

ARTS WAY MANUFACTURING CO INC  
Form 10-K  
February 03, 2016

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K**

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended November 30, 2015

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-5131

**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)

Securities registered under 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 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 Smaller reporting company

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 29, 2015 as reported on the NASDAQ Stock Market LLC (\$5.00 per share), was approximately \$11,158,555.

As of January 19, 2016, there were 4,061,052 shares of the registrant's common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2015, are incorporated by reference into Part III of this Form 10-K.



Art's-Way Manufacturing Co., Inc.

Index to Annual Report on Form 10-K

|   | <b>Page</b> |
|---|-------------|
| <b><u>Part I</u></b>  |             |
| <b>Item 1. BUSINESS</b>   | <b>4</b>    |
| <b>Item 1A. RISK FACTORS</b>  | <b>10</b>   |
| <b>Item 1B. UNRESOLVED STAFF COMMENTS</b>   | <b>10</b>   |
| <b>Item 2. PROPERTIES</b>   | <b>10</b>   |
| <b>Item 3. LEGAL PROCEEDINGS</b>  | <b>11</b>   |
| <b>Item 4. MINE SAFETY DISCLOSURES</b>  | <b>11</b>   |
| <b><u>Part II</u></b>   |             |
| <b>Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</b> | <b>12</b>   |
| <b>Item 6. SELECTED FINANCIAL DATA</b>  | <b>12</b>   |
| <b>Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b>                        | <b>12</b>   |
| <b>Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</b>   | <b>16</b>   |
| <b>Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</b>  | <b>17</b>   |
| <b>Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</b>                         | <b>36</b>   |
| <b>Item 9A. CONTROLS AND PROCEDURES</b>   | <b>36</b>   |
| <b>Item 9B. OTHER INFORMATION</b>   | <b>36</b>   |
| <b><u>Part III</u></b>  |             |
| <b>Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</b>  | <b>37</b>   |
| <b>Item 11. EXECUTIVE COMPENSATION</b>  | <b>37</b>   |
| <b>Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</b>              | <b>37</b>   |
| <b>Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</b>                                   | <b>37</b>   |
| <b>Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</b>  | <b>37</b>   |
| <b><u>Part IV</u></b>   |             |
| <b>Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</b>   | <b>38</b>   |



## 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. Forward-looking statements in this report generally relate to: our anticipated sale of our Ames, Iowa production facility; 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 continue to meet debt obligations and comply with financial covenants; obstacles related to integration of acquired product lines and businesses; 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; loan covenant restrictions on our ability to pay dividends; unexpected closing delays or changes to our contract for the sale of our Ames, Iowa production facility; 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, pressurized steel vessels, and steel cutting tools. 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 manufactures and distributes farm equipment under our own and private labels and includes the operations of our wholly-owned subsidiaries, Art's-Way Manufacturing International LTD, a Canadian company ("International") and Universal Harvester by Art's-Way, Inc., an Iowa corporation ("UHC by Art's-Way" or "UHC"), which was merged into the Company effective November 30, 2015. Our pressurized vessels segment manufactures pressure vessels through our wholly-owned subsidiary, Art's-Way Vessels, Inc., an Iowa corporation. Our modular building 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; and 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"). For detailed financial information relating to segment reporting, see Note 16 to our financial statements in Item 8 of this report.



## **Business of Our Segments**

### *Agricultural Products*

Our Agricultural Products segment, which accounted for 74.3% of our net revenue in the 2015 fiscal year and 77.3% of our net revenue in the 2014 fiscal year, is located primarily in our Armstrong, Iowa facility. The 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; stalk shredders; a line of hay and forage equipment consisting of forage boxes, blowers, running gear, dump boxes, balers and mergers; a line of portable grain augers; a line of manure spreaders; sugar beet harvesting equipment; a line of land maintenance equipment; moldboard plows; potato harvesters; reels for combines and swathers; and industrial grade snow blowers under Agro Trend by Art's-Way Manufacturing International LTD. 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 5% of our consolidated sales for the fiscal year ended November 30, 2015 and 9.5% of our consolidated sales for the fiscal year ended 2014. 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.

### *Pressurized Vessels*

Our Pressurized Vessels segment, which accounted for 5.8% of our net revenue in the 2015 fiscal year and 4.8% of our net revenue in the 2014 fiscal year, is located in Dubuque, Iowa. This segment produces and sells pressurized vessels, both American Society of Mechanical Engineers (ASME) code and non-code. It provides a combination of services as a manufacturer and supplier of steel vessels and steel containment systems. We build in carbon steel and stainless steel, ranging from atmospheric (0 PSI) storage vessels up to any PSI pressure rating required. We provide vessels ranging in size from 4 inches to 168 inches in diameter and in various lengths as our customers require. The vessels are primarily sold to manufacturing facilities that will use the vessel as a component part of their end product. We primarily serve the following industries: water treatment; air receivers; refineries; co-generation; chemical; petrochemical; storage tanks; agriculture; marine; refrigeration; hydro pneumatic; heavy equipment; pharmaceuticals and mining. In addition to our role as a fabricator of vessels, we provide services including: custom CAD drawing; welding; interior linings and exterior finishing; passivation of stainless steel; hydrostatic and pneumatic testing; design, build and finishing of skids; installation of piping; non-destructive examination and heat treating.

### *Modular Buildings*

Our Modular Buildings segment, which accounted for 11.4% of our net revenue in the 2015 fiscal year and 8.2% of our net revenue in the 2014 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, installing or renting the building units.

### *Tools*

Our Tools segment, which is located in Canton, Ohio, accounted for 8.5% of our net revenue in the 2015 fiscal year and 9.7% of our net revenue in the 2014 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.

## **Our Principal Products**

### *Agricultural Products*

From its 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 UHC in Ames, Iowa and began selling reels for combines and swathers as UHC by Art's-Way. In 2013, we acquired Agro Trend in Clifford, Ontario, through which we now sell industrial snow blowers and agricultural trailers as Art's-Way Manufacturing International LTD. 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, potato harvesting, 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 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. Our 6530 is the largest in the industry at 165-bushel tank with a 26-inch hammermill. It features self-contained hydraulics, and 10-inch discharge augers, which yields 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.

*Crop production line.* Art's-Way shredders assure maximum crop shredding and destroy insect habitats. The shredded crop material allows for faster decomposition and restores nutrients to the soil more quickly while providing ground cover to reduce wind and water erosion.

*Land management line.* Land planes are used to ensure even distribution of rainfall or irrigation by eliminating water pockets, furrows and implement scars in fields. Our land planes have a patented Art's-Way floating hitch design. 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 have begun to sell a self-propelled unit. 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 and power mergers will gently lift the crop, carry it to the windrow and release it, saving more leaves and forming a faster drying, fluffier windrow. High performance V-style and carted finger wheel rakes offer growers value and include such features as large capacity and high clearance with ease of adjustment and operation. The M&W balers are ideal for the dairy and equine segments that serve niche markets in the East North Central and the East South Central regions of the United States. The primary use of these balers is efficiently turning grass, alfalfa, clover, corn stalks, silage, peanut and straw hay into storable bales to save space and extend the life of these harvested feed sources.

*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 ¼” 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 power take-off unit (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.

*Snow blowers line.* In June of 2013 we purchased certain assets of Agro Trend, a division of Rojac Industries, Inc. of Clifford, Ontario, Canada and began selling snow blowers, agricultural trailers, and dump boxes as Art’s-Way Manufacturing International LTD. We offer snow blowers in 28 models ranging from 54” wide to 120” wide. The styles also range from compact to heavy duty. Trailers range in sizes from 1.5 ton to 8 ton and we offer two versions of dump boxes.

*Pressurized Vessels*

We build vessels in carbon steel and stainless steel, ranging from atmospheric (0 PSI) storage vessels up to any PSI pressure rating required. Sizes range from 4” to 168” diameter and larger and to any length of vessel the customer requires.

### *Modular Buildings*

We supply laboratories for bio-containment, animal science, public health, and security requirements. We custom design, manufacture, deliver, and install laboratories and research 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*

We supply standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools. Our customers use the tools for various steel cutting applications.

### **Product Distribution and Markets**

We distribute goods for our Agricultural Products segment primarily through a network of approximately 1,800 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 Pressurized Vessels and Modular Building segments traditionally sell 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 as well. We look forward to strengthening these relationships and developing new international markets as well. Our international sales accounted for 7.3% of consolidated sales.

*Backlog.* Our backlogs of orders vary on a daily basis. As of January 25, 2016, our Tools segment had approximately \$156,000 of backlog, our Pressurized Vessels segment had approximately \$701,000 of backlog, our Modular Buildings segment had approximately \$686,000 of backlog and our Agricultural Products segment had a net backlog of approximately \$3,535,000. 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 2015, development in our Agricultural Products segment consisted of several products. We introduced the new 6140 grinder mixer. We also debuted a belt drive system as a product enhancement to our 6530 grinder mixer. We also added a 20', 22', and 24' pull type tandem axle vertical manure spreader to our product offerings.

Our Pressurized Vessels and Modular Building segments complete projects based on customer specifications and did not engage in specific product development during 2015.

### **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 Pressurized Vessels, Modular Buildings, and Tools segments provide us with diversified revenues rather than solely relying on the agricultural machinery sector. 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, shredders and other products similar to ours; therefore, we focus on providing the best product available at a reasonable price. Overall, we believe our products are competitively priced with above average quality and performance, in a market where price, product performance and quality are principal elements.

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 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 1,800 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, a network of worldwide and domestic distributors and our strong market share for many of our products allow us to compete effectively in the agricultural products market.



### *Pressurized Vessels*

Competition in the pressurized vessel industry is intense. It is critical in this business to deliver a quality product on a timely basis. We continue to work on delivering a quality product and improving our reputation within the industry.

### *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 which 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 rake tines and gearboxes from a supplier in Italy. However, these suppliers are not principal suppliers and there are alternative sources for these materials.

We have an original equipment manufacturer (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. We have not terminated or cancelled the agreement as of November 30, 2015. We also sell reels to Honey Bee and Agco under an OEM agreement. For the year ended November 30, 2015, sales to OEM customers were approximately 5% of consolidated sales.

We do not rely on sales to one customer or a small group of customers. During the year ended November 30, 2015, no one customer accounted for more than 5% 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. Under agreements with Roda and M&W, we acquired an ongoing license to manufacture, sell and distribute Roda-branded manure spreaders and M&W-branded balers in exchange for royalty payments for certain time periods which expired in January 2015 and May 2015, respectively. Having fulfilled our royalty obligations under the Roda and M&W agreements, we no longer are required to make payments, but retain the rights to manufacture, sell, and distribute these products.

### **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 2015 fiscal year accounted for \$162,000 of our total consolidated engineering expenses, compared to \$191,000 during our 2014 fiscal year.

Our Tools segment produces standard cutting tools and inserts and special tools per customer specifications. Our Pressurized Vessels segment produces custom tanks and vessels that are manufactured in accordance with specifications provided by our customers. Similarly, our Modular Buildings segment designs modular buildings in accordance with customer specifications.

### **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 the Company has 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, 2015, we employed approximately eighty-two employees in our Agricultural Products segment, one of whom was employed on a part-time basis. As of the same date, we had approximately fifteen full-time employees in our Pressurized Vessels segment and eighteen full-time employees in our Tools segment, nearly all of whom are represented by unions and covered by collective bargaining agreements. In addition, our Modular Buildings segment employed approximately sixteen employees, three of whom worked on a part-time basis. We experienced a decrease in employee levels in 2015 based upon demand for our product lines, and the numbers provided above do not represent our peak employment during our 2015 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.

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. The building contains approximately 41,640 square feet of usable space and is in good condition. The purchased land is approximately 10 acres and is used in connection with our Agricultural Products segment. We have accepted an offer on this facility for \$1,192,000 less closing expenses and expect the sale to close in the first quarter of fiscal 2016, subject to customary closing conditions.

In connection with the acquisition of certain assets of Agro Trend in June of 2013, we assumed the lease on an 8,500 square foot facility in Clifford, Ontario, Canada. The lease on this facility was for a term of 2 years and expired on May 23, 2015. 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 continue the manufacturing, marketing and sales of Agro Trend products from Canada. This facility is used in connection with our Agricultural Products segment.

We completed construction on a new facility for our Pressurized Vessels segment in Dubuque, Iowa as of February 2008. 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 2009.

We completed construction in November 2007 of our facility in Monona, Iowa, which houses the manufacturing for our Modular Buildings segment. The new 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 in September 2013, we also purchased the land and building used for manufacturing of the products sold by Ohio Metal, 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 U.S. Bank 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 DISCLOSURE.**

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<br/>by Quarter<br/>Fiscal Year<br/>Ended<br/>November 30,<br/>2015</b> |            |  |            |
|-----------------------|--|------------|--|------------|
|                       |  |            | <b>Fiscal Year Ended November 30, 2014</b> |            |
|                       | <b>High</b>  | <b>Low</b> | <b>High</b>                                | <b>Low</b> |
| <b>First Quarter</b>  | \$5.49   | \$4.51     | \$6.30                                     | \$5.75     |
| <b>Second Quarter</b> | \$5.98   | \$4.27     | \$6.74                                     | \$5.70     |
| <b>Third Quarter</b>  | \$5.94   | \$4.20     | \$6.00                                     | \$5.15     |
| <b>Fourth Quarter</b> | \$4.39   | \$2.90     | \$7.08                                     | \$4.76     |

**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 6, 2016, we had 86 common stock stockholders of record, which number does not include stockholders who hold our common stock in street name.

**Dividends**

On January 26, 2015 we announced a dividend of \$0.05 per share paid on February 27, 2015 to shareholders of record on February 12, 2015. We did not pay a dividend during the 2014 fiscal year. We expect that the payment of and the amount of any future dividends will depend on our financial condition at that time. Our loans with U.S. Bank require us to obtain consent from U.S. Bank prior to declaring a dividend payment.

#### **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 fiscal year 2015, we decreased our total liabilities by \$783,000, a 5.8% decrease. We expect our access to capital will continue to provide future cash for equipment investments, acquisitions, or debt pay down. During fiscal 2015 our working capital decreased slightly, and we have \$3,000,000 available on our line of credit as of November 30, 2015.

## **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. 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 market, 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 market 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 Company terms are documented in the most recently published price lists. Pricing is fixed and determinable according to the Company's 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.

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 2015 and 2014 were approximately \$634,000 and \$628,000, 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

### *Fiscal Year Ended November 30, 2015 Compared to Fiscal Year Ended November 30, 2014*

Our consolidated net sales totaled \$27,936,000 for the fiscal year ended November 30, 2015, which represents a 22.8% decrease from our consolidated net sales of \$36,170,000 in 2014. The decrease in revenue is primarily due to decreased sales of our agricultural products segment. We are experiencing decreased demand of nearly all our agricultural products, but our Universal Harvester reel sales were down over 70% as compared to the prior year. Our consolidated gross profit increased as a percentage of net sales from 24.1% in 2014 to 25.0% of net sales in 2015. This increase is largely due to cost-cutting measures and efficient use of inventory, primarily in our agricultural products segment. Our consolidated operating expenses increased by 4.6%, from \$7,060,000 in 2014 to \$7,388,000 in 2015. The primary reason for this increase is the \$618,729 non-cash expense recognized in August 2015 for the impairment of goodwill associated with the 2012 acquisition of Universal Harvester. Because the majority of our corporate general and administrative expenses are borne by our Agricultural Products segment, that segment represented \$5,394,000 of our total consolidated operating expenses, while our Pressurized Vessels segment represented \$399,000, our Modular Buildings segment represented \$820,000, and our Tools segment represented \$775,000 of the total.

Our consolidated operating loss for the 2015 fiscal year was \$(404,000) compared to operating income of \$1,665,000 for the 2014 fiscal year. Our Modular Buildings segment provided operating income of \$150,000. Our Agricultural Products had an operating loss of \$(84,000) after considering the \$618,729 non-cash impairment charge. Our Pressurized Vessels segment had an operating loss of \$(327,000), and our Tools segment had an operating loss of \$(143,000).

Consolidated net loss for the 2015 fiscal year was \$(558,000), compared to net income of \$935,000 in the 2014 fiscal year, a decrease of \$1,493,000. This decrease is primarily a result of impairment of goodwill but also due to lower net sales by our Agricultural Products, Pressurized Vessels, and Tools segments, but offset somewhat by increased sales at our Modular Buildings segment. Our effective tax rate for the years ending November 30, 2015 and 2014 was 35.5% and 28.2%, respectively.

*Agricultural Products.* Our Agricultural Products segment's sales revenue for the fiscal year ended November 30, 2015 was \$20,756,000, compared to \$27,952,000 during the same period of 2014, a decrease of \$7,196,000, or 25.7%. The decrease was due most significantly to decreased sales of our UHC product lines (reels for combines and swathers),

but we saw decreased sales in nearly every product manufactured in our Agricultural Products segment. Gross profit for the fiscal year ended November 30, 2015 was 25.6%, unchanged from fiscal 2014. We were able to maintain our gross margin on decreased sales volume with various cost cutting measures, as well as utilizing our inventory more efficiently. The decrease in sales 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 decreases in fiscal 2015 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 fiscal 2016.

Our Agricultural Products segment's operating expenses for the fiscal year ended November 30, 2015 were \$5,394,000, compared to \$5,051,000 for the same period in 2014, an increase of \$343,000 or 6.8%. As previously discussed, these operating expenses include a one-time non-cash expense for the impairment of goodwill at UHC of \$618,729. This segment's operating expenses for the fiscal year ended November 30, 2015 were 26.0% of sales, compared to 18.1% of sales for the same period in 2014. Total loss from operations for our Agricultural Products segment during the fiscal year ended November 30, 2015 was \$(84,000), compared to operating income of \$2,099,000 for the same period in 2014, a decrease of \$(2,183,000.)

*Pressurized Vessels.* Our Pressurized Vessels segment's net sales for the fiscal year ended November 30, 2015 were \$1,610,000, compared to \$1,736,000 for the same period in 2014, a decrease of \$126,000, or 7.3%. This decrease is largely due to a sizeable project that has used a significant amount of shop capacity during our fourth quarter of fiscal 2015, but will not be delivered and invoiced until the first quarter of fiscal 2016. We continue to work to improve the consistency of our quality of goods and timely delivery of product. Fiscal year 2015 gross margin was 4.5% compared to 2.2% as of November 30, 2014.

*Modular Buildings.* Our Modular Buildings segment's net sales for the fiscal year ended November 30, 2015 were \$3,191,000 compared to \$2,965,000 for the same period in 2014, an increase of \$226,000, or 7.6%. Gross profit for the fiscal year ended November 30, 2015 was \$970,000 compared to \$626,000 during the same period of 2014, an increase of \$344,000 or 55.0%. This increase is primarily due to a reimbursement of \$210,000 of warranty expenses incurred in prior periods as a result of a legal settlement. Operating expenses for the fiscal year ended November 30, 2015 were \$820,000 compared to \$768,000 for the same period in 2014. Total income from operations from our Modular Buildings segment was \$150,000 compared to an operating loss of \$(142,000) in fiscal 2014, an increase of \$292,000.

*Tools.* Our Tools segment's net sales for the fiscal year ended November 30, 2015 were \$2,379,000 compared to \$3,517,000 for the same period in 2014, a decrease of \$1,138,000 or 32.4%, which we believe was primarily due to a decrease in market demand, most notably in the energy industry. Gross profit for the fiscal year ended November 30, 2015 was 26.6% compared to 25.9% for the same period in 2014. Operating expenses were \$775,000 for the fiscal year ended November 30, 2015 compared to \$890,000 for the same period in 2014, a decrease of \$115,000 or 12.9%. This decrease is largely due to administrative staffing reductions and a better experience on our self-funded health insurance plan.

## **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 this impact of 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 pressurized vessel and 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 fiscal 2015 was cash generated by operating activities. Art's-Way used \$293,000 of cash to update facilities and equipment.

We have an \$8,000,000 revolving line of credit with U.S. Bank, pursuant to which we had borrowed \$3,959,656 as of November 30, 2015. On July 16, 2015, we obtained an additional \$1,500,000 revolving line of credit from U.S. Bank that matures on May 1, 2016. As of November 30, 2015, we had a principal balance of \$0 outstanding against the 2015 Line of Credit, with \$1,500,000 remaining available. We have six term loans from U.S. Bank, which had outstanding principal balances of \$1,196,000, \$1,112,000, \$743,000, \$843,000, \$465,000 and \$943,000 as of November 30, 2015. 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 \$647,000 as of November 30, 2015.

Our loans require us to comply with various covenants, including maintaining certain financial ratios and obtaining prior written consent from US Bank for any investment in, acquisition of, or guaranty relating to another business or entity. We were in compliance with all covenants as of November 30, 2015 other than its covenants to maintain certain fixed charge and debt service coverage ratios. US Bank and First National Bank of West Union issued waivers for the non-compliance as of November 30, 2015 and no default occurred under any of our loans.

For additional information about our financing activities, please refer to Note 9 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<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
| Current Assets      | \$ 19,962,319                | \$ 20,065,961                |
| Current Liabilities | 7,338,115                    | 6,503,777                    |
| Working Capital     | \$ 12,624,204                | \$ 13,562,184                |
| Current Ratio       | 2.72                         | 3.09                         |

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.

#### **Contractual Obligations Table as of November 30, 2015**

##### Contractual Obligations

|                             | Total         | Less than 1<br>year | 1-3 years    | 3-5 years  | More<br>Than<br>5<br>years |
|-----------------------------|---------------|---------------------|--------------|------------|----------------------------|
| Long-Term Debt Obligations  | \$ 10,259,552 | \$ 5,455,688        | \$ 4,565,455 | \$ 238,409 | \$ -                       |
| Capital Lease Obligations   | 3,240         | 3,240               | -            | -          | -                          |
| Operating Lease Obligations | 81,954        | 57,449              | 24,505       | -          | -                          |
| Purchase Obligations        | -             | -                   | -            | -          | -                          |
| Other Long-Term Liabilities | -             | -                   | -            | -          | -                          |
| Totals                      | \$ 10,344,746 | \$ 5,516,377        | \$ 4,589,960 | \$ 238,409 | \$ -                       |

Amounts in table include principal and interest.



**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.

16

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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 as of November 30, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. Art's-Way Manufacturing Co., Inc. and Subsidiaries' management is responsible for these consolidated financial statements. 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 audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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, 2015 and 2014, 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.

/s/ Eide Bailly LLP

Fargo, North Dakota

February 3, 2016

17

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

## Consolidated Balance Sheets

|  | <b>November<br/>30,<br/>2015</b> | <b>November<br/>30,<br/>2014</b> |
|--|----------------------------------|----------------------------------|
| <b>Assets</b>  |                                  |                                  |
| Current assets:  |                                  |                                  |
| Cash   | \$447,334                        | \$511,716                        |
| Accounts receivable-customers, net of allowance for doubtful accounts of \$18,810 and \$35,175 in 2015 and 2014, respectively                  | 2,057,739                        | 2,961,834                        |
| Inventories, net   | 15,699,084                       | 15,089,280                       |
| Deferred taxes   | 1,146,242                        | 1,259,943                        |
| Cost and Profit in Excess of Billings  | 206,672                          | 17,543                           |
| Income taxes receivable  | 345,912                          | 100,417                          |
| Other current assets   | 59,336                           | 125,229                          |
| Total current assets   | 19,962,319                       | 20,065,961                       |
| Property, plant, and equipment, net  | 9,694,913                        | 11,680,792                       |
| Assets held for lease, net   | -                                | 58,500                           |
| Assets held for sale, net  | 1,245,432                        | -                                |
| Goodwill   | 375,000                          | 993,729                          |
| Other Assets   | 53,944                           | 47,360                           |
| Total assets   | \$31,331,608                     | \$32,846,342                     |
| <b>Liabilities and Stockholders' Equity</b>  |                                  |                                  |
| Current liabilities:   |                                  |                                  |
| Line of credit   | \$3,959,656                      | \$2,569,106                      |
| Current portion of term debt   | 1,322,662                        | 1,283,897                        |
| Accounts payable   | 522,400                          | 874,653                          |
| Customer deposits  | 166,626                          | 95,411                           |
| Billings in Excess of Cost and Profit  | 86,858                           | 96,382                           |
| Accrued expenses   | 1,279,913                        | 1,584,328                        |
| Total current liabilities  | 7,338,115                        | 6,503,777                        |
| Long-term liabilities  |                                  |                                  |
| Deferred taxes   | 846,960                          | 1,141,580                        |
| Long-term debt, excluding current portion  | 4,626,667                        | 5,949,329                        |
| Total liabilities  | 12,811,742                       | 13,594,686                       |
| Commitments and Contingencies (Notes 8, 9, and 15)   |                                  |                                  |
| 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  | 40,611                           | 40,486                           |
| Additional paid-in capital   | 2,667,010                        | 2,638,651                        |
| Retained earnings  | 15,812,245                       | 16,572,519                       |

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|  |              |              |
|--|--------------|--------------|
| Total stockholders' equity                 | 18,519,866   | 19,251,656   |
| Total liabilities and stockholders' equity | \$31,331,608 | \$32,846,342 |

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<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
| Net sales   | \$27,935,791                 | \$36,169,811                 |
| Cost of goods sold  | 20,952,109                   | 27,445,242                   |
| Gross profit  | 6,983,682                    | 8,724,569                    |
| Expenses:   |                              |                              |
| Engineering   | 500,820                      | 482,057                      |
| Selling   | 2,149,659                    | 2,372,299                    |
| General and administrative  | 4,736,866                    | 4,205,375                    |
| Total expenses  | 7,387,345                    | 7,059,731                    |
| Income (loss) from operations   | (403,663 )                   | 1,664,838                    |
| Other income (expense):   |                              |                              |
| Interest expense  | (329,455 )                   | (351,899 )                   |
| Other   | (131,944 )                   | (10,434 )                    |
| Total other income (expense)  | (461,399 )                   | (362,333 )                   |
| Income (loss) before income taxes   | (865,062 )                   | 1,302,505                    |
| Current tax expense (benefit)   | (307,220 )                   | 367,258                      |
| Net income (loss)   | \$(557,842 )                 | \$935,247                    |
| Net income per share:   |                              |                              |
| Basic net income (loss) per share   | \$(0.14 )                    | \$0.23                       |
| Diluted net income (loss) per share   | \$(0.14 )                    | \$0.23                       |
| Weighted average outstanding shares used to compute basic net income (loss) per share   | 4,058,382                    | 4,047,796                    |
| Weighted average outstanding shares used to compute diluted net income (loss) per share | 4,058,382                    | 4,052,703                    |

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

|   | Years Ended                  |                              |
|---|------------------------------|------------------------------|
|   | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
| Cash flows from operations:   |                              |                              |
| Net income (loss)   | \$(557,842 )                 | \$935,247                    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |                              |
| Stock based compensation  | 28,484                       | 14,504                       |
| (Gain) Loss on disposal of property, plant, and equipment                         | 123,405                      | (6,268 )                     |
| Depreciation expense  | 929,180                      | 906,702                      |
| Impairment of goodwill  | 618,729                      | -                            |
| Bad debt expense (recovery)   | (4,605 )                     | 4,540                        |
| Deferred income taxes   | (180,919 )                   | 157,089                      |
| Changes in assets and liabilities:  |                              |                              |
| (Increase) decrease in:   |                              |                              |
| Accounts receivable   | 908,700                      | 33,529                       |
| Inventories   | (609,804 )                   | (166,755 )                   |
| Income taxes receivable   | (245,495 )                   | 8,096                        |
| Other current assets  | 59,308                       | 69,559                       |
| Increase (decrease) in:   |                              |                              |
| Accounts payable  | (352,253 )                   | 68,447                       |
| Contracts in progress, net  | (198,653 )                   | 103,356                      |
| Customer deposits   | 71,215                       | (52,094 )                    |
| Accrued expenses  | (304,415 )                   | (134,147 )                   |
| Net cash provided by operating activities   | 285,035                      | 1,941,805                    |
| Cash flows from investing activities:   |                              |                              |
| Purchases of property, plant, and equipment                                       | (292,543 )                   | (633,078 )                   |
| Proceeds from sale of assets  | 38,906                       | 15,870                       |
| Net cash (used in) investing activities   | (253,637 )                   | (617,208 )                   |
| Cash flows from financing activities:   |                              |                              |
| Net change in line of credit  | 1,390,550                    | (780,894 )                   |
| Proceeds from term debt   | -                            | 1,000,000                    |
| Repayment of term debt  | (1,283,897)                  | (1,247,697)                  |
| Proceeds from the exercise of stock options                                       | -                            | 7,760                        |
| Dividends paid to stockholders  | (202,432 )                   | -                            |
| Net cash (used in) financing activities   | (95,779 )                    | (1,020,831)                  |
| Net increase (decrease) in cash   | (64,381 )                    | 303,766                      |
| Cash at beginning of period   | 511,716                      | 207,950                      |
| Cash at end of period   | \$447,335                    | \$511,716                    |
| Supplemental disclosures of cash flow information:                                |                              |                              |
| Cash paid during the period for:  |                              |                              |
| Interest  | \$328,529                    | \$356,470                    |

|              |         |         |
|--------------|---------|---------|
| Income taxes | 282,614 | 299,988 |
|--------------|---------|---------|

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, 2015 and 2014

|                                  | <b>Common Stock<br/>Number<br/>of<br/>shares</b> | <b>Par<br/>value</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Retained<br/>earnings</b> | <b>Total</b> |
|----------------------------------|--|----------------------|---|------------------------------|--------------|
| Balance, November 30, 2013       | 4,046,552  | \$40,466             | \$2,616,407                               | \$15,637,272                 | \$18,294,145 |
| Exercise of stock options        | 2,000  | 20                   | 7,740                                     | -                            | 7,760        |
| Stock based compensation         | -  | -                    | 14,504                                    | -                            | 14,504       |
| Net income                       | -  | -                    | -   | 935,247                      | 935,247      |
| Balance, November 30, 2014       | 4,048,552  | \$40,486             | \$2,638,651                               | \$16,572,519                 | \$19,251,656 |
| Stock based compensation         | 12,500   | 125                  | 28,359                                    | -                            | 28,484       |
| Dividends paid, \$0.05 per share | -  | -                    | -   | (202,432 )                   | (202,432 )   |
| Net (loss)                       | -  | -                    | -   | (557,842 )                   | (557,842 )   |
| Balance, November 30, 2015       | 4,061,052  | \$40,611             | \$2,667,010                               | \$15,812,245                 | \$18,519,866 |

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

Art's-Way Manufacturing Co., Inc.

Notes to Consolidated Financial Statements

## **(1) Summary of Significant Accounting Policies**

### ***(a) Nature of Business***

Art's-Way Manufacturing Co., Inc. is primarily engaged in the fabrication and sale of specialized farm machinery in the agricultural sector of the United States. Primary product offerings include: portable and stationary animal feed processing equipment; hay and forage equipment; sugar beet harvesting equipment; land maintenance equipment; a line of portable grain augers; a line of manure spreaders; moldboard plows; potato harvesters; commercial snow blowers and a line of reels. The Company sells its labeled products through independent farm equipment dealers throughout the United States. In addition, the Company manufactures and supplies hay blowers to OEMs. The Company also provides after-market service parts that are available to keep its branded and OEM produced equipment operating to the satisfaction of the end user of the Company's products.

Our Pressurized Vessels segment is primarily engaged in the fabrication and sale of pressurized vessels and tanks through the Company's wholly-owned subsidiary, Art's-Way Vessels, Inc. This segment provides a combination of services as a manufacturer and supplier of steel vessels and steel containment systems. The vessels are primarily sold to manufacturing facilities that will use the vessel as a component part of their end product. In addition to its role as a fabricator of vessels, it provides 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.

Our Modular Buildings segment is primarily engaged in the construction of modular laboratories and animal housing facilities through the Company's wholly-owned subsidiary, Art's-Way Scientific, Inc. Buildings commonly produced range from basic swine buildings to complex containment research laboratories. This segment also provides services relating to the design, manufacturing, delivering, installation and renting of the building units that it produces.

Our Tools segment is a domestic manufacturer and distributor of standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools through the Company's wholly-owned subsidiary, Ohio Metal Working Company/Art's Way, Inc.

### ***(b) Principles of Consolidation***

The consolidated financial statements include the accounts of Art's-Way Manufacturing Co., Inc. and its wholly-owned subsidiaries for the 2015 fiscal year, Universal Harvester by Art's-Way, Inc., Art's-Way Vessels, Inc., Art's-Way Scientific, Inc., Art's-Way Manufacturing International LTD, and Ohio Metal Working Products/Art's-Way, Inc. Universal Harvester by Art's-Way was merged with the parent company of Art's-Way Manufacturing Co. Inc, effective November 30, 2015. All material inter-company accounts and transactions are eliminated in consolidation.

The financial books of International 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 Company monitors the resulting cumulative translation adjustment and considers it to be immaterial.

*(c) Cash Concentration*

The Company maintains several different accounts at four different banks, and balances in these accounts are periodically in excess of federally insured limits. However, management believes the risk of loss to be low.

***(d) Customer Concentration***

During the years ended November 30, 2015, and November 30, 2014 no one customer accounted for more than 5% and 7% of consolidated revenues, respectively.

***(e) Accounts Receivable***

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written-off when deemed uncollectible. Recoveries of accounts receivable previously written-off are recorded when received. Accounts receivable are generally considered past due 60 days past invoice date, with the exception of international sales which primarily are sold with a letter of credit for 180 day terms.

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Trade receivables are stated at the amount billed to the customer. The Company charges interest on overdue customer account balances at a rate of 1.5% per month. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

***(f) Inventories***

Inventories are stated at the lower of cost or market, 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. The Company records inventory write downs to market based on expected usage information for raw materials and historical selling trends for finished goods. Additional write downs may be necessary if the assumptions made by management do not occur.

***(g) Property, Plant, and Equipment***

Property, plant, and equipment are recorded at cost. Depreciation of plant and equipment is provided using the straight-line method, based on the estimated useful lives of the assets which range from three to forty years.

***(h) Lessor Accounting***

Modular buildings held for short term lease by our Modular Buildings segment are recorded at cost. Amortization of the property is calculated over the useful life of the building. Estimated useful life is five years. Lease revenue is accounted for on a straight-line basis over the term of the related lease agreement.

***(i) Goodwill and Impairment***

Goodwill represents costs in excess of the fair value of net tangible and identifiable net intangible assets acquired in business combinations. Art's-Way performs an annual test for impairment of goodwill during the fourth quarter, unless factors determine an earlier test is necessary. During the third quarter of fiscal 2015, an impairment test of the goodwill associated with the Universal Harvester subsidiary indicated an impairment of goodwill had occurred. Based on the testing, we incurred an impairment of goodwill of \$618,729 in fiscal 2015. There had been no impairment of goodwill as of November 30, 2014.

***(j) Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates as recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The Company shall classify interest and penalties to be paid on an underpayment of taxes as income tax expense. The Company files income tax returns in the U.S. federal jurisdiction and various states and Canada. The Company is no longer subject to Canadian, U.S. federal or state income tax examinations by tax authorities for years ended before November 30, 2011.

***(k) 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 Company terms are documented in the most recently published price lists. Pricing is fixed and determinable according to the Company's 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. Applicable sales taxes imposed on our revenues are presented on a net basis on the consolidated statements of operations and therefore do not impact net revenues or cost of goods sold. A provision for warranty expenses, based on sales volume, is included in the financial statements. The Company's return 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.

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. The Company has operated using bill and hold agreements with certain customers for many years. 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 2015 and 2014 were approximately \$634,000 and \$628,000, 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.

***(l) Research and Development***

Research and development costs are expensed when incurred. Such costs approximated \$162,000 and \$191,000 for the years ended November 30, 2015 and 2014, respectively.

***(m) Advertising***

Advertising costs are expensed when incurred. Such costs approximated \$488,000 and \$511,000 for the years ended November 30, 2015 and 2014, respectively.

***(n) Income (Loss) Per Share***

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.

Basic and diluted earnings per common share have been computed based on the following as of November 30, 2015 and 2014:

|   | <b>For the twelve months<br/>ended</b> |                              |
|---|--|------------------------------|
|   | <b>November<br/>30, 2015</b>           | <b>November<br/>30, 2014</b> |
| Basic:  |  |                              |
| Numerator: net income (loss)                                      | \$(557,842 )                           | \$935,247                    |
| Denominator: average number of common shares outstanding          | 4,058,382                              | 4,047,796                    |
| Basic earnings per common share                                   | \$(0.14 )                              | \$0.23                       |
| Diluted:  |  |                              |
| Numerator: net income (loss)                                      | \$(557,842 )                           | \$935,247                    |
| Average number of common shares outstanding                       | 4,058,382                              | 4,047,796                    |
| Effect of dilutive stock options                                  | -                                      | 4,907                        |
| Denominator: dilutive average number of common shares outstanding | 4,058,382                              | 4,052,703                    |
| Diluted earnings per common share                                 | \$(0.14 )                              | \$0.23                       |

***(o) Stock Based Compensation***

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. Restricted stock is valued at market value at the



day of grant.

*(p) Use of Estimates*

Management of the Company has made a number of estimates and assumptions related to the reported amount of assets and liabilities, reported amount of revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

*(q) 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 was the fiscal year beginning December 1, 2014. The Company currently has no unrecognized tax benefits that are impacted by the amendment and the adoption 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 year-ended 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.

### Inventory

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330)”, which requires inventory measured using any method other than last-in, first-out or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than the lower of cost or market. ASU No. 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. The Company will adopt this guidance for the year-ended November 30, 2017 including interim periods within that reporting period. Its adoption is not expected to have a material impact on our consolidated financial statements.

**(2) Allowance for Doubtful Accounts**

A summary of the Company's activity in the allowance for doubtful accounts is as follows:

|                              | <b>For the 12 months<br/>ended</b> |                              |
|------------------------------|------------------------------------|------------------------------|
|                              | <b>November<br/>30, 2015</b>       | <b>November<br/>30, 2014</b> |
| Balance, beginning           | \$35,175                           | \$ 35,474                    |
| Provision charged to expense | (4,587 )                           | 4,539                        |
| Less amounts charged-off     | (11,778)                           | (4,838 )                     |
| Balance, ending              | \$18,810                           | \$ 35,175                    |

**(3) Inventories**

Major classes of inventory are:

|                 | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
|-----------------|------------------------------|------------------------------|
| Raw materials   | \$10,058,894                 | \$10,037,055                 |
| Work in process | 458,526                      | 467,110                      |
| Finished goods  | 8,204,843                    | 8,504,062                    |
|                 | \$18,722,263                 | 19,008,227                   |
| Less: Reserves  | (3,023,179 )                 | (3,918,947 )                 |
|                 | \$15,699,084                 | \$15,089,280                 |

**(4) Contracts in Progress**

Amounts included in the consolidated financial statements related to uncompleted contracts are as follows:

The amounts billed on these long term contracts are due 30 days from invoice date. All amounts billed are expected to be collected within the next 12 months. Retainage was \$27,951 and \$8,048 as of November 30, 2015 and 2014, respectively.

|                      | <b>Cost and<br/>Profit in<br/>Excess of<br/>Billings</b> | <b>Billings in<br/>Excess of<br/>Costs and<br/>Profit</b> |
|----------------------|--|---|
| November 30, 2015    |  |   |
| Costs                | \$233,544  | \$695,915   |
| Estimated earnings   | 75,822   | 227,442   |
|                      | 309,366  | 923,357   |
| Less: amounts billed | (102,694)  | (1,010,215)   |
|                      | \$206,672  | \$(86,858 )   |

November 30, 2014

|                      |          |             |
|----------------------|----------|-------------|
| Costs                | \$14,724 | \$623,670   |
| Estimated earnings   | 4,819    | 204,114     |
|                      | 19,543   | 827,784     |
| Less: amounts billed | (2,000 ) | (924,166 )  |
|                      | \$17,543 | \$(96,382 ) |

### (5) Property, Plant, and Equipment

Major classes of property, plant, and equipment are:

|                                       | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
|---------------------------------------|------------------------------|------------------------------|
| Land                                  | \$802,453                    | \$1,188,155                  |
| Buildings and improvements            | 9,496,997                    | 10,542,327                   |
| Construction in Progress              | 10,353                       | 107,807                      |
| Manufacturing machinery and equipment | 12,523,294                   | 14,097,934                   |
| Trucks and automobiles                | 440,306                      | 433,962                      |
| Furniture and fixtures                | 117,554                      | 149,022                      |
|                                       | 23,390,957                   | 26,519,207                   |
| Less accumulated depreciation         | (13,696,044)                 | (14,838,415)                 |
| Property, plant and equipment         | \$9,694,913                  | \$11,680,792                 |

Depreciation expense totaled \$929,180 and \$906,702 for the fiscal years ended November 30, 2015 and 2014, respectively.

**(6) Assets Available for Sale**

Major components of assets available for sale are:

|                                     | <b>November 30,<br/>2015</b> | <b>November<br/>30, 2014</b> |
|-------------------------------------|------------------------------|------------------------------|
| Ames, Iowa production facility      | \$ 1,093,632                 | \$ -                         |
| Monona, Iowa storage building       | 36,942                       | -                            |
| Ames, Iowa powder coat paint system | 114,858                      | -                            |
|                                     | <b>\$ 1,245,432</b>          | <b>\$ -</b>                  |

Due to reduced demand for our reels produced by the Universal Harvester by Art's Way subsidiary, we have been able to absorb the production of the reels in our Armstrong, Iowa facility. The Ames, Iowa facility is currently under contract to be sold for \$1,192,000 less closing expenses. Closing is subject to customary closing conditions and is expected to occur during the first quarter of fiscal 2016.

The storage facility in Monona, Iowa is adjacent to our production facilities, and was sold in December 2015. We recorded a gain of \$8,046 in December 2015 after closing costs associated with the sale.

**(7) Accrued Expenses**

Major components of accrued expenses are:

|                                  | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
|----------------------------------|------------------------------|------------------------------|
| Salaries, wages, and commissions | \$564,098                    | \$673,934                    |
| Accrued warranty expense         | 179,531                      | 234,266                      |
| Other                            | 536,284                      | 676,128                      |
|                                  | <b>\$1,279,913</b>           | <b>\$1,584,328</b>           |

**(8) 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 1 year from date of purchase. The Company's warranties require it to repair or replace defective products during the warranty period at no cost to the customer. The Company records a liability for estimated costs that may be incurred under its warranties. The costs are estimated based on historical experience and any specific warranty issues that have been identified. Although historical warranty costs have been within expectations, there can be no assurance that future warranty costs will not exceed historical amounts. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the balance as necessary.

Changes in the Company's product warranty liability included in "accrued expenses" for the years ended November 30, 2015 and 2014 are as follows:

|                           | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
|---------------------------|------------------------------|------------------------------|
| Balance, beginning        | \$ 234,265                   | \$ 220,719                   |
| Settlements / adjustments | (329,672 )                   | (421,787 )                   |
| Warranties issued         | 274,938                      | 435,333                      |
| Balance, ending           | \$ 179,531                   | \$ 234,265                   |

**(9) 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 November 30, 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 November 30, 2015, the Company had a principal balance of \$3,959,656 outstanding against the Line of Credit, with \$3,026,677 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 November 30, 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 November 30, 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 November 30, 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 fiscal 2015 from operations was the main reason for the non-compliance result as of November 30, 2015. US Bank has issued a waiver forgiving the non-compliance for the fourth quarter and no event of default occurred. The next measurement date is February 29, 2016.

On May 10, 2012, the Company obtained \$880,000 in long-term debt from U.S. Bank in connection with the acquisition of 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 buildings and properties owned by the Company 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 1<sup>st</sup>), 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 except the debt service coverage ratio under the IFA Loan Agreement as measured on November 30, 2015. The First National Bank of West Union has issued a waiver forgiving the noncompliance for the year ended November 30, 2015, and no event of default has occurred. The next measurement date is November 30, 2016.

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

|   | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
|---|------------------------------|------------------------------|
| U.S. Bank loan payable in monthly installments of \$42,500 including interest at 2.98%, due May 1, 2018               | \$1,196,088                  | \$1,662,311                  |
| U.S. Bank loan payable in monthly installments of \$11,000 including interest at 2.98%, due May 1, 2018               | 743,149                      | 850,930                      |
| U.S. Bank loan payable in monthly installments of \$12,550 including interest at 2.98%, due May 1, 2018               | 842,769                      | 965,889                      |
| U.S. Bank loan payable in monthly installments of \$27,800 including interest at 2.98%, due May 1, 2018               | 1,112,205                    | 1,407,366                    |
| U.S. Bank loan payable in monthly installments of \$11,700 including interest at 3.15%, due May 10, 2017              | 464,605                      | 588,101                      |
| U.S. Bank loan payable in monthly installments of \$5,556 including interest at 2.98%, due May 25, 2017               | 943,381                      | 980,940                      |
| Iowa Finance Authority loan payable in monthly installments of \$12,500 including interest at 2.75%, due June 1, 2020 | 647,132                      | 777,689                      |
| Total term debt   | \$5,949,329                  | \$7,233,226                  |
| Less current portion of term debt   | 1,322,662                    | 1,283,897                    |
| Term debt, excluding current portion  | \$4,626,667                  | \$5,949,329                  |

A summary of the minimum maturities of term debt follows for the years ending November 30:

| Year:               | Amount      |
|---------------------|-------------|
| 2016                | \$1,322,662 |
| 2017                | 2,433,938   |
| 2018                | 1,947,128   |
| 2019                | 145,585     |
| 2020                | 110,016     |
| 2021 and thereafter | -           |
|                     | \$5,959,329 |

### **(10) Related Party Transactions**

During fiscal years 2015 and 2014, the Company recognized revenues of \$32,000 and \$59,000, respectively, with a related party. On November 30, 2015, the accounts receivable balance contains \$9,600 due from a related party, compared to \$0 as of November 30, 2014.

### **(11) Employee Benefit Plans**

The Company sponsors a defined contribution 401(k) savings plan which covers substantially all full-time employees who meet eligibility requirements. Participating employees may contribute as salary reductions any amount of their compensation up to the limit prescribed by the Internal Revenue Code. The Company makes a 25% matching contribution to employees contributing a minimum of 4% of their compensation, up to 1% of eligible compensation. The Company recognized an expense of \$47,466 and \$54,544 related to this plan during the years ended November 30, 2015 and 2014, respectively.

### **(12) Equity Incentive Plan**

On November 30, 2015, the Company had one equity incentive plan, the 2011 Plan, which is described below. The compensation cost charged against income was \$28,484 and \$14,504 for 2015 and 2014, respectively, for all awards granted under the 2011 Plan during such years. The total income tax deductions for share-based compensation arrangements were \$20,462 and \$10,500 for 2015 and 2014 respectively. No compensation cost was capitalized as part of inventory or fixed assets.

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"), subject to approval by the stockholders on or before January 27, 2012. 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 granted non-qualified stock options to purchase 2,000 shares of common stock annually upon their election to the board, which are fully vested. In addition, directors may elect to receive cash retainer fees in the form of fully-vested restricted stock issued under the 2011 Plan.

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

The fair value of each option award is estimated on the date of grant using the Black Scholes option-pricing model. 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.

|                          | <b>2015</b> | <b>2014</b> |        |
|--------------------------|-------------|-------------|--------|
| Expected Volatility      | 30.55%      |             | 32.28% |
| Expected Dividend Yield  | 1.574%      | 1.236%-     | 1.277% |
| Expected Term (in years) | 2           |             | 2      |
| Risk-Free Rate           | 3.25 %      |             | 3.25%  |

Summary of activity under the plans as of November 30, 2015 and 2014, and changes during the years then ended as follows:

### 2015 Option Activity

| Options                                    | Shares  | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|---------|---------------------------------|---|---------------------------|
| Options Outstanding at beginning of period | 160,000 | \$ 8.72                         | -   | -                         |
| Granted                                    | 14,000  | \$ 4.70                         | -   | -                         |
| Exercised                                  | -       | \$ -                            | -   | -                         |
| Options Expired or Forfeited               | -       | \$ -                            | -   | -                         |
| Options Outstanding at end of Period       | 174,000 | \$ 8.39                         | 4.68  | -                         |
| Options Exercisable at end of Period       | 169,000 | \$ 8.47                         | 4.57  | -                         |

### 2014 Option Activity

| Options                                    | Shares   | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|----------|---------------------------------|---|---------------------------|
| Options Outstanding at beginning of period | 143,000  | \$ 9.00                         | -   | -                         |
| Granted                                    | 19,000   | \$ 6.10                         | -   | -                         |
| Exercised                                  | (2,000 ) | \$ 3.88                         | -   | \$ 4,020                  |
| Options Expired or Forfeited               | -        | \$ -                            | -   | -                         |
| Options Outstanding at end of Period       | 160,000  | \$ 8.72                         | 5.14  | \$ 15,400                 |
| Options Exercisable at end of Period       | 155,000  | \$ 8.81                         | 5.27  | \$ 15,400                 |

The weighted-average grant-date fair value of options granted during the year 2015 and 2014 was \$0.84 and \$1.17 respectively. Compensation expense of \$8,022 and \$11,264 was recognized in 2015 and 2014, respectively, for the issuance of stock options.



A summary of the status of the Company's non-vested option shares as of November 30, 2015, and changes during the year ended November 30, 2015, is presented below:

| Non-vested Option Shares          | Shares   | Weighted-Average      |      |
|-----------------------------------|----------|-----------------------|------|
|                                   |          | Grant-Date Fair Value |      |
| Non-vested at beginning of period | 5,000    |                       |      |
| Granted                           | 14,000   | \$                    | 0.84 |
| Vested                            | (14,000) | \$                    | 0.84 |
| Forfeited                         | -        | \$                    | 0.00 |
| Non-vested at end of period       | 5,000    |                       |      |

As of November 30, 2015, there was \$3,881 unrecognized compensation cost related to non-vested share-based compensation arrangements under the plan related to stock options. The total fair value of options vested during the years ended November 30, 2015 and 2014 was \$0 and \$0 respectively.

The cash received from the exercise of options during fiscal year 2015 was \$0, compared to \$7,760 in 2014.

During the fiscal year 2015 the Company issued 12,500 shares of restricted stock, and 4,150 shares of restricted stock became unrestricted. During fiscal year 2014 the Company issued 0 shares of restricted stock, and 500 shares of restricted stock became unrestricted under the 2011 Plan. Compensation expense of \$20,462 and \$3,240 was recognized in 2015 and 2014, respectively, for shares of restricted stock.

**(13) Income Taxes**

Total income tax expense (benefit) for the years ended November 30, 2015 and 2014 consists of the following:

|                            | <b>November<br/>30, 2015</b> | <b>November<br/>30, 2014</b> |
|----------------------------|------------------------------|------------------------------|
| Current Expense (benefit)  | \$(126,301 )                 | \$ 307,452                   |
| Deferred expense (benefit) | (180,919 )                   | 59,806                       |
|                            | <b>\$(307,220 )</b>          | <b>\$ 367,258</b>            |

The reconciliation of the statutory Federal income tax rate is as follows:

|                                   | <b>November<br/>30, 2015</b> |          | <b>November<br/>30, 2014</b> |          |
|-----------------------------------|------------------------------|----------|------------------------------|----------|
| Statutory federal income tax rate | 34.0                         | %        | 34.0                         | %        |
| R&D tax credits                   | -                            |          | (2.0                         | )        |
| Permanent Differences and Other   | 1.5                          |          | (3.8                         | )        |
|                                   | <b>35.5</b>                  | <b>%</b> | <b>28.2</b>                  | <b>%</b> |

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at November 30, 2015 and 2014 are presented below:

|   | <b>November 30</b> |               |
|---|--------------------|---------------|
|   | <b>2015</b>        | <b>2014</b>   |
| Current deferred tax assets (liabilities):          |                    |               |
| Accrued expenses                                    | \$126,000          | \$147,000     |
| Inventory capitalization                            | 21,000             | 22,000        |
| Asset reserves                                      | 999,000            | 1,091,000     |
| Total current deferred tax assets                   | \$1,146,000        | \$1,260,000   |
| Non-current deferrred tax assets                    |                    |               |
| Property, plant, and equipment                      | \$(847,000 )       | \$(1,142,000) |
| Total non-current deferred tax assets (liabilities) | \$(847,000 )       | \$(1,142,000) |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

**(14) Disclosures About the Fair Value of Financial Instruments**

At November 30, 2015 and 2014, the carrying amount approximates fair value for cash, accounts receivable, accounts payable, notes payable to bank, and other current liabilities due to the short maturity of these instruments. 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.

**(15) Litigation and Contingencies**

Various legal actions and claims that arise in the normal course of business are pending against the Company. In the opinion of management adequate provisions have been made in the accompanying financial statements for all pending legal actions and other claims.

**(16) 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 replacement parts for these products in the United States and worldwide. The pressurized vessel segment produces and services pressurized tanks. The modular building segment produces 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.

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

|                                 | Twelve Months Ended November 30, 2015 |             |             |             |              |
|---------------------------------|---------------------------------------|-------------|-------------|-------------|--------------|
|                                 | Agricultural                          | Pressurized | Modular     | Tools       | Consolidated |
|                                 | Products                              | Vessels     | Buildings   |             |              |
| Revenue from external customers | \$20,756,000                          | \$1,610,000 | \$3,191,000 | \$2,379,000 | \$27,936,000 |
| Gross Profit                    | 5,310,000                             | 72,000      | 970,000     | 632,000     | \$6,984,000  |
| Operating Expense               | 5,394,000                             | 399,000     | 820,000     | 775,000     | \$7,388,000  |
| Income (loss) from operations   | (84,000 )                             | (327,000 )  | 150,000     | (143,000 )  | \$(404,000 ) |
| Income (loss) before tax        | (438,000 )                            | (354,000 )  | 124,000     | (197,000 )  | \$(865,000 ) |
| Total Assets                    | 22,696,000                            | 2,565,000   | 3,181,000   | 2,890,000   | \$31,332,000 |
| Capital expenditures            | 219,000                               | 54,000      | 9,000       | 11,000      | \$293,000    |
| Depreciation & Amortization     | 585,000                               | 107,000     | 125,000     | 119,000     | \$936,000    |

|                                 | Twelve Months Ended November 30, 2014 |             |             |             |              |
|---------------------------------|---------------------------------------|-------------|-------------|-------------|--------------|
|                                 | Agricultural                          | Pressurized | Modular     | Tools       | Consolidated |
|                                 | Products                              | Vessels     | Buildings   |             |              |
| Revenue from external customers | \$27,952,000                          | \$1,736,000 | \$2,965,000 | \$3,517,000 | \$36,170,000 |
| Gross Profit                    | 7,150,000                             | 39,000      | 626,000     | 910,000     | \$8,725,000  |
| Operating Expense               | 5,051,000                             | 351,000     | 768,000     | 890,000     | \$7,060,000  |
| Income (loss) from operations   | 2,099,000                             | (312,000 )  | (142,000 )  | 20,000      | \$1,665,000  |
| Income (loss) before tax        | 1,842,000                             | (341,000 )  | (165,000 )  | (33,000 )   | \$1,303,000  |
| Total Assets                    | 24,585,000                            | 2,548,000   | 2,503,000   | 3,210,000   | \$32,846,000 |
| Capital expenditures            | 581,000                               | 27,000      | -           | 25,000      | \$633,000    |
| Depreciation & Amortization     | 537,000                               | 108,000     | 146,000     | 116,000     | \$907,000    |

### (17) Subsequent Events

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 or disclosure in the notes to the consolidated financial statements.



**Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. 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) or 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.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed 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. Under the supervision and with the participation of management, including the person serving as our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of November 30, 2015.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

### **Limitations on Controls**

Our management, including the persons serving as our principal executive officer and principal financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. In addition, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and controls may become inadequate if conditions change. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Changes to Internal Control Over Financial Reporting**

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

### **Item 9B. OTHER INFORMATION.**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and corporate governance.**

The information required by Item 10 is incorporated by reference to the sections entitled “Questions and Answers about the 2016 Annual Meeting and Voting,” “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance”, and “Executive Officers” in our definitive proxy statement relating to our 2016 Annual Meeting of Stockholders.

### **Item 11. Executive Compensation.**

The information required by Item 11 is incorporated by reference to the section entitled “Executive Compensation” in our definitive proxy statement relating to our 2016 Annual Meeting of Stockholders.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by Item 12 is incorporated by reference to the sections entitled “Security Ownership of Principal Stockholders,” “Security Ownership of Directors and Management” and “Equity Compensation Plan Information” in our definitive proxy statement relating to our 2016 Annual Meeting of Stockholders.

### **Item 13. Certain Relationships and Related Transactions, and director independence.**



The information required by Item 13 is incorporated by reference to the sections entitled “Corporate Governance” and “Certain Transactions and Business Relationships” in our definitive proxy statement relating to our 2016 Annual Meeting of Stockholders.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 14 is incorporated by reference to the section entitled “Independent Registered Public Accountant Firm” in our definitive proxy statement relating to our 2016 Annual Meeting of Stockholders.

**PART IV**

**Item 15. Exhibits, FINANCIAL STATEMENT SCHEDULES.**

(a) Documents filed as part of this report.

(1) Financial Statements. The following financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K:

Report of Eide Bailly, LLP on Consolidated Financial Statements as of November 30, 2015 and 2014

Consolidated Balance Sheets as of November 30, 2015 and 2014

Consolidated Statements of Operations for each of the two years in the period ended November 30, 2015 and 2014

Consolidated Statements of Stockholders' Equity for each of the two years in the period ended November 30, 2015 and 2014

Consolidated Statements of Cash Flows for each of the two years in the period ended November 30, 2015 and 2014

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules. Not applicable.

(3) Exhibits. See "Exhibit Index to Form 10-K" immediately following the signature page of this Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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:

February/s/ Carrie L. Majeski  
3, 2016

Carrie L. Majeski  
President, and Chief Executive Officer

## POWER OF ATTORNEY

Each person whose signature appears below appoints CARRIE L. MAJESKI his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all said attorney-in-fact and agent, or her substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 3, 2016 /s/ Carrie L. Majeski  
Carrie L. Majeski

President and Chief Executive Officer

Date: February 3, 2016 /s/ Amber J. Murra  
Amber J. Murra, Chief Financial Officer (principal accounting officer)

Date: February 3, 2016 /s/ Marc H. McConnell

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Marc H. McConnell, Chairman, Director

Date: February 3, 2016 /s/ J. Ward McConnell, Jr.  
J. Ward McConnell, Jr., Vice Chairman, Director

Date: February 3, 2016 /s/ Joseph R. Dancy  
Joseph R. Dancy, Director

Date: February 3, 2016 /s/ James E. Lynch  
James E. Lynch, Director

Date: February 3, 2016 /s/ Douglas R. McClellan  
Douglas R. McClellan, Director

Date: February 3, 2016 /s/ Thomas E. Buffamante  
Thomas E. Buffamante, Director

Date: February 3, 2016 /s/ David R. Castle  
David R. Castle, Director

Art's-Way Manufacturing Co., Inc.  
 Exhibit Index to Form 10-K  
 For Fiscal Year Ended November 30, 2015

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Certificate of Incorporation of Art's-Way Manufacturing Co., Inc.– incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter year ended May 31, 2012.   |
| 3.2         | Certificate of Amendment to the Certificate of Incorporation of Art's-Way Manufacturing Co., Inc. – incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-K for the quarter ended May 31, 2012.                                 |
| 3.3         | Bylaws of Art's-Way Manufacturing Co., Inc.– incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008.  |
| 3.4         | Amendments to Bylaws of Art's-Way Manufacturing Co., Inc. – incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended May 31, 2004.   |
| 10.1*       | Art's-Way Manufacturing Co., Inc. 2007 Non-Employee Directors Stock Option Plan – incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2007.   |
| 10.2*       | Art's-Way Manufacturing Co., Inc. 2007 Employee Stock Option Plan – incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2009.  |
| 10.3*       | Form of Non-Qualified Option Agreement under 2007 Non-Employee Directors' Stock Option Plan and 2007 Employee Stock Option Plan – incorporated by reference to Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2009. |
| 10.4*       | Director Compensation Policy – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2014.  |
| 10.5*       | Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 28, 2011.  |
| 10.6*       | Form of Incentive Stock Option Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 28, 2011.                                   |
| 10.7*       | Form of Nonqualified Stock Option Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 28, 2011.                                |
| 10.8*       | Form of Restricted Stock Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 28, 2011.   |
| 10.9*       | Form of Restricted Stock Unit Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 28, 2011.                                    |
| 10.10*      | Employment Agreement, by and between the Company and Carrie L. Majeski, dated December 20, 2011 – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 20, 2011.  |
| 10.11*      | Amendment to Employment Agreement, by and between the Company and Carrie L. Majeski, dated January 26, 2012 – incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended February 29, 2012.                           |

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- 10.12\* Employment Agreement, by and between the Company and Amber Murra, dated May 1, 2014 (effective as of May 27, 2014) – incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K dated May 6, 2014.
- 10.13 Manufacturing Facility Revenue Note in the principal amount of \$1,300,000, from Art’s-Way Manufacturing Co., Inc. to Iowa Finance Authority dated May 28, 2010 – incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2010
- 10.14 Loan Agreement Between Iowa Finance Authority and Art’s-Way Manufacturing Co., Inc. dated May 1, 2010 – incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2010
- 10.15 Installment or Single Payment Note between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 10, 2012 – incorporated by reference to Exhibit 10.2 to the Company’s Form 8-K filed July 16, 2012.
- 10.16 Manufacturing Facility Revenue Note, dated May 28, 2010, as amended February 1, 2013 – incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended February 28, 2013.

- 10.17 First Amendment to Loan Agreement between the Company and the Iowa Finance Authority, dated February 1, 2013 – incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended February 28, 2013.
- 10.18 Revolving Credit Note, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.19 Revolving Credit Agreement, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.20 Term Note for loan in the amount of \$1,143,600, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.21 Term Loan Agreement for loan in the amount of \$1,143,600, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.22 Term Note for loan in the amount of \$2,335,500, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.6 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.23 Term Loan Agreement for loan in the amount of \$2,335,500, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.7 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.24 Term Note for loan in the amount of \$1,833,510.26, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.8 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.25 Term Loan Agreement for loan in the amount of \$1,833,510.26, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.9 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.26 Term Note for loan in the amount of \$1,006,500, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.10 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.27 Term Loan Agreement for loan in the amount of \$1,006,500, between Art’s-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.11 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.28 Business Security Agreement, by Art’s-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.12 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.29 Business Security Agreement, by Art’s-Way Vessels, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.13 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.30 Business Security Agreement, by Art’s-Way Scientific, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.14 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.31 Business Security Agreement, by Universal Harvester by Art’s-Way, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.15 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.32 Pledge Agreement, by Art’s-Way Vessels, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.16 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.33 Pledge Agreement, by Art’s-Way Scientific, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.17 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.34 Pledge Agreement, by Universal Harvester by Art’s-Way, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.18 to the Company’s Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.35

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Continuing Guaranty (Unlimited), by Art's-Way Vessels, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.

10.36 Continuing Guaranty (Unlimited), by Art's-Way Scientific, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.

10.37 Continuing Guaranty (Unlimited), by Universal Harvester by Art's-Way, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.



- 10.38 Mortgage, Security Agreement and Assignment of Rents, by Art's-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.39 Mortgage, Security Agreement and Assignment of Rents, by Art's-Way Vessels, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.40 Amendment to Note dated May 10, 2012, by Art's-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.41\* Amendment to Mortgage dated May 10, 2012, by Art's-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.42 Business Security Agreement, by Ohio Metal Working Products/Art's-Way, Inc., dated October 25, 2013 – incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2015.
- 10.43 Continuing Guaranty (Unlimited), by Ohio Metal Working Products/Art's-Way, Inc., dated October 25, 2013 – incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2015.
- 10.44 Term Note for loan in the amount of \$1,000,000, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated May 29, 2014 – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.45 Term Loan Agreement for loan in the amount of \$1,000,000, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated May 29, 2014 – incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.46 Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, between Ohio Metal Working Products/Art's-Way, Inc. and U.S. Bank National Association, dated May 29, 2014-- incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014..
- 10.47 Amendment to Loan Agreements, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated June, 2014 incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.48 Amendment to Loan Agreement, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, regarding Ohio Term Note and Loan Agreement, dated June, 2014 incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.49 Pledge Agreement, by Ohio Metal Working Products/Art's-Way, Inc., dated June, 2014 -- incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.50 Reaffirmation of Guaranty, by Ohio Metal Working Products/Art's-Way, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.51 Reaffirmation of Guaranty, by Art's-Way Vessels, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.52 Reaffirmation of Guaranty, by Art's-Way Scientific, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.53 Reaffirmation of Guaranty, by Universal Harvester by Art's-Way, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.54 Amendment to Loan Agreement and Note, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated June 1, 2014 – incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.

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10.55 Amendment to Loan Agreement and Note, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated May 1, 2015 – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2015.

10.56 Amendment to Loan Agreement and Note, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated June 23, 2015 – incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2015.

10.57 Promissory Note, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated July 16, 2015 – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2015.

- Collateral Assignment of Dealer's Notes and Security Agreements, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated July 16, 2015 – incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2015.
- 10.58
- 10.59 Consent to Merger of Wholly-Owned Subsidiary, by U.S. Bank National Association, dated November 5, 2015 – filed herewith.
- 21.1 List of Subsidiaries – filed herewith.
- 23.1 Consent of independent registered public accounting firm – filed herewith.
- 24.1 Power of Attorney (included on the "Signatures" page of this report on Form 10-K).
- 31.1 Certificate pursuant to 17 CFR 240 13(a)-14(a) – filed herewith.
- 31.2 Certificate pursuant to 17 CFR 240 13(a)-14(a) – filed herewith.
- 32.1 Certificate pursuant to 18 U.S.C. Section 1350 – filed herewith.
- 32.2 Certificate pursuant to 18 U.S.C. Section 1350 – filed herewith.
- 101 The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2015, formatted in Extensible Business Reporting Language (XBRL): (i) the consolidated Balance Sheets, (ii) the Consolidated Statement of Operations, (iii) the Consolidated Statement of Cash Flows, (iv) the Consolidated Statement of Stockholders' Equity, and (v) Notes to the Consolidated Financial Statements.

(\* ) Indicates a management contract or compensatory plan or arrangement.

## CORPORATE INFORMATION

### DIRECTORS

Marc H. McConnell

Chairman of the Board of Directors

President of Bauer Corporation

Past President and current Director of Farm Equipment Manufacturers Association

Past President and current Director of American Ladder Institute

Director of McConnell Holdings, Inc.

Past President and current Chairman and Director of West Town Bank and Trust

James E. Lynch

President of Rydell Enterprises, LLC

Joseph R. Dancy

Secretary-Treasurer of Rydell

President of LSGI Advisors Inc. Development, LLC

President of San Fernando Valley

Automotive Group, LLC

Thomas E. Buffamante

Chairman of the Audit Committee

Douglas R. McClellan

President of Filtration Unlimited

Director of Buffamante Whipple Buttafaro, P.C

David R. Castle

Director of Avery Weigh-Tronix Holdings, Inc.

Chairman of the Compensation & Stock Option Committee

J. Ward McConnell, Jr.

Vice Chairman of the Board of Directors

Private Investor

**OFFICERS**

Carrie L. Majeski

President and Chief Executive Officer, Corporate Secretary  
Amber J. Murra

Chief Financial Officer

**ART'S-WAY MANUFACTURING**

Kent C. Kollasch

Gary Tonderum

Director of Information Service      Director of Purchasing

Jeff Lalumendre

Darren McGregor

Director of Manufacturing

Director of Engineering

Glen Parrett

Director of Sales and Marketing

**ART'S-WAY VESSELS**

Matt Long

General Manager

**ART'S-WAY SCIENTIFIC**

Dan Palmer                      John  
   Fuelling

President Art's-Way Scientific Production  
   Manager

**ART'S-WAY INTERNATIONAL**

Marv Gingrich

General Manager

**OHIO METAL WORKING  
PRODUCTS/Art's Way**

Mark Bresson

General Manager

**CORPORATE INFORMATION**

Principal  
Office

5556

~~Highway~~ Agent

9

~~West~~ American Stock Transfer & Trust

~~Company~~

Box

~~288~~ New York, New York

Armstrong,

Iowa

50514-0288

~~Registered~~ Information

Office

Carrie L. Majeski

~~710)864-3131~~

Corporate  
Research,  
LTD.

615  
S.  
Dupont  
Hwy

Dover,  
DE

Independent  
Registered  
Public  
Accounting  
~~Fin~~ding Information

~~NA~~SDAQ Stock Market, LLC  
Bailly,  
~~NA~~SDAQ symbol: ARTW

Fargo,  
North  
Dakota

45