ARTS WAY MANUFACTURING CO INC
Form 10-K
February 26, 2014

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended November 30, 2013

**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 incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**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. $15,042,860

As of January 30, 2014, there were 4,046,552 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2013, are incorporated by reference into Part III of this Form 10-K.

2

**Art's-Way Manufacturing Co., Inc.**

**Index to Annual Report on Form 10-K**

**FORWARD LOOKING STATEMENTS**

Some of the statements in this report may contain forward-looking statements that reflect our current view on future events, future business, industry and other conditions, our future performance, and our plans and expectations for future operations and actions. In some cases you can identify forward-looking statements by the use of words such as “may,” “should,” “anticipate,” “believe,” “expect,” “plan,” “future,” “intend,” “could,” “estimate,” “predict,” “hope,” “potentia negative of these terms or other similar expressions. Our forward-looking statements in this report relate to the following: the expected results for our Modular Building segment’s 2013 contracts; our intentions regarding our international markets; our intended areas of product focus; our expectations regarding fluctuations in backlogs; our beliefs regarding competitive factors and our competitive strengths; our expectations regarding sales, future production levels, delivery capabilities, and demand; our beliefs about the importance of intellectual property; our predictions regarding the impact of seasonality; our beliefs regarding the impact of the farming industry on our business; our expectations regarding the performance of our Pressurized Vessels segment; our beliefs about our working capital, cash position and ability to obtain or renew financing; our expectations regarding improvements to our facilities; our beliefs regarding the impact of recently issued accounting pronouncements on our consolidated financial statements; and our intentions for paying dividends. Many of these forward-looking statements are located in this report under “Item 1. BUSINESS” and “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” but they may appear in other sections as well.

You should read this report thoroughly with the understanding that our actual results may differ materially from those set forth in the forward-looking statements for many reasons, including events beyond our control and assumptions that prove to be inaccurate or unfounded. We cannot provide any assurance with respect to our future performance or results. Our actual results or actions could and likely will differ materially from those anticipated in the forward-looking statements for many reasons, including the reasons described in this report. These factors include, but are not limited to: obstacles related to the integration of Ohio Metal Working Products Company; economic conditions that affect demand for our products; our ability to maintain compliance with our loan covenants, renew our line of credit and retain sufficient cash; the ability of our suppliers to meet our demands for raw materials and component parts; fluctuations in the price of raw materials, especially steel; our ability to predict and meet the demands of each market in which our segments operate; our ability to predict and respond to any seasonal fluctuations in demand; our ability to maintain intellectual property rights; the existence and outcome of product liability claims and other ordinary course litigation; changes in environmental, health and safety regulations and employment laws; our ability to retain our executive officers; the cost of complying with laws, regulations, and standards relating to corporate governance and public disclosure, and the demand such compliance places on management’s time; and loan covenant restrictions on our ability to pay dividends. We do not intend to update the forward-looking statements contained in this report. We cannot guarantee future results, levels of activity, performance or achievements. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. You should read this report and the documents that we reference in this report and have filed as exhibits completely and with the understanding that our actual future results may be materially different from what we currently expect. We qualify all of our forward-looking statements by these cautionary statements.

**PART I**

**Item 1. 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, and Art's Way Manufacturing International LTD, a Canadian company. 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 16 to our financial statements in Item 8 of this report.

**Business of Our Segments**

*Agricultural Products*

Our Agricultural Products segment, which accounted for 82.4% of our net revenue in the 2013 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. We sell our labeled products through independent farm equipment dealers throughout the United States. In addition, we manufacture and supply silage blowers and reels under original equipment manufacturer (OEM) agreements. Sales to our OEM customers accounted for 12% of our consolidated sales for the fiscal year ended November 30, 2013. 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 6.2% of our net revenue in the 2013 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 9.5% of our net revenue in the 2013 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. The acquired assets and operations will be reported in a new segment called Tools for financial reporting purposes. For financial information related to the acquisition, see Note 13, "Acquisitions". Our Tools segment accounted for 1.9% of our net revenue in the 2013 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 Universal Harvester Co., Inc. 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. 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 rollermills. Harvesting leaves various amounts of extraneous materials that must be removed through processing the seeds. Hammermills are aggressive pre-cleaners that are designed to remove appendages, awns and other chaff from seeds by vigorously scraping the seed over and through the screen. The screen has holes that are big enough to let the seed pass through undamaged, but are small enough to catch and remove the appendages. Our rollermills roll the feed grain to minimize dust, and they fracture the outside hull to release the digestive juices more rapidly. Rolling feed provides more palatable and digestible feed for use in animal feeding operations.

*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 Universal Harvester Co., Inc. 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.

*Backlog.* Our backlogs of orders vary on a daily basis. As of January 31, 2014, our Tools segment had approximately $639,000 of backlog, our Pressurized Vessels segment had approximately $558,000 of backlog, our Modular Buildings segment had approximately $493,000 of backlog and our Agricultural Products segment had a net backlog of approximately $9,168,000. Because 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 2013, development in our Agricultural Products segment consisted of a newly designed frame for our V-180 manure spreader. We are also in the process of updating our 6105 series grinder mixer.

Our Pressurized Vessels and Modular Building segments complete projects based on customer specifications. Pressurized Vessels did not engage in significant product development during 2013. Our Modular Building segment introduced a small combination farrowing/nursery swine building featured at the 2013 World Pork Expo in Des Moines, Iowa.

Our Tools segment worked with two of our largest customers to provide a seamless pipe cutting solution. The project was completed in the fall of 2013.

**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 worked diligently during 2013 to deliver a quality product and improve our reputation in the industry. Our sales are increasing and we have more repeat customers. We believe we are positioned to have a profitable year in 2014.

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

*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, 2013. We also sell reels to Honey Bee and Agco under an OEM agreement. For the years ended November 30, 2013 and 2012, sales to OEM customers were approximately 12% and 11% of consolidated sales, respectively.

We do not rely on sales to one customer or a small group of customers. During the year ended November 30, 2013, no one customer accounted for more than 6% of consolidated revenues. However, during the year ended November 30, 2012, one customer did account for approximately 25% of consolidated revenues. This was a customer of our Modular Building segment. During the year ended November 30, 2012, another customer accounted for approximately 12% of consolidated revenues. This was a customer of our Agricultural Products segment.

**Intellectual Property**

We maintain manufacturing rights on several products, including those purchased from Miller-St. Nazianz in 2007, 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 royalty agreement with Roda, we pay annual royalty payments based on the invoiced price for each product and service part we sell. Our royalty agreement with M&W requires us to pay royalties on a quarterly basis.

**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 2013 fiscal year accounted for $174,000 of our total consolidated engineering expenses, compared to $125,000 during our 2012 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, 2013, we employed approximately one-hundred forty-five employees in our Agricultural Products segment, four of whom were employed on a part-time basis. As of the same date, we had approximately fifteen full-time employees in our Pressurized Vessels segment and thirty-two full-time employees in our Tools segment. In addition, our Modular Buildings segment employed approximately sixteen employees, two 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 2013 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.

To better utilize our production facilities, our auger production for our Agricultural Products segment was moved from our Salem, South Dakota facility to our West Union, Iowa production facility in July 2011. The Salem, South Dakota facility was sold in December 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 Universal Harvester Co., Inc. (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 June 21, 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. The facility provides the capacity needed to increase production, and we expect that production levels will continue to increase in the future.

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 and accommodates a sprinkler system and crane.

In connection with the acquisition of certain assets of Ohio Metal Working Products Company (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.

**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 Capital Market® under the symbol "ARTW." The ranges of high and low sales prices for each quarter, as reported by NASDAQ, are shown below.

| | Common Stock High and Low Sales Prices Per Share by Quarter | | | |
|---|---|---|---|---|
| | Fiscal Year Ended November 30, 2013 | | Fiscal Year Ended November 30, 2012 | |
| | High | Low | High | Low |
| **First Quarter** | $7.65 | $5.35 | $9.69 | $5.06 |
| **Second Quarter** | $8.44 | $5.53 | $7.99 | $6.40 |
| **Third Quarter** | $7.76 | $6.60 | $8.80 | $6.15 |
| **Fourth Quarter** | $7.10 | $5.40 | $7.00 | $5.23 |

**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 February 19, 2014, we had 89 common stock stockholders of record, which number does not include stockholders who hold our common stock in street name. As of February 7, 2013, we had 98 common stock stockholders of record.

**Dividends**

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. On November 9, 2012 we announced a dividend of $0.10 per share that was paid on November 30, 2012 to stockholders of record as of November 19, 2012. We expect that the payment of and the amount of any future dividends will depend on our financial condition at that time.

**Unregistered Sales of Equity Securities**

None.

**Purchases of Equity Securities by the Company**

None.

**Equity Compensation Plans**

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

## Item 6. SELECTED FINANCIAL DATA.

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

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

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

12

**Financial Position**

We believe that our consolidated balance sheet indicates a strong financial position. During fiscal year 2013, we increased our current liabilities by 20.2%, and decreased long-term liabilities by 12.1% for a total increase of approximately $208,000. We accessed $3,350,000 on our line of credit primarily to acquire the assets of Ohio Metal Working Products Company in Canton, Ohio (see below). We also decreased net term debt by $985,000. Total current assets decreased by approximately 2.4%, or $483,000. We expect our access to capital will continue to provide future cash for equipment investments, acquisitions, or debt pay down. We believe our working capital is strong as we move into 2014, because we currently have $3,800,000 available on our line of credit as of November 30, 2013. We also expect to obtain permanent financing in connection with the purchase of Ohio Metal Working Products Company as discussed under the heading "Liquidity and Capital Resources."

On June 25, 2013, we acquired the inventory and equipment 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 additional information on this acquisition, please see Note 13 to "Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

Additionally, on September 30, 2013, we acquired the inventory, equipment, land, and building of Ohio Metal Working Products Company in Canton, Ohio. Ohio Metal Working Products Company 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 Working Products Company operational team was retained to continue the manufacturing of the carbide, PCD, and CBN tipped tools and inserts. The acquired assets and operations will be reported in a new segment called Tools for financial reporting purposes. For additional information on this acquisition, please see Note 13 to "Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."

**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.

*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. 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 is recognized in income in the period that includes the enactment date. In assessing the reliability 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.

*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 2013 and 2012 were approximately $788,000 and $937,000, 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, 2013 Compared to Fiscal Year Ended November 30, 2012*

Our consolidated net sales totaled $34,227,000 for the fiscal year ended November 30, 2013, which represents a 6.1% decrease from our consolidated net sales of $36,457,000 in 2012. Our consolidated gross profit decreased from 27.5% of net sales in 2012 to 24.4% of net sales in 2013 or from $10,032,000 to $8,366,000, respectively. Our consolidated expenses increased by 14.8%, from $5,704,000 in 2012 to $6,549,000 in 2013. Because the majority of our corporate general and administrative expenses are borne by our Agricultural Products segment, that segment represented $5,275,000 of our total consolidated operating expenses, while our Pressurized Vessels segment represented $360,000, our Modular Buildings segment represented $769,000, and our Tools segment represented $145,000 of the total.

Our consolidated operating income for the 2013 fiscal year was $1,817,000, which represents a 58.0% decrease from our consolidated operating income of $4,328,000 for the 2012 fiscal year. The decrease is primarily the result of the 2012 completion of a major project in our Modular Buildings segment as described below. Our Agricultural Products segment provided operating income of $1,234,000, our Modular Buildings segment provided operating income of $672,000, and our Tools segment provided operating income of $38,000 in 2013. Our Pressurized Vessels segment had an operating loss of $(127,000).

Consolidated net income for the 2013 fiscal year was $1,551,000, compared to $2,665,000 in the 2012 fiscal year, a decrease of $1,114,000, or 41.8%. This decrease is primarily a result of the decrease in net sales and operating income in the Modular Buildings segment, as discussed below. Our effective tax rates for the years ending November 30, 2013 and 2012 were 29.7% and 33.2%, respectively, a decrease of 3.5%. The 3.5% decrease was due primarily to a production tax credit not recognized in fiscal year 2012 and higher research and development credits in the prior fiscal year.

*Agricultural Products.* Our Agricultural Products segment's sales revenue for the fiscal year ended November 30, 2013 was $28,199,000, compared to $24,720,000 during the same period of 2012, an increase of $3,479,000, or 14.1%. The increase was due to additional sales in our beet harvester and Miller Pro box product lines, the acquisition of Universal Harvester Co., Inc. (UHC) and the associated product lines, and the acquisition of Agro Trend and the associated product lines. The sales increase in our beet harvester and Miller Pro box product lines totaled $2,489,000. The incremental revenue from our first full year of production at UHC was $996,000. Total sales revenue from the new Agro Trend brand, Art's-Way International (AWI), starting at our purchase date of June 25, 2013 to November 30, 2013, was $394,000. Offsetting these increases was a $365,000 decrease in revenue in our service parts. Gross profit for the fiscal year ended November 30, 2013 was 23.1%, compared to 28.1% for the same period in 2012. This decrease in margin was due to changes in product mix, the absorption of the new acquisitions into the Company, the reduction of sales at UHC due to research and development at our OEMs, OEM inventory draw-downs at UHC, and labor inefficiencies.

Our Agricultural Products segment's operating expenses for the fiscal year ended November 30, 2013 were $5,275,000, compared to $4,572,000 for the same period in 2012, an increase of $703,000 or 15.4%. This segment's operating expenses for the fiscal year ended November 30, 2013 were 18.7% of sales, compared to 18.5% of sales for the same period in 2012. The increases in operating expenses are due to an increase in selling expenses, as well as increased operating expenses due to the addition of UHC and AWI. Total income from operations for our Agricultural Products segment during the fiscal year ended November 30, 2013 was $1,234,000, compared to $2,373,000 for the same period in 2012, a decrease of $1,139,000 or 48.0%.

*Pressurized Vessels.* Our Pressurized Vessels segment's net sales for the fiscal year ended November 30, 2013 were $2,137,000, compared to $2,092,000 for the same period in 2012, an increase of $45,000, or 2.2%. This increase is attributable to higher sales volume. We have been working diligently to improve the consistency of our quality of goods and delivery of product. These improvements have helped us to capture additional sales as well as retain repeat customers. Fiscal year 2013 gross margin was 10.9% compared to 7.0% as of November 30, 2012. The additional sales have been the main contributor to the improved margins.

*Modular Buildings.* Our Modular Buildings segment's net sales for the fiscal year ended November 30, 2013 were $3,240,000 compared to $9,645,000 for the same period in 2012, a decrease of $6,405,000, or 66.4%. Late in 2011 we secured a large job with Whiting Turner to produce a facility for Stanford University for approximately $9,000,000. That project significantly increased our sales in 2012. Gross profit for the fiscal year ended November 30, 2013 was $1,441,000 compared to $2,941,000 during the same period of 2012, a decrease of $1,500,000, or 51.0%. The decrease was primarily attributable to the completion in 2012 of an approximately $7,000,000 fabrication and delivery contract executed in January 2012 and an approximately $1,700,000 installation contract executed in April 2012. Art's-Way Scientific was hired to design, fabricate, and install twenty-four modular units over the course of approximately one year for one of the world's leading research and teaching institutions. Most of the revenue for the contract was recognized during 2012. Operating expenses for the fiscal year ended November 30, 2013 were $769,000 compared to $859,000 for the same period in 2012, a decrease of $90,000, or 10.5%. This decrease is primarily attributable to the decrease in production activity. As a percentage of sales our operating expenses were 23.7% in 2013 compared to 8.9% in 2012. Income from operations for the fiscal year ended November 30, 2013 was $672,000 compared to $2,082,000 for the same period in 2012, a decrease of $1,410,000, or 67.7%, which is a result of the 2012 completion of the contract mentioned above.

*Tools*. On September 30, 2013, the Company acquired the assets of Ohio Metal Working Products Company. For financial reporting purposes, a new segment called Tools was created. Total sales revenue from the new brand, Ohio Metal Working Products/Art's-Way, Inc., starting at our purchase date of September 30, 2013 to November 30, 2013 was $651,000. Gross margin for that period was 28.1%.

**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 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**

A main source of funds during fiscal 2013 was proceeds from the sale of the land near Armstrong, Iowa which totaled $836,000 for the fiscal year ended November 30, 2013. Accounts receivable, including allowance for doubtful accounts, increased by $222,000 and inventory decreased by $770,000, exclusive of acquisitions. Accounts payable and accrued liabilities decreased by $2,082,000 primarily as the result of income tax payments and advance payments received in fiscal 2012 on the Modular Building segment's job for Stanford University. Art's-Way used $842,000 of cash to update facilities and equipment.

We have an $8,000,000 revolving line of credit with US Bank, pursuant to which we had borrowed $3,350,000 as of November 30, 2013 to acquire the Ohio Metal Working Products Company. We expect to obtain permanent financing for the acquisition in the future. In addition, we have five term loans from US Bank, which had outstanding principal balances of $2,115,000, $708,000, $1,693,000, $956,000, and $1,085,000 as of November 30, 2013. 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$905,000 as of November 30, 2013.

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, 2013 except for the US Bank Fixed Charge Coverage Ratio. US Bank has issued a waiver for the non-compliance as of November 30, 2013 and no event of default occurred.

For additional information about our financing activities, please refer to Note 9 to the audited consolidated financial statements contained in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

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

| | **Fiscal Year Ended** | |
|---|---|---|
| | **November 30, 2013** | **November 30, 2012** |
| Current Assets | $19,751,372 | $20,080,591 |
| Current Liabilities | 7,268,872 | 5,959,004 |
| Working Capital | $12,482,500 | $14,121,587 |
| Current Ratio | 2.72 | 3.37 |

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, 2013**

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More Than 5 years |
|---|---|---|---|---|---|
| Long-Term Debt Obligations | $11,471,675 | $4,790,009 | $2,834,493 | $3,610,381 | $236,792 |
| Capital Lease Obligations | - | - | - | - | - |
| Operating Lease Obligations | 38,000 | 24,000 | 14,000 | - | - |
| Purchase Obligations | - | - | - | - | - |
| Other Long-Term Liabilities | - | - | - | - | - |
| Total | $11,509,675 | $4,814,009 | $2,848,493 | $3,610,381 | $236,792 |

Amounts in table include principle 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.

**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, 2013 and 2012, 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Fargo, North Dakota

February 26, 2014

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

Consolidated Balance Sheets

| | November 30, 2013 | November 30, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $207,950 | $1,546,609 |
| Accounts receivable-customers, net of allowance for doubtful accounts of $35,474 and $27,958 in 2013 and 2012, respectively | 2,999,903 | 2,778,007 |
| Inventories, net | 14,922,525 | 14,327,482 |
| Deferred taxes | 1,228,097 | 1,061,806 |
| Cost and Profit in Excess of Billings | 42,238 | 102,058 |
| Income taxes receivable | 108,513 | - |
| Other current assets | 242,146 | 309,800 |
| Total current assets | 19,751,372 | 20,125,762 |
| Property, plant, and equipment, net | 11,900,202 | 9,562,698 |
| Assets held for lease, net | 122,318 | 340,979 |
| Assets held for sale, net | - | 205,508 |
| Goodwill | 993,729 | 993,729 |
| Total assets | $32,767,621 | $31,228,676 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Line of credit | $3,350,000 | $- |
| Current portion of term debt | 1,228,964 | 1,165,177 |
| Accounts payable | 806,207 | 654,322 |
| Customer deposits | 147,505 | 232,300 |
| Billings in Excess of Cost and Profit | 17,721 | 1,125,666 |
| Accrued expenses | 1,718,475 | 1,960,240 |
| Income taxes payable | - | 821,300 |
| Total current liabilities | 7,268,872 | 5,959,005 |
| Long-term liabilities | | |
| Deferred taxes | 952,645 | 897,492 |
| Long Term debt, excluding current portion | 6,251,959 | 7,300,957 |
| Total liabilities | 14,473,476 | 14,157,454 |
| Stockholders' equity: | | |
| Undesignated preferred stock - $0.01 par value. Authorized 500,000 shares in 2013 and 2012; issued and outstanding 0 shares in 2013 and 2012. | - | - |
| Common stock – $0.01 par value. Authorized 9,500,000 shares in 2013 and 2012; issued and outstanding 4,046,552 in 2013 and 4,035,052 in 2012 | 40,466 | 40,351 |
| Additional paid-in capital | 2,616,407 | 2,540,320 |
| Retained earnings | 15,637,272 | 14,490,551 |
| Total stockholders' equity | 18,294,145 | 17,071,222 |

| | | |
|---|---|---|
| Total liabilities and stockholders' equity | $32,767,621 | $31,228,676 |

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

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

Consolidated Statements of Operations

| | Years Ended | |
|---|---|---|
| | **November 30, 2013** | **November 30, 2012** |
| Net sales | $34,226,553 | $36,456,830 |
| Cost of goods sold | 25,860,107 | 26,424,567 |
| Gross profit | 8,366,446 | 10,032,263 |
| Expenses: | | |
| Engineering | 514,086 | 331,061 |
| Selling | 2,155,640 | 1,611,215 |
| General and administrative | 3,879,580 | 3,762,162 |
| Total expenses | 6,549,306 | 5,704,438 |
| Income from operations | 1,817,140 | 4,327,825 |
| Other income (expense): | | |
| Interest expense | (296,640) | (413,594) |
| Other | 685,344 | 73,796 |
| Total other income (expense) | 388,704 | (339,798) |
| Income before income taxes | 2,205,844 | 3,988,027 |
| Current tax expense | 654,468 | 1,322,940 |
| Net income | $1,551,376 | $2,665,087 |
| | | |
| Net income per share: | | |
| Basic net income per share | $0.38 | $0.66 |
| Diluted net income per share | $0.38 | $0.66 |
| Weighted average outstanding shares used to compute basic net income per share | 4,039,530 | 4,032,643 |
| Weighted average outstanding shares used to compute diluted net income per share | 4,049,791 | 4,049,516 |

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

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

Consolidated Statements of Cash Flows

| | Years Ended | |
|---|---|---|
| | **November 30, 2013** | **November 30, 2012** |
| Cash flows from operations: | | |
| Net income | $1,551,376 | $2,665,087 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock based compensation | 29,812 | 34,519 |
| Impairment of Asset Available for Sale | - | 94,647 |
| Gain on disposal of property, plant, and equipment | (601,678) | - |
| Depreciation expense | 704,457 | 792,910 |
| Amortization expense | - | 60,000 |
| Bad debt expense (recovery) | 7,516 | (7,654) |
| Deferred income taxes | (111,138) | (41,721) |
| Changes in assets and liabilities net of Universal Harvester, Agro Trend, and Ohio Working Metals acquisitions: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (229,412) | (739,984) |
| Inventories | 769,641 | (130,617) |
| Income taxes receivable | (108,513) | - |
| Other current assets | 67,652 | (110,870) |
| Increase (decrease) in: | | |
| Accounts payable | 151,885 | 312,584 |
| Contracts in progress, net | (1,048,125) | 1,114,286 |