land management, and sugar beet harvesting equipment. We primarily manufacture products under the Art’s-Way, Miller Pro, Roda, M&W, Badger, and UHC by Art’s-Way brand names. Our Agricultural Products segment also maintains a small volume of OEM work for the industry’s leading manufacturers.

*Grinder mixer line.* The grinder mixer line represents our original product line. Our founder, Arthur Luscombe, designed the original power take-off unit (“PTO”) powered grinder-mixer prior to the Company’s inception. Grinder mixers are used to grind grain and mix in proteins for animal feed. They have several agricultural applications and are commonly used in livestock operations. Our grinder mixers have wide swing radiuses to allow users to reposition the discharge tube from one side of the tank to the other in one step. Our 6105 grinder mixer offers a 105-bushel tank with a 20-inch hammermill. Our 6140 grinder mixer is a medium sized product with a 140-bushel tank, a 20” hammermill, and an 8” discharge auger. During 2017, we replaced our 6530 grinder mixer model with the 7165, which is the largest in the industry at a 165-bushel tank with a 26-inch hammermill. It features self-contained hydraulics and 10-inch discharge augers, which yield the fastest unload times in the industry. Our Cattle Maxx rollermill mixer products offer consistent feed grain rations for beef and dairy operations and are available in 105-bushel, 140-bushel, and 165-bushel capacities.

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

*Land management line.* Land planes are used to ensure even distribution of rainfall or irrigation by eliminating water pockets, furrows, and implement scars in fields. Our land planes have a patented Art’s-Way floating hitch design. We offer pull-type graders to help our customers perform many tasks such as maintaining terraces and waterways, leveling ground, cleaning ditches, and removing snow. The pull-type graders follow close to the back of a tractor for leveling uneven areas or for turning in smaller spaces.

*Moldboard plow line.* The Art's-Way moldboard plows offer conservation tillage choices to match each customer's preference. Our moldboard plows are designed to slice and invert the soil to leave a rough surface exposed, and they are primarily used on clean-tilled cropland with high amounts of crop residue.

*Sugar beet harvesting line.* Our sugar beet defoliators and harvesters are innovative products in the industry due to our focus on continuous improvement, both in reaction to customer requests and in anticipation of our customers' needs. Our machines can harvest six, eight, or twelve rows at one time. Along with being the first manufacturer to introduce a larger, 12-row harvester, we also sell a self-propelled unit produced by another manufacturer. During 2017, we introduced the 692Z model, which is a smaller, more contained model, commonly used by smaller producers. Our sugar beet defoliators cut and remove the leaves of the sugar beets without damaging them, and the leaf particles are then incorporated back into the soil.

*Hay and forage line.* We offer highly productive hay and forage tools for the full range of producers. This product line includes high capacity forage boxes for transporting hay from the field with optional running gear to provide superior stability and tracking. High velocity, high volume forage blowers are able to fill the tallest silos with lower power requirements. Cam action rotary rakes will gently lift the crop, carry it to the windrow and release it, saving more leaves and forming a faster drying, fluffier windrow.

*Augers line.* Our portable grain auger models are available painted white or hot dipped galvanized. Rolling hopper augers are constructed from 12 gauge tube and 1/4" flighting. These augers feature an internal drive with externally mounted gear boxes for proper venting and easier maintenance. Driveline augers are also available with either PTO or electric drive. These heavy-duty augers have a reversible gear box which permits PTO operation from either side.

*Manure spreaders line.* Roda manure spreaders are a well-known name with a rich tradition in the West North Central region of the United States with the origin of the spreaders dating back to the 1950s. We offer vertical and horizontal beaters and rear discharge manure spreaders in both truck-mount and pull-type configurations. Our products are ideal for spreading livestock manure, compost, and lime. We offer a scale system and a scale system with GPS for proper nutrient placement. These spreaders boast a heavy-duty and rugged design with one of the best spread patterns in the industry, allowing for efficient and consistent nutrient and land management.

*Reels line.* In May of 2012 we purchased the assets of UHC and began selling reels for combines and swathers as UHC by Art's-Way. These reels have a unique flip over action for self-cleaning in adverse conditions. They are manufactured with extruded aluminum creating a light-weight yet strong reel.

## **Product Distribution and Markets**

We distribute goods for our Agricultural Products segment primarily through a network of approximately 1,500 U.S. and Canadian independent dealers, as well as overseas dealers in the U.K. and Australia, whose customers require specialized agricultural machinery. We have sales representation in 48 states and seven Canadian provinces; however, many dealers sell only service parts for our products. Our dealers sell our products to various agricultural and commercial customers. We also maintain a local sales force in our Armstrong, Iowa facility to provide oversight services for our distribution network, communicate with end users, and recruit and train dealers on the uses of our products. Our local service parts staff is available to help customers and dealers with their service parts needs. Our Modular Buildings segment typically sells products customized to the end-users' requirements directly to the end-users. Our Tools segment distributes products through manufacturers' representatives, direct sales, and OEM sales channels.

We currently export products to four foreign countries. We have been shipping grinder mixers abroad since 2006 and have exported portable rollermills and sugar beet harvesters as well. We continue to strengthen these relationships and intend to develop new international markets. Our international sales accounted for 7.1% of consolidated sales during the 2017 fiscal year.

*Backlog.* Our backlogs of orders vary on a daily basis. As of January 29, 2018, our Tools segment had approximately \$121,000 of backlog, our Modular Buildings segment had approximately \$151,000 of backlog, and our Agricultural

Products segment had a net backlog of approximately \$4,214,000. While our backlog from our Agricultural Products Segment is down from \$4,322,000 at the same time last year, our backlog last year included passthrough income from self-propelled beet equipment around \$1,300,000 and backlog from our Agro Trend around \$70,000. We expect that our order backlogs will continue to fluctuate as orders are received, filled, or cancelled, and, due to dealer discount arrangements we may enter into from time to time, these figures are not necessarily indicative of future revenue.

### **Recent Product Developments**

During the 2017 fiscal year, development in our Agricultural Products segment consisted of several products. We introduced the 7165 grinder mixer, which replaced our 6530 model. This model has a beefed up jack shaft and bearing to withstand additional stresses from newer tractors, a hydraulic cooler to allow for more efficient use of hydraulic oil, and various other improvements aimed at improved efficiencies. We introduced our commercial forage box, which has an all-welded design for greater strength and features polished stainless steel sides. The forage box is paired with a rugged chassis that is designed for a smooth, stable ride. We also introduced the 692-Z sugar beet harvester. This smaller sugar beet harvester has a new gear box design, heavy duty frame and lifters, and standardized components for ease of maintenance.

Our Tools and Modular Buildings segments completed projects based on customer specifications and did not engage in specific product development during the 2017 fiscal year.

## Competition

In addition to the competitive strengths of each of our segments described below, we believe our diversified revenue base helps to provide protection against competitive factors in any one industry. Our Modular Buildings and Tools segments provide us with diversified revenues rather than solely relying on our Agricultural Products segment. We are also diversified on the basis of our sales presence and customer base.

### *Agricultural Products*

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

Management believes that grain and livestock producers, as well as those who provide services to grain and livestock operations, are the primary purchasers of agricultural equipment. Many factors influence a buyer's choice for agricultural equipment. Any one or all factors may be determinative, but they include brand loyalty, the relationship with dealers, product quality and performance, product innovation, product availability, parts and warranty programs, price, and customer service.

While our larger competitors may have resources greater than ours, we believe we compete effectively in the farm equipment industry by serving smaller markets in specific product areas rather than directly competing with larger competitors across an extensive range of products. Our Agricultural Products segment caters to niche markets in the agricultural industry. We do not have a direct competitor that has the same product offerings that we do. Instead, each of our product lines competes with similar products of many other manufacturers. Some of our product lines face greater competition than others, but we believe that our products are competitively priced with greater diversity than most competitor product lines. Other companies produce feed processing equipment, sugar beet harvesting and defoliating equipment, grinders, and other products similar to ours; therefore, we focus on providing the best product available at a reasonable price. Overall, we believe our products are competitively priced with above average quality and performance, in a market where price, product performance, and quality are principal elements.

In addition, in order to capitalize on brand recognition for our Agricultural Products segment, we have numerous product lines produced under our labels and private labels, and we have made strategic acquisitions to strengthen our dealer base. We also provide aftermarket service parts which are available to keep our branded and OEM-produced equipment operating to the satisfaction of the customer. We sell products to customers in the United States and four foreign countries through a network of approximately 1,500 independent dealers in the United States and Canada, as well as overseas dealers in the United Kingdom and Australia.

We believe that our competitive pricing, product quality and performance, network of worldwide and domestic distributors, and strong market share for many of our products allow us to compete effectively in the agricultural products market.

### *Modular Buildings*

We expect continued competition from our Modular Buildings segment's existing competitors, which include conventional design/build firms, as well as competition from new entrants into the modular building market. To some extent, we believe barriers to entry in the modular building industry limit the competition we face in the industry. Barriers to entry in the market consist primarily of access to capital, access to a qualified labor pool, and the bidding process that accompanies many jobs in the health and education markets. Despite these barriers, manufacturers who have a skilled work force and adequate production facilities could adapt their manufacturing facilities to produce modular structures.

We believe the competitive strength of our Modular Buildings segment is our ability to design and produce high-tech modular buildings more quickly than conventional design/build firms. Conventional design/build construction may take two to five years, while our modular laboratories can be delivered in as little as six months. As one of the few companies in the industry to supply turnkey modular buildings and laboratories, we believe we provide high-quality buildings at reasonable prices that meet our customers' time, flexibility, and security expectations.

### *Tools*

We expect competition in our Tools segment from off shore products that have gained market share over the last twenty years. Our greatest threat continues to be emerging technologies that replace the need for brazed tools. These competitive threats are countered by our ability to offer the widest range of standard carbide tipped brazed tool inventories to be found in North America. These inventories are strategically located in four warehouses across the U.S., enabling our customers to receive product quickly with minimal shipping costs. Our ability to produce special, engineered, value-added products in volume with short lead times sets us apart from our competitors. This is most evident in certain segments of the pipe processing industry, where we have been able to establish and maintain market share despite efforts from companies significantly larger than ourselves.

## **Raw Materials, Principal Suppliers, and Customers**

Raw materials for our various segments are acquired from domestic and foreign sources and normally are readily available. Currently, we purchase the lifter wheels used to manufacture our sugar beet harvesters from a supplier located in China. We also purchase manure spreader beaters from a supplier in Italy. However, these suppliers are not principal suppliers and there are alternative sources for these materials.

We have an OEM supplier agreement with Case New Holland (“CNH”) for our Agricultural Products segment. Under the OEM agreement, we have agreed to supply CNH’s requirements for certain feed processing and service parts, primarily blowers, under CNH’s label. The agreement has no minimum requirements and can be cancelled upon certain conditions. The initial term of the agreement with CNH ran through September 2006, but the agreement continues in force until terminated or cancelled by either party. Neither party has terminated or cancelled the agreement as of November 30, 2017. We also sell reels to Honey Bee and Agco under an OEM agreement. For the year ended November 30, 2017, sales to OEM customers were approximately 4% of consolidated sales compared to 5% in 2016.

We do not rely on sales to one customer or a small group of customers. During the year ended November 30, 2017, no one customer accounted for more than 4% of consolidated revenues.

## **Intellectual Property**

We maintain manufacturing rights on several products, which cover unique aspects of design. We also have trademarks covering product identification. We believe our trademarks and licenses help us to retain existing business and secure new relationships with customers. The duration of these rights ranges from 5 to 10 years, with options for renewal. We currently have no pending applications for intellectual property rights.

We pay royalties for our use of certain manufacturing rights. Under our OEM and royalty agreement with CNH, CNH sold us the license to manufacture, sell, and distribute certain plow products designed by CNH and their replacement and component parts. We pay semi-annual royalty payments based on the invoiced price of each licensed product and service part we sell. During the third quarter of the 2016 fiscal year we entered into a licensing and royalty agreement with Martin Harvesting, LLC to produce a commercial forage box in exchange for royalty payments until August 2026. Our rights to manufacture and sell this product do not expire, but we will pay a royalty amount based on the sales price of each licensed product we sell. In the first quarter of the 2017 fiscal year we entered into a licensing and royalty agreement with Spreader, LLC to produce a loader mounted spreader in exchange for royalty payments until December 2027.



### **Research and Development Activities**

Our Agricultural Products segment is continually engaged in research and development activities to improve and enhance our existing products. We perform research and development activities internally, and the cost of our research and development activities is not borne by our customers. Our research and development expenses are cyclical; they may be high in one year, but would tend to be lower the next, with an increase in production expenses as our new ideas are manufactured. Research and development expenses during our 2017 fiscal year accounted for \$183,000 of our total consolidated engineering expenses compared to \$140,000 during our 2016 fiscal year.

Our Tools segment produces standard cutting tools and inserts and special tools per customer specifications, and our Modular Buildings segment designs modular buildings in accordance with customer specifications. As a result, we have no research and development expenses for these segments.

### **Government Relationships and Regulations; Environmental Compliance**

Our Modular Buildings segment must design, manufacture, and install its modular buildings in accordance with state building codes, and we have been able to achieve the code standards in all instances. In addition, we are subject to various federal, state, and local laws and regulations pertaining to environmental protection and the discharge of materials into the environment. We do not expect that the cost of complying with these regulations will have a material impact on our consolidated results of operations, financial position, or cash flows.

## **Employees**

As of November 30, 2017, we employed approximately 88 employees in our Agricultural Products segment, four of whom were employed on a part-time basis. As of the same date, we had 17 employees in our Tools segment, one of whom was employed on a part-time basis. Nearly all of the employees in our Tools segment are represented by a union and covered by a collective bargaining agreement. In addition, our Modular Buildings segment employed approximately 13 employees as of the same date, three of whom worked on a part-time basis. These numbers do not necessarily represent peak employment during the 2017 fiscal year.

## **Item 1A. RISK FACTORS.**

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

## **Item 1B. UNRESOLVED STAFF COMMENTS.**

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

## **Item 2. PROPERTIES.**

Our executive offices, as well as the primary production and warehousing facilities for our Agricultural Products segment, are located in Armstrong, Iowa. These facilities were constructed after 1965 and remain in fair condition. The facilities in Armstrong contain approximately 249,000 square feet of usable space. We have engaged in several building improvement projects during the last several years and plan to complete a reroofing project over the next several years. In addition, we own approximately 127 acres of land west of Armstrong, on which the factory and inventory storage space is situated for our Agricultural Products segment.

We purchased an office, production, and warehousing facility for our Agricultural Products segment located in West Union, Iowa on approximately 29 acres in fiscal 2010. The property is in good condition and contains approximately 190,000 square feet of usable space. A substantial portion of the facility has been leased to third parties and we are currently using the remainder of the space for inventory storage. This property is currently available for sale.

In connection with the acquisition of certain assets of UHC in May 2012, we also purchased the land and building used for manufacturing of the products sold by UHC, located in Ames, Iowa. We sold this facility, which contained approximately 41,640 square feet of usable space and land of approximately 10 acres, on February 10, 2016 for \$1,192,000. After closing expenses, we recognized a gain on the sale of \$36,000.

We entered into a two-year lease agreement on April 22, 2015 for a 14,000 square foot facility in Listowel, Ontario, Canada in order to manufacture, market and sell Agro Trend products from Canada. This facility was used in connection with our Agricultural Products segment. We vacated the premises as of December 31, 2017 following the sale of the Agro Trend product line.

In February 2008, we completed construction on a facility in Dubuque, Iowa, which was used for our discontinued Pressurized Vessels segment. The facility is 34,450 square feet, steel-framed, with a crane that runs the length of the building. A paint booth and a blast booth were installed in the first quarter of the 2009 fiscal year. In January 2018, we accepted an offer on the remaining assets for \$1,500,000. We anticipate closing on the disposition of these assets in the second quarter of fiscal 2018.

We completed construction in November 2007 of our facility in Monona, Iowa, which houses the manufacturing for our Modular Buildings segment. The facility was custom-designed to meet our production needs. It has approximately 50,000 square feet of useable space and accommodates a sprinkler system and crane.

In connection with the acquisition of certain assets of Ohio Metal Working Products Company in September 2013, we also purchased the land and building used for manufacturing of the products sold by Ohio Metal Working Products Company, located in Canton, Ohio. The building contains approximately 39,000 square feet of usable space and is in good condition. The purchased land is approximately 4.50 acres and is used in connection with our Tools segment.

Our owned real property in West Union, Iowa is subject to a mortgage granted to The First National Bank of West Union (n/k/a Bank 1st) as security for a term loan. All of our remaining owned real property is subject to mortgages granted to Bank Midwest as security for our long-term debt and our line of credit. See “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Liquidity and Capital Resources” for more information.

**Item 3. LEGAL PROCEEDINGS.**

From time to time in the ordinary course of business, we may be named as a defendant in legal proceedings incidental to the business, including without limitation, workers' compensation claims, tort claims, or contractual disputes. We are not currently involved in any material legal proceedings, directly or indirectly, and we are not aware of any claims pending or threatened against us or any of the directors that could result in the commencement of material legal proceedings.

**Item 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II**

**Item 5. Market for REGISTRANT’S Common Equity, Related Stockholder Matters AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**Market Information**

Our common stock trades on the NASDAQ Stock Market LLC under the symbol “ARTW.” The ranges of high and low sales prices for each quarter, as reported by NASDAQ, are shown below.

	<b>Common Stock High and Low Sales Prices Per Share by Quarter</b>			
	<b>Fiscal Year Ended November 30, 2017</b>		<b>Fiscal Year Ended November 30, 2016</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
<b>First Quarter</b>	\$4.70	\$2.95	\$3.30	\$2.46
<b>Second Quarter</b>	\$4.15	\$3.00	\$3.25	\$2.70
<b>Third Quarter</b>	\$3.36	\$2.05	\$3.16	\$2.50
<b>Fourth Quarter</b>	\$3.40	\$2.00	\$3.25	\$2.80

**Stockholders**

We have two classes of stock, undesignated preferred stock and \$0.01 par value common stock. No shares of preferred stock have been issued or are outstanding. As of January 30, 2018, we had 89 common stock stockholders of record, which number does not include stockholders who hold our common stock in street name.

**Dividends**

We did not pay a dividend during the 2017 or the 2016 fiscal year. We expect that the payment of and the amount of any future dividends will depend on our financial condition at that time.

### **Unregistered Sales of Equity Securities**

None.

### **Purchases of Equity Securities by the Company**

None.

### **Equity Compensation Plans**

For information on our equity compensation plans, refer to Item 12, "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS."

### **Item 6. SELECTED FINANCIAL DATA.**

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

### **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*This report contains forward-looking statements that involve significant risks and uncertainties. The following discussion, which focuses on our results of operations, contains forward-looking information and statements. Actual events or results may differ materially from those indicated or anticipated, as discussed in the section entitled "Forward Looking Statements." The following discussion of our financial condition and results of operations should also be read in conjunction with our financial statements and notes to financial statements contained in Item 8 of this report.*



## **Financial Position**

We believe that our consolidated balance sheet indicates a stable financial position. During the 2017 fiscal year, we decreased our total liabilities by \$1,378,000, a 14.1% decrease compared to our total liabilities at the end of the 2016 fiscal year. We were able to decrease these liabilities even while sustaining operating losses. We expect our access to capital will continue to provide future cash for equipment investments, acquisitions, or debt pay down. During the 2017 fiscal year, our working capital decreased approximately \$1,182,000, primarily as a result of the adoption of ASU 2015-17, "Income Taxes (Topic 740)", which simplified the presentation of deferred income taxes, and required all deferred income taxes to be classified as noncurrent. This was somewhat mitigated by the increase in our accounts receivable balance from 2016 to 2017 as a result of higher shipments in our fourth quarter year over year. Other factors impacting our working capital were our planned reduction in inventories and the reclassification of debt, as we were able to refinance our term debt under more favorable terms during 2017, and a larger portion is now due in future years. We have approximately \$2,537,000 available on our line of credit as of November 30, 2017.

## **Critical Accounting Policies**

Our significant accounting policies are described in Note 1 to our Consolidated Financial Statements contained in Item 8 of this report, which were prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). Critical accounting policies are those that we believe are both important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We believe that the following discussion represents the most critical accounting policies and estimates used in the preparation of our consolidated financial statements, although it is not inclusive.

### *Inventories*

Inventories are stated at the lower of cost or net realizable value, and cost is determined using the standard costing method. Management monitors the carrying value of inventories using inventory control and review processes that include, but are not limited to, sales forecast review, inventory status reports, and inventory reduction programs. We record inventory write downs to net realizable value based on expected usage information for raw materials and historical selling trends for finished goods. If the assumptions made by management do not occur, we may need to record additional write downs.



*Revenue Recognition*

Revenue is recognized when risk of ownership and title pass to the buyer, generally upon the shipment of the product. All sales are made to authorized dealers whose application for dealer status has been approved and who have been informed of general sales policies. Any changes in our terms are documented in the most recently published price lists. Pricing is fixed and determinable according to our published equipment and parts price lists. Title to all equipment and parts sold shall pass to the buyer upon delivery to the carrier and is not subject to a customer acceptance provision. Proof of the passing of title is documented by the signing of the delivery receipt by a representative of the carrier. Post shipment obligations are limited to any claim with respect to the condition of the equipment or parts. A provision for warranty expenses, based on sales volume, is included in the financial statements. Our returns policy allows for new and saleable parts to be returned, subject to inspection and a restocking charge, which is included in net sales. Whole goods are not returnable. Shipping costs charged to customers are included in net sales. Freight costs incurred are included in cost of goods sold. Customer deposits consist of advance payments from customers, in the form of cash, for revenue to be recognized in the following year.

In certain circumstances, upon the customer's written request, we may recognize revenue when production is complete and the good is ready for shipment. At the buyer's request, we will bill the buyer upon completing all performance obligations, but before shipment. The buyer dictates that we ship the goods per their direction from our manufacturing facility, as is customary with this type of agreement, in order to minimize shipping costs. The written agreement with the customer specifies that the goods will be delivered on a schedule to be determined by the customer, with a final specified delivery date, and that we will segregate the goods from our inventory, such that they are not available to fill other orders. This agreement also specifies that the buyer is required to purchase all goods manufactured under this agreement. Title of the goods will pass to the buyer when the goods are complete and ready for shipment, per the customer agreement. At the transfer of title, all risks of ownership have passed to the buyer, and the buyer agrees to maintain insurance on the manufactured items that have not yet been shipped. We have operated using bill and hold agreements with certain customers for many years, with consistent satisfactory results for both buyer and seller. The credit terms on this agreement are consistent with the credit terms on all other sales. All risks of loss are shouldered by the buyer, and there are no exceptions to the buyer's commitment to accept and pay for these manufactured goods. Revenues recognized at the completion of production in the 2017 and 2016 fiscal years were approximately \$184,000 and \$424,000, respectively.

Our Modular Buildings segment is in the construction industry and, as such, accounts for long-term contracts on the percentage-of-completion method. Revenue and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Contract losses are recognized when current estimates of total contract revenue and contract cost indicate a loss. Estimated contract costs include any and all costs appropriately allocable to the contract. The provision for these contract losses will be the excess of estimated contract costs over estimated contract revenues.

Costs and profit in excess of amounts billed are classified as current assets and billings in excess of cost and profit are classified as current liabilities.

## **Results of Operations – Continuing Operations**

### *Fiscal Year Ended November 30, 2017 Compared to Fiscal Year Ended November 30, 2016*

Our consolidated net sales for continuing operations totaled \$20,715,000 for the 2017 fiscal year, which represents a 3.9% decrease from our consolidated net sales of \$21,558,000 for the 2016 fiscal year. The decrease in revenue is due to decreased sales in our Modular Buildings and Agricultural Products segments. We are experiencing decreased demand of nearly all our agricultural products, including modular buildings geared towards agricultural production. Our consolidated gross profit decreased as a percentage of net sales to 19.7% in 2017 from 24.7% of net sales in 2016. Measures taken during the year to control our costs did not completely offset the impact of declining revenues as compared to relatively stable fixed costs. We also experienced decreased efficiencies in our production process due to the introduction of several new products. Our consolidated operating expenses increased by 0.9%, from \$5,751,000 in 2016 to \$5,804,000 in 2017. Because the majority of our corporate general and administrative expenses are borne by our Agricultural Products segment, that segment represented \$4,173,000 of our total consolidated operating expenses, while our Modular Buildings segment represented \$806,000 and our Tools segment represented \$825,000.

Our consolidated operating loss from continuing operations for the 2017 fiscal year was \$(1,722,000) compared to an operating loss of \$(431,000) for the 2016 fiscal year. Our Agricultural Products segment had an operating loss of \$(1,381,000), our Modular Buildings segment had an operating loss of \$(313,000), and our Tools segment had an operating loss of \$(28,000).

Consolidated net loss for the 2017 fiscal year was \$(1,369,000) for continuing operations compared to net loss of \$(426,000) in the 2016 fiscal year for continuing operations, an increase in loss of \$943,000. This increased loss is primarily a result of inefficiencies in the production of new products in our Agricultural Products segment, coupled with soft demand that resulted in lower net sales in our Agricultural Products and Modular Buildings segments. Net loss from our discontinued Pressurized Vessels segment was \$(268,000) in the 2017 fiscal year compared to

\$(395,000) in the 2016 fiscal year.

Our effective tax rate for continuing operations for the 2017 and 2016 fiscal years was 23.6% and 18.5%, respectively.

*Agricultural Products.* Our Agricultural Products segment's sales revenue for the 2017 fiscal year was \$15,407,000 compared to \$15,756,000 during the 2016 fiscal year, a decrease of \$349,000, or 2.2%. While we didn't experience significant decreases in demand for agricultural products as compared to 2016, the mix of products sold in 2017 was very different from 2016. A large portion of these sales were for products introduced in 2017, which currently have lower margins and negatively impacted our production efficiency. Also during 2017, in order to improve cash flow we made the decision to sell certain excess whole goods at reduced margins. Gross profit for the 2017 fiscal year was 18.1% compared to 24.2% for the 2016 fiscal year. The continued depressed sales levels in our Agricultural Products segment is not unlike all other companies that serve this market, both large and small. We do not believe that the sales levels in the 2017 fiscal year represent a loss of market share, but rather lower demand in the overall market place for agricultural equipment. We anticipate the decreased market demand to continue through the 2018 fiscal year.

Our Agricultural Products segment's operating expenses for the 2017 fiscal year were \$4,173,000 compared to \$4,191,000 for the 2016 fiscal year, a decrease of \$18,000 or 0.4%. In the 2017 fiscal year, operating expenses included a one-time non-cash expense of \$70,000 for the impairment of a paint booth previously used in our Ames facility. We also increased spending in our engineering department in order to introduce several new products in a shortened time period. This segment's operating expenses for the 2017 fiscal year were 27.1% of sales compared to 26.6% of sales for the 2016 fiscal year. Total loss from operations for our Agricultural Products segment during the 2017 fiscal year was \$(1,381,000) compared to an operating loss of \$(378,000) for the 2016 fiscal year, an increase in loss of \$1,003,000.

*Modular Buildings.* Our Modular Buildings segment's net sales for the 2017 fiscal year were \$2,700,000 compared to \$3,674,000 for the 2016 fiscal year, a decrease of \$974,000, or 26.5%. We experienced a significant decrease in demand for our buildings that are used in agricultural production. Gross profit for the 2017 fiscal year was \$493,000 compared to \$978,000 during the 2016 fiscal year. Operating expenses for the 2017 fiscal year were \$806,000 compared to \$890,000 for the 2016 fiscal year. Total loss from operations from our Modular Buildings segment during the 2017 fiscal year was \$(313,000) compared to operating income of \$88,000 in the 2016 fiscal year, a decrease of \$401,000.

*Tools.* Our Tools segment's net sales for the 2017 fiscal year were \$2,608,000 compared to \$2,128,000 for the 2016 fiscal year, an increase of \$480,000, or 22.6%. We believe this increase is partially due to an increase in market demand in the energy industry, but a portion is also a result of our increased focus on the specialty and precision side of the business. Gross profit for the 2017 fiscal year was 30.6% compared to 24.9% for the 2016 fiscal year. These increases were directly related to increased sales volumes. Operating expenses were \$825,000 for the 2017 fiscal year compared to \$670,000 for the 2016 fiscal year, an increase of \$155,000, or 23.1%. This increase is largely due to increased commissions and selling expenses related to the addition of our Director of Sales and Marketing.

## **Results of Operations – Discontinued Operations**

During the third quarter of the 2016 fiscal year, we made the decision to exit the pressure vessels industry and are currently working to liquidate the assets. Our Pressurized Vessels segment's net sales for the 2017 fiscal year were \$0 compared to \$1,598,000 for the 2016 fiscal year. We continued to incur expenses during 2017 due to holding the facility in Dubuque, Iowa. In January 2018, we accepted an offer on the remaining assets for \$1,500,000. We anticipate closing on the disposition of these assets in the second quarter of fiscal 2018. Based on this offer, we have recorded an impairment to our assets of \$289,000 in the 2017 fiscal year. Our pretax loss in 2017 was \$(401,000) compared to \$(617,000) in 2016, a decrease of \$216,000, or 35.0%.

## **Trends and Uncertainties**

We are subject to a number of trends and uncertainties that may affect our short-term or long-term liquidity, sales revenues, and operations. Similar to other farm equipment manufacturers, we are affected by items unique to the farm industry, including fluctuations in farm income resulting from the change in commodity prices, crop damage caused by weather and insects, government farm programs, interest rate fluctuations, and other unpredictable variables. Other uncertainties include our OEM customers and the decisions they make regarding their current supply chain structure, inventory levels, and overall business conditions. Management believes that our business is dependent on the farming industry for the bulk of our sales revenues. As such, our business tends to reap the benefits of increases in farm net income, as farmers tend to purchase equipment in lucrative times and forgo purchases in less profitable years. Direct government payments are declining and costs of agricultural production are increasing; therefore, we anticipate that further increases in the value of production will benefit our business, while any future decreases in the value of

production will decrease farm net income and may harm our financial results.

As with other farm equipment manufacturers, we depend on our network of dealers to influence customers' decisions, and dealer influence is often more persuasive than a manufacturer's reputation or the price of the product.

### **Seasonality**

Sales of our agricultural products are seasonal; however, we have tried to decrease the impact of this seasonality through the development of beet harvesting machinery coupled with private labeled products, as the peak periods for these different products occur at different times.

We believe that our tool sales are not seasonal. Our modular building sales are somewhat seasonal, and we believe that this is due to the budgeting and funding cycles of the universities that commonly purchase our modular buildings. We believe that this cycle can be offset by building backlogs of inventory and by increasing sales to other public and private sectors.

### **Liquidity and Capital Resources**

Our main source of funds during the 2017 fiscal year was cash generated by operating activities, which was primarily due to inventory reductions, and amounts available under our revolving line of credit. We used \$514,000 of cash to update facilities and equipment.

On September 28, 2017, we entered into a new credit facility with Bank Midwest, which superseded and replaced in its entirety our previous credit facility with U.S. Bank National Association (“U.S. Bank”). The Bank Midwest credit facility consists of a \$5,000,000 revolving line of credit, pursuant to which we had borrowed \$2,462,530 as of November 30, 2017, with \$2,537,470 remaining available, and two term loans, which had outstanding principal balances of \$2,595,000, and \$600,000 as of November 30, 2017. Proceeds of the new line of credit and two term loans were used to refinance all of the indebtedness outstanding under the U.S. Bank credit facility in the amount of approximately \$6,562,030, which consisted of \$6,528,223 in unpaid principal and approximately \$33,807 in accrued and unpaid interest and fees. The revolving line of credit is being used for working capital purposes.

We also have a loan relating to our production facility in West Union, Iowa, from the Iowa Finance Authority, which had an outstanding balance of \$375,000 as of November 30, 2017.

Our loans require us to comply with various covenants, including maintaining certain financial ratios and obtaining prior written consent from Bank Midwest for any investment in, acquisition of, or guaranty relating to another business or entity. We were in compliance with all covenants in place under Bank Midwest as of November 30, 2017 except for the debt service coverage ratio as measured on November 30, 2017. We were also in compliance with all covenants under the Iowa Finance Authority loan agreement except for the debt service coverage ratio as measured on November 30, 2017. The First National Bank of West Union and Bank Midwest have issued waivers forgiving the noncompliance for the year ended November 30, 2017, and no event of default has occurred.

For additional information about our financing activities, please refer to Note 10 to the audited consolidated financial statements contained in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

The following table represents our working capital and current ratio for the past two fiscal years:

	<b>Fiscal Year Ended</b>	
	<b>November 30, 2017</b>	<b>November 30, 2016</b>
Current Assets	\$ 14,432,771	\$ 17,621,919
Current Liabilities	5,049,756	7,056,506
Working Capital	\$ 9,383,015	\$ 10,565,413
Current Ratio	2.86	2.50

We believe that our current cash and financing arrangements provide sufficient cash to finance operations for the next 12 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

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

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**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

Art's-Way Manufacturing Co., Inc.

Armstrong, Iowa

We have audited the accompanying consolidated balance sheets of Art's-Way Manufacturing Co., Inc. and Subsidiaries (the Company) as of November 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Art's-Way Manufacturing Co., Inc. and Subsidiaries as of November 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for deferred income taxes by adopting the provisions of FASB Accounting Standards Update 2015-17, Income Taxes, and also changed its method of accounting for inventory by adopting FASB Accounting Standards Update 2015-11, Inventory. Our opinion is not modified with respect to these matters.

/s/ Eide Bailly

Minneapolis, Minnesota

February 7, 2018

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

## Consolidated Balance Sheets

	<b>November 30, 2017</b>	<b>November 30, 2016</b>
<b>Assets</b>		
Current assets:		
Cash	\$212,400	\$1,063,716
Accounts receivable-customers, net of allowance for doubtful accounts of \$32,298 and \$22,746 in 2017 and 2016, respectively	1,910,294	1,420,051
Inventories, net	11,966,722	13,529,352
Deferred income taxes	-	1,066,740
Cost and profit in excess of billings	65,146	108,349
Income taxes receivable	-	265,924
Assets of discontinued operations	2,454	9,700
Other current assets	275,755	158,087
Total current assets	14,432,771	17,621,919
Property, plant, and equipment, net	5,946,957	7,387,187
Assets held for lease, net	1,217,164	-
Assets held for sale, net	-	70,000
Deferred income taxes	901,396	-
Goodwill	375,000	375,000
Other assets of discontinued operations	1,425,000	1,745,528
Other assets	81,545	42,956
Total assets	\$24,379,833	\$27,242,590
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Line of credit	\$2,462,530	\$3,284,114
Current portion of long-term debt	221,230	1,807,937
Accounts payable	673,653	469,481
Customer deposits	600,325	289,195
Billings in Excess of Cost and Profit	48,211	4,297
Accrued expenses	981,558	1,019,056
Liabilities of discontinued operations	59,149	182,426
Income taxes payable	3,100	-
Total current liabilities	5,049,756	7,056,506
Long-term liabilities		
Deferred taxes	-	737,519
Long-term liabilities of discontinued operations	590,366	585,168
Long-term debt, excluding current portion	2,748,677	1,387,118
Total liabilities	8,388,799	9,766,311
Commitments and Contingencies (Notes 9, 10 and 16)		
Stockholders' equity:		

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Undesignated preferred stock - \$0.01 par value. Authorized 500,000 shares in 2017 and 2016; issued and outstanding 0 shares in 2017 and 2016.	-	-
Common stock – \$0.01 par value. Authorized 9,500,000 shares in 2017 and 2016; issued and outstanding 4,158,752 in 2017 and 4,109,052 in 2016	41,587	41,091
Additional paid-in capital	2,859,052	2,746,509
Retained earnings	13,353,830	14,990,911
Accumulated other comprehensive loss	(257,010 )	(302,232 )
Treasury stock, at cost (1,954 in 2017 and 0 in 2016 shares)	(6,425 )	-
Total stockholders' equity	15,991,034	17,476,279
Total liabilities and stockholders' equity	\$24,379,833	\$27,242,590

See  
 accompanying  
 Report of  
 Independent  
 Registered  
 Public  
 Accounting  
 Firm and notes  
 to consolidated  
 financial  
 statements.

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

## Consolidated Statements of Operations

	Years Ended	
	<b>November 30, 2017</b>	<b>November 30, 2016</b>
Sales	\$20,715,080	\$21,557,649
Cost of goods sold	16,632,979	16,237,766
Gross profit	4,082,101	5,319,883
Expenses:		
Engineering	501,182	429,910
Selling	1,889,461	1,838,971
General and administrative	3,343,500	3,437,591
Impairment of assets	70,000	44,858
Total expenses	5,804,143	5,751,330
(Loss) from operations	(1,722,042 )	(431,447 )
Other income (expense):		
Interest expense	(319,622 )	(248,580 )
Other	248,507	157,244
Total other income (expense)	(71,115 )	(91,336 )
Income	(1,793,157 )	(522,783 )
Income tax (benefit)	(423,798 )	(96,601 )
(Loss) from continuing operations	(1,369,359 )	(426,182 )
Discontinued Operations		
Loss from operations of discontinued segment	(400,739 )	(617,425 )
Income tax benefit	(133,017 )	(222,273 )
Loss on discontinued operations	(267,722 )	(395,152 )
Net (Loss)	(1,637,081 )	(821,334 )
(Loss) per share - Basic:		
Continuing Operations	\$(0.33 )	\$(0.10 )
Discontinued Operations	\$(0.06 )	\$(0.10 )
Net Income (Loss) per share	\$(0.39 )	\$(0.20 )
(Loss) per share - Diluted:		
Continuing Operations	\$(0.33 )	\$(0.10 )
Discontinued Operations	\$(0.06 )	\$(0.10 )
Net Income (Loss) per share	\$(0.39 )	\$(0.20 )
Weighted average outstanding shares used to compute basic net loss per share	4,151,406	4,097,748
Weighted average outstanding shares used to compute diluted net loss per share	4,151,406	4,097,748

See  
accompanying  
Report of  
Independent  
Registered  
Public  
Accounting  
Firm and notes  
to consolidated  
financial  
statements.

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

Consolidated Statements of Comprehensive Income

	Years Ended	
	<b>November</b>	<b>November</b>
	<b>30, 2017</b>	<b>30, 2016</b>
Net (Loss)	\$(1,637,081)	\$(821,334 )
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments	45,222	(302,232 )
Total Other Comprehensive Income (Loss)	45,222	(302,232 )
Comprehensive (Loss)	\$(1,591,859)	\$(1,123,566)

See accompanying Report of Independent Registered Public Accounting Firm and notes to consolidated financial statements.

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

## Consolidated Statements of Stockholders' Equity

Years Ended November 30, 2017 and 2016

	<b>Common Stock Number of shares</b>	<b>Par value</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Other Comprehensive Income (Loss)</b>	<b>Treasury Stock Number of shares</b>	<b>Amount</b>	<b>Total</b>
Balance, November 30, 2015	4,061,052	\$40,611	\$2,667,010	\$15,812,245	\$-	\$-	\$-	\$18,519,866
Stock based compensation	48,000	480	79,499	-	-	-	-	79,979
Foreign Currency Translation Adjustment	-	-	-	-	(302,232 )	-	-	(302,232 )
Net (loss)	-	-	-	(821,334 )	-	-	-	(821,334 )
Balance, November 30, 2016	4,109,052	\$41,091	\$2,746,509	\$14,990,911	\$(302,232 )	\$-	\$-	\$17,476,279
Stock based compensation	49,700	496	112,543	-	-	1,954	(6,425 )	106,614
Foreign Currency Translation Adjustment	-	-	-	-	45,222	-	-	45,222
Net (loss)	-	-	-	(1,637,081 )	-	-	-	(1,637,081 )
Balance, November 30, 2017	4,158,752	\$41,587	\$2,859,052	\$13,353,830	\$(257,010 )	1,954	\$(6,425 )	\$15,991,034

See accompanying Report of Independent Registered Public Accounting Firm and notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

	Twelve Months Ended	
	<b>November</b>	<b>November</b>
	<b>30, 2017</b>	<b>30, 2016</b>
Cash flows from operations:		
Net (loss) from continuing operations	\$(1,369,359)	\$(426,182 )
Net (loss) from discontinued operations	(267,722 )	(395,152 )
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Stock based compensation	113,039	79,979