

ARTS WAY MANUFACTURING CO INC  
Form 10-K  
January 29, 2015

**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, 2014

**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 Website, 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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$12,759,986

As of January 19, 2014, there were 4,048,552 shares of the registrant's common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the registrant's 2015 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2014, are incorporated by reference into Part III of this Form 10-K.



Art's-Way Manufacturing Co., Inc.

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## **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, Universal Harvester by Art's-Way, Inc., an Iowa corporation ("UHC by Art's-Way, or "UHC"), and Art's-Way Manufacturing International LTD, a Canadian company ("International"). 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. For detailed financial information relating to segment reporting, see Note 15 to our financial statements in Item 8 of this report.



## **Business of Our Segments**

### *Agricultural Products*

Our Agricultural Products segment, which accounted for 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; a crop production line that includes grain drill equipment; a line of hay and forage equipment consisting of forage boxes, blowers, running gear, dump boxes and mergers; stalk shredders; 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 under UHC by Art's-Way; and industrial grade snow blowers under AgroTrend 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 9.5% of our consolidated sales for the fiscal year ended November 30, 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 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 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*

On September 30, 2013, the Company acquired the assets of Ohio Metal Working Products Company in Canton, Ohio (“Ohio Metal”). The acquired assets and operations are reported in a new segment called Tools for financial reporting purposes. For financial information related to the acquisition, see Note 12, “Acquisitions”. Our Tools segment accounted for 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. We are now selling reels for combines and swathers as UHC by Art's-Way. In 2013, we acquired Agro Trend in Clifford, Ontario. We are now selling 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 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 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 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 47 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 14.9% of consolidated sales.

*Backlog.* Our backlogs of orders vary on a daily basis. As of January 19, 2015, our Tools segment had approximately \$721,000 of backlog, our Pressurized Vessels segment had approximately \$81,000 of backlog, our Modular Buildings segment had approximately \$665,000 of backlog and our Agricultural Products segment had a net backlog of approximately \$7,736,000. 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 2014, development in our Agricultural Products segment consisted of the introduction of a 30 foot Land Plane (V3000). A 24 foot version of our 5300 forage box with a heavy duty frame was also added to our product offerings along with a 20 ton tandem trailer style running gear.

Our Pressurized Vessels and Modular Building segments complete projects based on customer specifications. Pressurized Vessels did not engage in significant product development during 2014. Our Modular Building segment worked with a swine/calf equipment manufacturer to introduce calf stalls that can increase building capacity and provide a more economical solution in a modular building.

## **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 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, 2014. We also sell reels to Honey Bee and Agco under an OEM agreement. For the year ended November 30, 2014, sales to OEM customers were approximately 9.5% of consolidated sales.

We do not rely on sales to one customer or a small group of customers. During the year ended November 30, 2014, no one customer accounted for more than 7% 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. 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 our asset purchase and royalty agreement with Roda, we acquired the license to manufacture, sell and distribute Roda-branded manure spreaders in exchange for annual royalty payments based on the invoiced price for each product and service part we sell for five years following the date of the purchase agreement, which ends January 2015. Our royalty agreement with M&W provides us with the right to manufacture, sell, and distribute M&W-branded balers in exchange for quarterly royalty payments until May 2015.

## **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 2014 fiscal year accounted for \$191,000 of our total consolidated engineering expenses, compared to \$174,000 during our 2013 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.

## **Employees**

As of November 30, 2014, we employed approximately one-hundred forty-nine employees in our Agricultural Products segment, two of whom were employed on a part-time basis. As of the same date, we had approximately fourteen full-time employees in our Pressurized Vessels segment and twenty-two 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 nineteen employees, four of whom worked on a part-time basis. We experience immaterial fluctuations in employee levels based upon demand for our product lines, and the numbers provided above do not necessarily represent our peak employment during our 2014 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 had been leasing approximately 88 acres of excess land to third parties for farming. We sold this excess land in December of 2012.

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.

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, in order to continue the manufacturing, marketing and sales of Agro Trend products from Canada. The lease on this facility is for a term of 2 years and expires on May 23, 2015. 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 – Capital Resources and Credit Facilities” 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.

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**PART II**

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

**Market Information**

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

	<b>Common Stock High and Low Sales Prices Per Share by Quarter</b>			
	<b>Fiscal Year Ended November 30, 2014</b>		<b>Fiscal Year Ended November 30, 2013</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
<b>First Quarter</b>	\$6.30	\$5.75	\$7.65	\$5.35
<b>Second Quarter</b>	\$6.74	\$5.70	\$8.44	\$5.53
<b>Third Quarter</b>	\$6.00	\$5.15	\$7.76	\$6.60
<b>Fourth Quarter</b>	\$7.08	\$4.76	\$7.10	\$5.40

**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, 2015, we had 86 common stock stockholders of record, which number does not include stockholders who hold our common stock in street name.

**Dividends**

We did not pay a dividend during the 2014 fiscal year. On January 26, 2015 we announced a dividend of \$0.05 per share payable on March 2, 2015 to shareholders of record on February 12, 2015. We expect that the payment of and the amount of any future dividends will depend on our financial condition at that time. On November 14, 2013, we announced a dividend of \$0.10 per share that was paid on November 29, 2013 to stockholders of record as of November 25, 2013. 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 strong financial position. During fiscal year 2014, we decreased our current liabilities by 10.5%, and decreased long-term liabilities by 1.6% for a total decrease of approximately \$879,000. We obtained a \$1,000,000 loan secured by the property in Canton, Ohio to partially pay down the line of credit, which we accessed in 2013 to acquire the assets of Ohio Metal. We decreased net term debt by \$248,000, and the line of credit balance by \$781,000. Total current assets increased by approximately 1.6%, or \$315,000. We expect our access to capital will continue to provide future cash for equipment investments, acquisitions, or debt pay down. During fiscal 2014 we increased our working capital in excess of \$1,000,000, and we have \$4,000,000 available on our line of credit as of November 30, 2014.

## **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 2014 and 2013 were approximately \$628,000 and \$788,000, 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, 2014 Compared to Fiscal Year Ended November 30, 2013*

Our consolidated net sales totaled \$36,170,000 for the fiscal year ended November 30, 2014, which represents a 5.7% increase from our consolidated net sales of \$34,227,000 in 2013. Our consolidated gross profit decreased as a percentage of net sales from 24.4% in 2013 to 24.1% of net sales in 2014, yet increased \$359,000 over 2013 due to higher revenues from \$8,366,000 in 2013 to \$8,725,000 in 2014. Our consolidated operating expenses increased by 7.8%, from \$6,549,000 in 2013 to \$7,060,000 in 2014. Because the majority of our corporate general and administrative expenses are borne by our Agricultural Products segment, that segment represented \$5,051,000 of our total consolidated operating expenses, while our Pressurized Vessels segment represented \$351,000, our Modular Buildings segment represented \$768,000, and our Tools segment represented \$890,000 of the total.

Our consolidated operating income for the 2014 fiscal year was \$1,665,000, which represents an 8.4% decrease from our consolidated operating income of \$1,817,000 for the 2013 fiscal year. Our Agricultural Products segment provided operating income of \$2,099,000 and our Tools segment provided operating income of \$20,000 in 2014. Our Pressurized Vessels segment had an operating loss of \$(312,000), and our Modular Buildings segment had an operating loss of \$(142,000).

Consolidated net income for the 2014 fiscal year was \$935,000, compared to \$1,551,000 in the 2013 fiscal year, a decrease of \$616,000, or 39.7%. This decrease is primarily a result of the gain on sale of assets recognized in fiscal 2013 and lower net sales by our Agricultural Products, Modular Buildings, and Pressurized Vessels segments, offset by net sales by our Tools segment and a decrease in certain operating expenses as compared to 2013. Our effective tax rate for the years ending November 30, 2014 and 2013 was 28.2% and 29.7%, respectively.

*Agricultural Products.* Our Agricultural Products segment's sales revenue for the fiscal year ended November 30, 2014 was \$27,952,000, compared to \$28,199,000 during the same period of 2013, a decrease of \$247,000, or 0.9%. The decrease was due to decreased sales in our beet harvester and the product lines manufactured under UHC, but was somewhat offset by increased sales of our grinder mixer product line, and sales by Agro Trend and the associated product lines for the full 2014 fiscal year. Gross profit for the fiscal year ended November 30, 2014 was 25.6%, compared to 23.1% for the same period in 2013. This increase in margin was due to changes in product mix, reductions in inventory obsolescence, and gains made in managing labor inefficiencies.

Our Agricultural Products segment's operating expenses for the fiscal year ended November 30, 2014 were \$5,051,000, compared to \$5,275,000 for the same period in 2013, a decrease of \$224,000 or 4.2%. This segment's operating expenses for the fiscal year ended November 30, 2014 were 18.1% of sales, compared to 18.7% of sales for the same period in 2013. The decrease in operating expenses is largely due to decreased accruals for bonuses. Total income from operations for our Agricultural Products segment during the fiscal year ended November 30, 2014 was \$2,099,000, compared to \$1,234,000 for the same period in 2013, an increase of \$865,000 or 70.1%.

*Pressurized Vessels.* Our Pressurized Vessels segment's net sales for the fiscal year ended November 30, 2014 were \$1,736,000, compared to \$2,137,000 for the same period in 2013, a decrease of \$401,000, or 18.8%. This decrease is due to significant labor overruns on a large project in the second fiscal quarter, which forced us to deliver orders late for a period. We continue to work to improve the consistency of our quality of goods and timely delivery of product. Fiscal year 2014 gross margin was 2.2% compared to 10.9% as of November 30, 2013. The decreased sales and production inefficiencies have been the main contributor to the decreased margins.

*Modular Buildings.* Our Modular Buildings segment's net sales for the fiscal year ended November 30, 2014 were \$2,965,000 compared to \$3,240,000 for the same period in 2013, a decrease of \$275,000, or 8.5%. Gross profit for the fiscal year ended November 30, 2014 was \$626,000 compared to \$1,441,000 during the same period of 2013, a decrease of \$815,000, or 56.6%. The decrease was primarily due to decreased sales which reduced the absorption of our fixed costs. Operating expenses for the fiscal year ended November 30, 2014 were \$768,000 compared to \$769,000 for the same period in 2013. Total loss from operations from our Modular Buildings segment was \$(142,000) compared to operating income of \$672,000 in fiscal 2013, a decrease of \$814,000 or 121.1%.

*Tools.* On September 30, 2013, the Company acquired the assets of Ohio Metal. For financial reporting purposes, a new segment called Tools was created. Total sales revenue for fiscal 2014 from the new division, Ohio Metal Working Products/Art's-Way, Inc., was \$3,517,000. Gross margin was 25.9% or \$910,000. Operating expenses were \$890,000 and income from operations was \$20,000, or 0.6% of the segment's net sales.

## **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 2014 was cash generated by operating activities. Art's-Way used \$633,000 of cash to update facilities and equipment and \$2,029,000 to repay borrowings under the line of credit and term debt.

We have an \$8,000,000 revolving line of credit with U.S. Bank, pursuant to which we had borrowed \$2,569,109 as of November 30, 2014. We obtained financing of \$1,000,000 secured by a mortgage on the facility in Canton, Ohio to help pay down the line of credit, which we drew on in fiscal 2013 for the acquisition of Ohio Metal. We have six term loans from U.S. Bank, which had outstanding principal balances of \$1,662,000, \$1,407,000, \$588,000, \$851,000, \$981,000 and \$966,000 as of November 30, 2014. 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 \$778,000 as of November 30, 2014.

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, 2014.

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

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

	<b>Fiscal Year Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Current Assets	\$20,065,961	\$19,751,372
Current Liabilities	6,503,777	7,268,872
Working Capital	\$13,562,0184	\$12,482,500
Current Ratio	3.09	2.72

We believe that our current 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, 2014**

##### Contractual Obligations

	Total	Less than 1 year	1-3 years	3-5 years	More Than 5 years
Long-Term Debt Obligations	\$10,303,924	\$4,053,028	\$4,020,192	\$2,142,869	\$87,835
Capital Lease Obligations	8,346	8,346	-	-	-
Operating Lease Obligations	12,000	12,000	-	-	-
Purchase Obligations	-	-	-	-	-
Other Long-Term Liabilities	-	-	-	-	-
Totals	\$10,324,270	\$4,073,374	\$4,020,192	\$2,142,869	\$87,835

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.

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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, 2014 and 2013, 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, 2014 and 2013, 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

January 29, 2015

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

## Consolidated Balance Sheets

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
<b>Assets</b>		
Current assets:		
Cash	\$511,716	\$207,950
Accounts receivable-customers, net of allowance for doubtful accounts of \$35,175 and \$35,474 as of November 30	2,961,834	2,999,903
Inventories, net	15,089,280	14,922,525
Deferred taxes	1,259,943	1,228,097
Cost and Profit in Excess of Billings	17,543	42,238
Income taxes receivable	100,417	108,513
Other current assets	125,229	242,146
Total current assets	20,065,961	19,751,372
Property, plant, and equipment, net	11,680,792	11,900,202
Assets held for lease, net	58,500	122,318
Goodwill	993,729	993,729
Other Assets	47,360	-
Total assets	\$32,846,342	\$32,767,621
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Line of credit	\$2,569,106	\$3,350,000
Current portion of term debt	1,283,897	1,228,964
Accounts payable	874,653	806,207
Customer deposits	95,411	147,505
Billings in Excess of Cost and Profit	96,382	17,721
Accrued expenses	1,584,328	1,718,475
Total current liabilities	6,503,777	7,268,872
Long-term liabilities		
Deferred taxes	1,141,580	952,645
Long Term debt, excluding current portion	5,949,329	6,251,959
Total liabilities	13,594,686	14,473,476
Commitments and Contingencies (Notes 7, 8, and 14)		
Stockholders' equity:		
Undesignated preferred stock - \$0.01 par value. Authorized 500,000 shares in 2014 and 2013; issued and outstanding 0 shares in 2014 and 2013.	-	-
Common stock – \$0.01 par value. Authorized 9,500,000 shares in 2014 and 2013; issued and outstanding 4,048,552 in 2014 and 4,046,552 in 2013	40,486	40,466
Additional paid-in capital	2,638,651	2,616,407
Retained earnings	16,572,519	15,637,272
Total stockholders' equity	19,251,656	18,294,145
Total liabilities and stockholders' equity	\$32,846,342	\$32,767,621

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

	<b>Years Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Sales	\$36,169,811	\$34,226,553
Cost of goods sold	27,445,242	25,860,107
Gross profit	8,724,569	8,366,446
Expenses:		
Engineering	482,057	514,086
Selling	2,372,299	2,155,640
General and administrative	4,205,375	3,879,580
Total expenses	7,059,731	6,549,306
Income from operations	1,664,838	1,817,140
Other income (expense):		
Interest expense	(351,899 )	(296,640 )
Other	(10,434 )	685,344
Total other income (expense)	(362,333 )	388,704
Income before income taxes	1,302,505	2,205,844
Income tax expense	367,258	654,468
Net income	\$935,247	\$1,551,376
Net income per share:		
Basic net income per share	\$0.23	\$0.38
Diluted net income per share	\$0.23	\$0.38
Weighted average outstanding shares used to compute basic net income per share	4,047,796	4,039,530
Weighted average outstanding shares used to compute diluted net income per share	4,052,703	4,049,791

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

	<b>Years Ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Cash flows from operations:		
Net income	\$935,247	\$1,551,376
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock based compensation	14,504	29,812
(Gain) on disposal of property, plant, and equipment	(6,268 )	(601,678 )
Depreciation expense	906,702	704,457
Bad debt expense (recovery)	4,540	7,516
Deferred income taxes	157,089	(111,138 )
Changes in assets and liabilities net of Agro Trend and Ohio Working Metals acquisitions:		
(Increase) decrease in:		
Accounts receivable	33,529	(229,412 )
Inventories	(166,755 )	769,641
Income taxes receivable	8,096	(108,513 )
Other assets	69,559	67,652
Increase (decrease) in:		
Accounts payable	68,447	151,885
Contracts in progress, net	103,356	(1,048,125)
Customer deposits	(52,094 )	(84,795 )
Income taxes payable	-	(821,301 )
Accrued expenses	(134,147 )	(279,721 )
Net cash provided by (used in) operating activities	1,941,805	(2,344 )
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(633,078 )	(842,124 )
Return of asset held for lease	-	146,902
Proceeds from sale of assets	15,870	835,534
Purchase of assets of Ohio Metal Working Products	-	(3,171,805)
Purchase of assets of Agro Trend	-	(311,346 )
Net cash (used in) investing activities	(617,208 )	(3,342,839)
Cash flows from financing activities:		
Net change in line of credit	(780,894 )	3,350,000
Proceeds from term debt	1,000,000	228,339
Repayment of term debt	(1,247,697)	(1,213,550)
Proceeds from the exercise of stock options	7,760	46,390
Dividends paid to stockholders	-	(404,655 )
Net cash provided by (used in) financing activities	(1,020,831)	2,006,524
Net increase/(decrease) in cash	303,766	(1,338,659)
Cash at beginning of period	207,950	1,546,609

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Cash at end of period	\$511,716	\$207,950
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$356,470	\$296,640
Income taxes	299,988	1,644,520
Acquisitions:		
Inventories		Agro Trend \$223,172
Equipment, tools and dies		88,174
Goodwill and intangible assets		-
Land and Building		-
Non-Cash Activity: Stock issued for purchase of assets		-
Cash paid		\$311,346
Ohio		
Working		
Metals		
Inventories		\$1,141,512
Equipment, tools and dies		868,250
Goodwill and intangible assets		-
Land and Building		1,200,000
Non-Cash Activity: Assumed vacation liability		(37,957 )
Cash paid		\$3,171,805

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 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.

On June 25, 2013, the Company acquired the fixed assets, raw material inventory, work-in-progress inventory and select finished goods inventory of Agro Trend, a division of Rojac Industries, Inc. of Clifford, Ontario, Canada. Agro Trend distributes agricultural equipment and manufactures commercial snow blowers and agricultural trailers. Most of the existing Agro Trend operational team was retained to continue the manufacture of snow blowers and trailers. The acquired assets and operations are reported with our agricultural products segment. For financial information related to the acquisition, see Note 12, "Acquisitions".

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.

On September 30, 2013, the Company acquired the assets of Ohio Metal Working Products Company (“Ohio Metals”) in Canton, Ohio consisting of inventory, equipment, land, and building. Ohio Metal 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. The existing Ohio Metal operational team was retained to continue the manufacturing of the carbide, PCD, and CBN tipped tools and inserts. The acquired assets and operations are reported in our Tools segment for financial reporting purposes. For financial information related to the acquisition, see Note 12, “Acquisitions”.

**(b) Principles of Consolidation**

The consolidated financial statements include the accounts of Art’s-Way Manufacturing Co., Inc. and its wholly-owned subsidiaries, 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 formed in 2012 in connection with the Company’s acquisition of certain assets of UHC. Art’s-Way Manufacturing International LTD was formed in June 2013 when the Company acquired certain assets of Agro Trend while Ohio Metal Working Products/Art’s-Way, Inc. was formed in September 2013 when the Company acquired certain assets of Ohio Metal. 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, 2014, and November 30, 2013 no one customer accounted for more than 7% and 6% 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. There was no impairment of goodwill as of November 30, 2014 and 2013.

**(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 U.S. federal or state income tax examinations by tax authorities for years ended before November 30, 2010.

**(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 2014 and 2013 were approximately \$628,000 and \$788,000, respectively.

During fiscal 2014, the Company recognized revenues of \$59,000 for transactions with related parties.

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 \$191,000 and \$174,000 for the years ended November 30, 2014 and 2013, respectively.

**(m) Advertising**

Advertising costs are expensed when incurred. Such costs approximated \$511,000 and \$479,000 for the years ended November 30, 2014 and 2013, respectively.

**(n) Income Per Share**

Basic net income per common share has been computed on the basis of the weighted average number of common shares outstanding. Diluted net income 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, 2014 and 2013:

	<b>For the twelve months ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Basic:		
Numerator: net income	\$935,247	\$1,551,376
Denominator: average number of common shares outstanding	4,047,796	4,039,530
Basic earnings per common share	\$0.23	\$0.38
Diluted:		
Numerator: net income	\$935,247	\$1,551,376
Average number of common shares outstanding	4,047,796	4,039,530
Effect of dilutive stock options	4,907	10,261
Denominator: dilutive average number of common shares outstanding	4,052,703	4,049,791
Diluted earnings per common share	\$0.23	\$0.38

**(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 will be the fiscal year beginning December 1, 2014. The Company currently has no unrecognized tax benefits that are impacted by the amendment and the Company does not expect this standard to have 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, 2016, 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.

**(g) Fair Value Measurements**

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows: Level 1, defined as quoted market prices in active markets for identical securities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly; and Level 3, defined as unobservable inputs that are not corroborated by market data.

**(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 ended</b>	
	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Balance, beginning	\$35,474	\$ 27,958
Provision charged to expense	4,540	7,516
Less amounts charged-off	(4,839 )	-
Balance, ending	\$35,175	\$ 35,474

**(3) Inventories**

Major classes of inventory are:

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Raw materials	\$10,037,055	\$10,322,014
Work in process	467,110	511,016
Finished goods	8,504,062	7,305,301
	\$19,008,227	18,138,331
Less: Reserves	(3,918,947 )	(3,215,806 )
	\$15,089,280	\$14,922,525

**(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 \$8,048 and \$0 as of November 30, 2014 and 2013, respectively.

	<b>Cost and Profit in Excess of Billings</b>	<b>Billings in Excess of Costs and Profit</b>
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 )
November 30, 2013		
Costs	\$ 326,560	\$ 115,789
Estimated earnings	106,848	21,470
	433,408	137,259
Less: amounts billed	(391,170)	(154,980)
	\$ 42,238	\$ (17,721 )

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

Major classes of property, plant, and equipment are:

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Land	\$ 1,188,155	\$ 1,188,155
Buildings and improvements	10,542,327	10,315,222
Construction in Progress	107,807	404,016
Manufacturing machinery and equipment	14,097,934	13,555,073
Trucks and automobiles	433,962	436,367
Furniture and fixtures	149,022	149,022
	26,519,207	26,047,855
Less accumulated depreciation	(14,838,415)	(14,147,653)
Property, plant and equipment	\$ 11,680,792	\$ 11,900,202

Depreciation expense totaled \$906,702 and \$704,457 for the fiscal years ended November 30, 2014 and 2013, respectively.

**(6) Accrued Expenses**

Major components of accrued expenses are:

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Salaries, wages, and commissions	\$673,934	\$836,200
Accrued warranty expense	234,266	220,719
Other	676,128	661,556
	\$1,584,328	\$1,718,475

**(7) 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, 2014 and 2013 are as follows:

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
Balance, beginning	\$ 220,719	\$ 578,864
Settlements / adjustments	(421,787 )	(605,281 )
Warranties issued	435,334	247,136
Balance, ending	\$ 234,266	\$ 220,719

**(8) Loan and Credit Agreements**

On May 1, 2013, the Company began to move all banking arrangements previously held through West Bank to U.S. Bank. The relationship with U.S. Bank now includes an \$8,000,000 revolving line of credit (the "Line of Credit") which was renewed in 2014, and is now 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. 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%. As of November 30, 2014, the interest rate was the minimum of 3.50%. Monthly interest-only payments are required and the unpaid principal is due on the maturity date. As of November 30, 2014, the Company had a principal balance of \$2,569,109 outstanding against the Line of Credit. 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 refinanced all outstanding West Bank term loans with U.S. Bank. The West Bank long-term debt, which had outstanding principal balances of \$4,342,000 at a fixed interest rate of 4.75% and \$1,749,000 at a fixed interest rate of 4.50%, was paid off with four U.S. Bank loans totaling \$6,319,000 at a fixed interest rate of 2.98% (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.

As a result of paying off the West Bank loans, the Company incurred \$130,000 worth of prepayment penalties which were financed by the U.S. Bank loans. The penalties were booked to fixed costs on the income statement for the quarter ended May 31, 2013. Closing costs amounted to \$9,000 and will be amortized over the life of the loans.

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 building and property of Ohio Metal 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 in Canton, Ohio pursuant to a Mortgage, Security Agreement and Assignment of Rents between the Company and U.S. Bank, dated May 29, 2014. The Term Loan Agreements also require the Company to comply with a covenant to obtain consent from U.S. Bank prior to declaring a dividend payment.

Except for 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 Company was in compliance with all covenants under the Term Loan Agreements and the Revolving Credit Agreement as measured on November 30, 2014. The next measurement date is February 28, 2015. 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 and the Pledge Agreements entered into by the subsidiaries. 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 U.S. Bank can immediately terminate its obligation, if any, to make additional loans to the Company. In addition, U.S. Bank may collect any and all money 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.



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

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

On June 1, 2009, Art's-Way Scientific received funds from two \$95,000 promissory notes in connection with an agreement signed August 7, 2007 between Art's-Way Scientific and the Iowa Department of Economic Development. Art's-Way Scientific paid off these loans at their respective maturities in June and July of 2014.

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 and an interest rate of 3.5%. On February 1, 2013, the interest rate was decreased to 2.75%. 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 under the IFA Loan Agreement as measured on November 30, 2014. The next measurement date is November 30, 2015.

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

	<b>November 30, 2014</b>	<b>November 30, 2013</b>
U.S. Bank loan payable in monthly installments of \$42,500 including interest at 2.98%, due May 1, 2018	\$1,662,311	\$2,114,675
U.S. Bank loan payable in monthly installments of \$11,000 including interest at 2.98%, due May 1, 2018	850,930	955,507
U.S. Bank loan payable in monthly installments of \$12,550 including interest at 2.98%, due May 1, 2018	965,889	1,085,350
U.S. Bank loan payable in monthly installments of \$27,800 including interest at 2.98%, due May 1, 2018	1,407,366	1,693,752
U.S. Bank loan payable in monthly installments of \$11,700 including interest at 3.15%, due May 10, 2017	588,101	707,719
U.S. Bank loan payable in monthly installments of \$5,556 including interest at 2.98%, due May 25, 2017	980,940	-
Iowa Finance Authority loan payable in monthly installments of \$12,500 including interest at 2.75%, due June 1, 2020	777,689	904,662
IDED loan payable in monthly installments of \$2,437 including interest at 6%, due June 1, 2014	-	14,375
IDED loan payable in monthly installments of \$813 including interest at 0%, due June 1, 2014	-	4,883
Total term debt	\$7,233,226	\$7,480,923
Less current portion of term debt	1,283,897	1,228,964
Term debt, excluding current portion	\$5,949,329	\$6,251,959

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

Year:	Amount
2015	\$1,283,897
2016	1,322,663
2017	2,433,936

2018	1,959,763
2019	145,941
2020 and thereafter	87,026
	\$7,233,226

**(9) 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 \$54,544 and \$38,145 related to this plan during the years ended November 30, 2014 and 2013, respectively.

**(10) Equity Incentive Plan**

On November 30, 2014, the Company had one equity incentive plan, the 2011 Plan, which is described below. The compensation cost charged against income was \$14,504 and \$29,812 for 2014 and 2013, respectively. The total income tax deductions for share-based compensation arrangements were \$7,260 and \$17,210 for 2014 and 2013, 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 automatically granted non-qualified stock options to purchase 2,000 shares of common stock annually or initially upon their election to the Board, which are fully vested.

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

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.

	2014		2013	
Expected Volatility		32.28%	53.71	%
Expected Dividend Yield	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, 2014 and 2013, and changes during the years then ended as follows:

#### 2014 Option Activity

Options	Shares	Weighted Average	Weighted Average	Aggregate Intrinsic
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		<b>Exercise</b>	<b>Remaining</b>	<b>Value</b>
		<b>Price</b>	<b>Contractual</b>	
			<b>Term</b>	
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

**2013 Option Activity**

<b>Options</b>	<b>Shares</b>	<b>Weighted</b>	<b>Weighted</b>	<b>Aggregate</b>
		<b>Average</b>	<b>Average</b>	<b>Intrinsic</b>
		<b>Exercise</b>	<b>Remaining</b>	<b>Value</b>
		<b>Price</b>	<b>Contractual</b>	
			<b>Term</b>	
Options Outstanding at beginning of period	163,000	\$ 9.16	-	-
Granted	14,000	\$ 6.40	-	-
Exercised	(9,000 )	\$ 5.15	-	\$ 13,970
Options Expired or Forfeited	(25,000 )	\$ 10.04	-	-
Options Outstanding at end of Period	143,000	\$ 9.00	5.71	
Options Exercisable at end of Period	143,000	\$ 9.00	5.71	\$ 48,400

The weighted-average grant-date fair value of options granted during the year 2014 and 2013 was \$1.17 and \$2.64 respectively.

A summary of the status of the Company's non-vested shares as of November 30, 2014, and changes during the year ended November 30, 2014, is presented below:

<b>Non-vested Shares</b>	<b>Shares</b>	<b>Weighted-Average</b>	
		<b>Grant-Date Fair Value</b>	
Non-vested at beginning of period	-	\$	0.00
Granted	19,000	\$	1.17
Vested	(14,000)	\$	1.18
Forfeited	-	\$	0.00
Non-vested at end of period	5,000		

As of November 30, 2014, there was \$3,881 unrecognized compensation cost related to non-vested share-based compensation arrangements under the plan. The total fair value of shares vested during the years ended November 30, 2014 and 2013 was \$0 and \$2,100 respectively.

The cash received from the exercise of options during fiscal year 2014 was \$7,760, compared to \$46,390 in 2013.

During the fiscal year 2014 the Company did not issue any restricted stock, and 500 shares of restricted stock became unrestricted. During fiscal year 2013 the Company issued 2,500 shares of restricted stock under the 2011 Plan. During fiscal year 2013, 1300 shares of restricted stock became unrestricted. Compensation expense of \$3,240 and \$8,554 was recognized in 2014 and 2013, respectively, for shares of restricted stock.

## **(11) Income Taxes**

Total income tax expense (benefit) for the years ended November 30, 2014 and 2013 consists of the following:

	<b>November 30</b>	
	<b>2014</b>	<b>2013</b>
Current Expense	\$307,452	\$765,606
Deferred expense (benefit)	59,806	(111,138)
	<b>\$367,258</b>	<b>\$654,468</b>

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

	<b>November 30</b>	
	<b>2014</b>	<b>2013</b>
Statutory federal income tax rate	34.0%	34.0%
R&D tax credits	(2.0)	(1.0)
Permanent Differences and Other	(3.8)	(3.3)
	<b>28.2%</b>	<b>29.7%</b>



Tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at November 30, 2014 and 2013 are presented below:

	<b>November 30</b>	
	<b>2014</b>	<b>2013</b>
Current deferred tax assets (liabilities):		
Accrued expenses	\$ 147,000	\$ 168,000
Inventory capitalization	22,000	24,000
Asset reserves	1,091,000	1,036,000
Total current deferred tax assets	\$ 1,260,000	\$ 1,228,000
Non-current deferred tax assets		
Property, plant, and equipment	\$(1,142,000)	\$(953,000 )
Total non-current deferred tax assets (liabilities)	\$(1,142,000)	\$(953,000 )

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.

## **(12) Acquisitions**

On June 25, 2013, the Company acquired the fixed assets, raw material inventory, work-in-process inventory, and select finished good inventory of Agro Trend, a division of Rojac Industries, Inc. of Clifford, Ontario, Canada. A new entity was formed, Art's Way Manufacturing International LTD, which is included in the agricultural products segment for financial reporting purposes. International will lease the facility in Clifford, Ontario and is continuing manufacturing, marketing and sales from the Canadian location. The amount paid in US dollars for the acquisition of assets totaled \$311,000 (\$88,000 in fixed assets and \$223,000 in inventory). The amounts paid in the acquisition approximate fair value, which was determined utilizing the cost and, to a lesser extent, the market approach. This non-recurring fair value measurement is based Level 3 inputs of the fair value hierarchy, which are discussed in more detail in Note 13. Key assumptions used in determining the fair value include estimated replacement costs, physical deterioration, economic and functional obsolescence to adjust the current replacement costs as well as the estimated economic lives of the assets. The purchase price allocation has been reviewed and is final. The operating results of the acquired business are reflected in the Company's consolidated statement of operations from the acquisition date forward. The acquisition was made to continue the Company's growth strategy and diversify its product offerings inside the agricultural industry.

The acquisition also includes a consignment arrangement regarding \$600,000 of select finished good inventory. As part of the arrangement, International agreed to use reasonable efforts to sell the inventory including providing a sales and marketing plan with projections within 60 days of the closing date and meeting with the consignor quarterly to

discuss progress. On a monthly basis, International agreed to pay the consignor an amount equal to the cost base of the inventory sold that month. As of November 30, 2014, International had sold \$393,000 of the consigned inventory.

The financial books of the International operations 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 International 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.

On September 30, 2013, the Company acquired the assets of Ohio Metal in Canton, Ohio consisting of inventory, equipment, real property, and intangible assets. A new entity was formed, Ohio Metal Working Products/Art's-Way, Inc ("Metals"). A new segment called Tools was created for financial reporting purposes. Ohio Metal Working Products/Art's-Way, Inc. 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. The amount paid for the acquisition totaled approximately \$3,172,000 (\$1,142,000 in inventory, \$1,200,000 in land and building, \$868,000 in fixed assets, and a reduction for assumed vacation liability of \$38,000). The amounts paid in the acquisition approximate fair value, which was determined utilizing the cost and, to a lesser extent, the market approach. This non-recurring fair value measurement is based Level 3 inputs of the fair value hierarchy, which are discussed in more detail in Note 13. Key assumptions used in determining the fair value include estimated replacement costs, physical deterioration, economic and functional obsolescence to adjust the current replacement costs as well as the estimated economic lives of the assets. The acquisition was financed by accessing the line of credit available through U.S. Bank, and on May 29, 2014 the Company obtained a mortgage for the property and buildings in the amount of \$1,000,000 which was used to pay down on the line of credit. The operating results of the acquired business are reflected in the Company's consolidated statements of operations from the acquisition date forward. The acquisition was made to continue the Company's growth strategy and diversify its product offerings.

### **(13) Disclosures About the Fair Value of Financial Instruments**

At November 30, 2014 and 2013, 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.

### **(14) 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.

### **(15) 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.

	<b>Twelve Months Ended November 30, 2014</b>				
	<b>Agricultural</b>	<b>Pressurized</b>	<b>Modular</b>	<b>Tools</b>	<b>Consolidated</b>
	<b>Products</b>	<b>Vessels</b>	<b>Buildings</b>		
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	24,587,000	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

	<b>Twelve Months Ended November 30, 2013</b>				
	<b>Agricultural</b>	<b>Pressurized</b>	<b>Modular</b>		
	<b>Products</b>	<b>Vessels</b>	<b>Buildings</b>	<b>Tools</b>	<b>Consolidated</b>
Revenue from external customers	\$28,199,000	\$ 2,137,000	\$3,240,000	\$651,000	\$ 34,227,000
Gross Profit	6,508,000	234,000	1,441,000	183,000	\$ 8,366,000
Operating Expense	5,275,000	360,000	769,000	145,000	\$ 6,549,000
Income (loss) from operations	1,234,000	(127,000 )	672,000	38,000	\$ 1,817,000
Income (loss) before tax	1,718,000	(221,000 )	680,000	29,000	\$ 2,206,000
Total Assets	23,279,000	2,758,000	3,092,000	3,639,000	\$ 32,768,000
Capital expenditures	776,000	41,000	20,000	5,000	\$ 842,000
Depreciation & Amortization	413,000	105,000	158,000	28,000	\$ 704,000

**(16) 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 issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") of 1992. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of November 30, 2014.

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 person 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.

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## **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 2015 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 2015 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 2015 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 2015 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 2015 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 2015 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, 2014 and 2013

Consolidated Balance Sheets as of November 30, 2014 and 2013

Consolidated Statements of Operations for each of the two years in the period ended November 30, 2014 and 2013

Consolidated Statements of Stockholders' Equity for each of the two years in the period ended November 30, 2014 and 2013

Consolidated Statements of Cash Flows for each of the two years in the period ended November 30, 2014 and 2013

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: January 29, 2015 /s/ Carrie L. Majeski  
Carrie L. Majeski  
President, and Chief Executive Officer

## **POWER OF ATTORNEY**

Each person whose signature appears below constitutes 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: January 29, 2015 /s/ Carrie L. Majeski  
Carrie L. Majeski  
  
President and Chief Executive Officer

Date: January 29, 2015 /s/ Amber J. Murra  
Amber J. Murra, Chief Financial Officer (principal accounting officer)

Date: January 29, 2015 /s/ J. Ward McConnell, Jr.

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J. Ward McConnell, Jr., Chairman, Director

Date: January 29, 2015 /s/ Joseph R. Dancy  
Joseph R. Dancy, Director

Date: January 29, 2015 /s/ James E. Lynch  
James E. Lynch, Director

Date: January 29, 2015 /s/ Douglas R. McClellan  
Douglas R. McClellan, Director

Date: January 29, 2015 /s/ Marc H. McConnell  
Marc H. McConnell, Vice Chairman, Director

Date: January 29, 2015 /s/ Thomas E. Buffamante  
Thomas E. Buffamante, Director

Date: January 29, 2015 /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, 2014

**Exhibit**

<b>No.</b>	<b>Description</b>
2.1	Asset Purchase Agreement, between Art's-Way Manufacturing Co., Inc. and Ohio Metal Working Products Company, dated September 30, 2013 – incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 4, 2013.
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.  
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.
- 3.3
- 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.
- 3.4
- 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.

Art's-Way  
Manufacturing  
Co., Inc. 2007  
Employee  
Stock Option  
Plan –

10.2\* 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.

Form of  
Non-Qualified  
Option  
Agreement  
under 2007  
Non-Employee  
Directors' Stock  
Option Plan  
and 2007

10.3\* 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.

Form of  
Restricted  
Stock  
Agreement  
under the  
Art's-Way  
Manufacturing  
Co., Inc. 2011  
Equity

10.8\* Incentive Plan –  
incorporated by  
reference to  
Exhibit 10.4 to  
the Company's  
Current Report  
on Form 8-K  
dated April 28,  
2011.

Form of  
Restricted  
Stock Unit  
Agreement  
under the  
Art's-Way  
Manufacturing  
Co., Inc. 2011  
Equity

10.9\* 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.  
Amendment to  
Employment  
Agreement, by  
and between  
the Company  
and Carrie L.  
Majeski, dated  
January 26,  
2012 –
- 10.11\* incorporated by  
reference to  
Exhibit 10.2 to  
the Quarterly  
Report on Form  
10-Q for the  
quarter ended  
February 29,  
2012.  
Manufacturing  
Facility  
Revenue Note  
in the principal  
amount of  
\$1,300,000,  
from Art’s-Way  
Manufacturing  
Co., Inc. to  
Iowa Finance
- 10.12 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
- 10.13 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

- Installment or  
Single Payment  
Note between  
Art's-Way  
Manufacturing  
Co., Inc. and  
U.S. Bank
- 10.14 N.A., dated  
May 10, 2012 –  
incorporated by  
reference to  
Exhibit 10.2 to  
the Company's  
Form 8-K filed  
July 16, 2012.  
Manufacturing  
Facility  
Revenue Note,  
dated May 28,  
2010, as  
amended  
February 1,  
2013 –
- 10.15 incorporated by  
reference to  
Exhibit 10.2 to  
the Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended February  
28, 2013.
- 10.16 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.  
Revolving  
Credit Note,  
between  
Art's-Way  
Manufacturing  
Co., Inc. and  
U.S. Bank  
N.A., dated  
May 1, 2013 –  
10.17 incorporated by  
reference to  
Exhibit 10.2 to  
the Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended May 31,  
2013.  
Revolving  
Credit  
Agreement,  
between  
Art's-Way  
Manufacturing  
Co., Inc. and  
U.S. Bank  
N.A., dated  
10.18 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.  
10.19 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.

Term Loan  
Agreement for  
loan in the  
amount of  
\$1,143,600,  
between

Art’s-Way  
Manufacturing  
Co., Inc. and  
U.S. Bank

10.20 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.

10.21 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.

Term Loan  
Agreement for  
loan in the  
amount of  
\$2,335,500,  
between

Art's-Way  
Manufacturing  
Co., Inc. and  
U.S. Bank

10.22 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.

Term Note for  
loan in the  
amount of  
\$1,833,510.26,  
between

Art's-Way  
Manufacturing  
Co., Inc. and  
U.S. Bank

10.23 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.

10.24



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.

10.25 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.

10.26 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.

Business  
Security  
Agreement, by  
Art’s-Way  
Manufacturing  
Co., Inc., dated  
May 1, 2013 –  
incorporated by

10.27 reference to  
Exhibit 10.12  
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  
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.  
Business  
Security  
Agreement, by  
Art's-Way  
Scientific, Inc.,  
dated May 1,  
2013 –  
incorporated by  
reference to  
10.29 Exhibit 10.14  
to the  
Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended May 31,  
2013.  
Business  
Security  
Agreement, by  
Universal  
Harvester by  
Art's-Way, Inc.,  
dated May 1,  
2013 –  
incorporated by  
10.30 reference to  
Exhibit 10.15  
to the  
Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended May 31,  
2013.  
10.31 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.

Pledge  
Agreement, by  
Art's-Way  
Scientific, Inc.,  
dated May 1,  
2013 –  
incorporated by  
reference to

10.32 Exhibit 10.17

to the  
Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended May 31,  
2013.

Pledge  
Agreement, by  
Universal  
Harvester by  
Art's-Way, Inc.,  
dated May 1,  
2013 –  
incorporated by

10.33 reference to  
Exhibit 10.18

to the  
Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended May 31,  
2013.

10.34 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.  
Continuing  
Guaranty  
(Unlimited), by  
Art's-Way  
Scientific, Inc.,  
dated May 1,  
2013 –  
incorporated by  
reference to  
10.35 Exhibit 10.20  
to the  
Company's  
Quarterly  
Report on  
Form 10-Q for  
the quarter  
ended May 31,  
2013.

- 10.36 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.
- 10.37 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.
- 10.38 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.
- 10.39 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.
- 10.40 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.
- 10.41\* 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.
- 10.42 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.
- 10.43 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.
- 10.44 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.
- 10.45 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.
- 10.46 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.
- 10.47 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.
- 10.48 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.
- 10.49 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.
- 10.50 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.
- 10.51 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.
- 10.52 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.
- 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, 2014, 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**

J. Ward McConnell, Jr.

Chairman of the Board of Directors

Private Investor

James E. Lynch

Joseph R. Dancy

President of Rydell Enterprises, LLC

President of LSGI Advisors Inc. Secretary-Treasurer of Rydell 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 Operations Worldwide Avery Weigh-Tronix LLC

Chairman of the Compensation & Stock Option Committee

Marc H. McConnell

Vice Chairman of the Board of Directors

President of Bauer Corporation

Director of Mountain Aircraft Services, Inc.

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



**OFFICERS**

Carrie L. Majeski

President and Chief Executive Officer

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

Brian Rawson

Penny Titus

Director of Sales and Marketing    General Manager - Ames

**ART'S-WAY VESSELS**

Larry Cornell

Patrick O'Neill

General Manager

Sales Manager

**ART'S-WAY SCIENTIFIC**

Dan Palmer

John Fuelling

President Art's-Way Scientific    Production Manager

**ART'S-WAY INTERNATIONAL LTD.**

Terry Tubman

General Manager

**OHIO METAL WORKING PRODUCTS**

Mark Bresson

General Manager

**CORPORATE INFORMATION**

Principal  
Office

5556  
Highway Agent  
9  
American Stock Transfer & Trust

Company  
Box  
New York, New York

Armstrong,  
Iowa  
50514-0288

Registered  
Office

The  
Corporation  
Stock Information  
Trust  
Co.  
Carrie L. Majeski

1209  
(712) 864-3131  
Orange  
Street

Wilmington,  
Delaware

Independent  
Registered  
Public  
Accounting  
Trading Information

NASDAQ Stock Market, LLC  
Bailly,  
NASDAQ symbol: ARTW

Fargo,  
North  
Dakota

