

ARTS WAY MANUFACTURING CO INC
Form 10-K
February 05, 2019

**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, 2018

**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)

P.O. Box 288
5556 Highway 9

Armstrong, Iowa 50514
(Address of principal executive offices)

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

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter, based on the closing sale price on May 31, 2018 as reported on the Nasdaq Stock Market LLC (\$2.75 per share), was approximately \$11,572,641.

As of January 24, 2019, there were 4,218,567 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Definitive Proxy Statement for the Registrant's 2019 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2018 are incorporated by reference into Part III of this Form 10-K.

Art's-Way Manufacturing Co., Inc.

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FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements that reflect future events, future business, industry and other conditions, our future performance, and our plans and expectations for future operations and actions. In some cases forward-looking statements may be identified by the use of words such as “may,” “should,” “anticipate,” “believe,” “expect,” “plan,” “future,” “intend,” “could,” “estimate,” “predict,” “hope,” “potential,” “continue,” or the negative of these terms or other expressions. Forward-looking statements in this report generally relate to: our expectations regarding our warranty costs and order backlog; our beliefs regarding the sufficiency of working capital and cash flows; our expectations regarding our continued ability to renew or obtain financing on reasonable terms when necessary; the impact of recently issued accounting pronouncements; our intentions and beliefs relating to our costs, product developments and business strategies; our expected operating and financial results; our expectations concerning our primary capital and cash flow needs; our beliefs regarding competitive factors and our competitive strengths; our expectations regarding our capabilities and demand for our products; our predictions regarding the impact of seasonality; our beliefs regarding the impact of the farming industry on our business; our beliefs regarding our internal controls over financial reporting; and our intentions for paying dividends. Many of these forward-looking statements are located in this report under “Item 1. BUSINESS” and “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” but they may appear in other sections as well.

You should read this report thoroughly with the understanding that our actual results may differ materially from those set forth in the forward-looking statements for many reasons, including events beyond our control and assumptions that prove to be inaccurate or unfounded. We cannot provide any assurance with respect to our future performance or results. Our actual results or actions could and likely will differ materially from those anticipated in the forward-looking statements for many reasons, including, but not limited to, the impact of tightening credit markets on our ability to continue to obtain financing on reasonable terms; our ability to repay current debt, continue to meet debt obligations and comply with financial covenants; obstacles related to integration of acquired product lines and businesses; obstacles related to liquidation of product lines and segments; the effect of general economic conditions, including consumer and governmental spending, on the demand for our products and the cost of our supplies and materials; fluctuations in seasonal demand and our production cycle; the ability of our suppliers to meet our demands for raw materials and component parts; our original equipment manufacturer customers’ decisions regarding supply chain structure, inventory levels, and overall business conditions; fluctuations in the price of raw materials, especially steel; our ability to predict and meet the demands of each market in which our segments operate; our ability to predict and respond to any seasonal fluctuations in demand; 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 key employees; 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 other factors described in this report and from time to time in our other reports filed with the Securities and Exchange Commission. We do not intend to update the forward-looking statements contained in this report other than as required by law. We caution investors not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. This report and the documents that we reference in this report and have filed as exhibits should be read completely and with the understanding that our actual future results may be materially different from what we currently expect. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. BUSINESS.

General

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

We have organized our business into three operating segments. Management separately evaluates the financial results of each segment because each is a strategic business unit offering different products and requiring different technology and marketing strategies. Our Agricultural Products segment manufactures and distributes farm equipment under our own and private labels and previously included the operations of our wholly-owned subsidiary, Art's-Way Manufacturing International LTD, a Canadian company ("International"). During the second quarter of the 2018 fiscal year, we liquidated our investment in our Canadian subsidiary by selling off remaining inventory and dissolving International. Our Modular Buildings segment manufactures modular buildings for various uses, commonly animal containment and research laboratories, through our wholly-owned subsidiary, Art's-Way Scientific, Inc., an Iowa corporation. Our Tools segment manufactures standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools through our wholly-owned subsidiary, Ohio Metal Working Products/Art's Way, Inc., an Ohio corporation ("Ohio Metal"). For detailed financial information relating to segment reporting, see Note 18 "Segment Information" to our financial statements in "Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this report.

Information about Art's-Way can be found on our website, <http://www.artsway-mfg.com/>. We are not including the information on our corporate website as a part of or incorporating it by reference into this report.

Business of Our Segments

Agricultural Products

Our Agricultural Products segment, which accounted for 72.7% of our net revenue in the 2018 fiscal year and 74.4% of our net revenue in the 2017 fiscal year, is located primarily in our Armstrong, Iowa facility. This segment manufactures a variety of specialized farm machinery under our own label, including portable and stationary animal feed processing equipment and related attachments used to mill and mix feed grains into custom animal feed rations; a line of hay and forage equipment consisting of forage boxes, blowers, running gear, and dump boxes; a line of portable grain augers; a line of manure spreaders; sugar beet harvesting equipment; a line of land maintenance equipment; moldboard plows; and reels for combines and swathers. We also previously manufactured industrial grade snow blowers under the Agro Trend label, but we sold the Agro Trend product line to Metco, Inc. on December 15, 2017. The Agro Trend line under our Canadian subsidiary accounted for 2% and 4% of our sales from continuing operations on our statements of operations for the 2018 and 2017 fiscal years. We sell our labeled products through independent farm equipment dealers throughout the United States and Canada. In addition, we manufacture and supply silage blowers and reels under original equipment manufacturer ("OEM") agreements. Sales to our OEM customers accounted for 5% of our consolidated sales for the 2018 fiscal year and 4% of our consolidated sales for the 2017 fiscal year. We also provide after-market service parts that are available to keep our branded and OEM-produced equipment operating to the satisfaction of the end user of our products.

Modular Buildings

Our Modular Buildings segment, which accounted for 15.8% of our net revenue in the 2018 fiscal year and 13.0% of our net revenue in the 2017 fiscal year, is located in Monona, Iowa. This segment produces and sells modular buildings, which are custom-designed to meet the specific research needs of our customers. The buildings we commonly produce range from basic swine buildings to complex containment research laboratories. We plan to continue our focus on providing research facilities for academic research institutions, government research and diagnostic centers, public health institutions and private research and pharmaceutical companies, as those are our primary market sectors. We provide services from start to finish by designing, manufacturing, delivering and installing these facilities to meet customers' critical requirements. In addition to selling these facilities, we also offer a lease option to customers in need of temporary facilities.

Tools

Our Tools segment, which is located in Canton, Ohio, accounted for 11.5% of our net revenue in the 2018 fiscal year and 12.6% of our net revenue in the 2017 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 Agricultural Products

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

Grinder mixer line. The grinder mixer line represents our original product line. Our founder, Arthur Luscombe, designed the original power take-off unit (“PTO”) powered grinder-mixer prior to our inception. Grinder mixers are used to grind grain and mix in proteins for animal feed. They have several agricultural applications and are commonly used in livestock operations. Our grinder mixers have wide swing radiuses to allow users to reposition the discharge tube from one side of the tank to the other in one step. Our 6105 grinder mixer offers a 105-bushel tank with a 20-inch hammermill. Our 6140 grinder mixer is a medium sized product with a 140-bushel tank, a 20-inch hammermill, and an 8-inch discharge auger. We replaced our 6530 grinder mixer model with the 7165 in 2017, which at the time, was the largest in the industry at a 165-bushel tank with a 26-inch hammermill. It features self-contained hydraulics and 10-inch discharge augers, which yield the fastest unload times in the industry. In 2018, we developed the 8215 grinder mixer featuring a 215-bushel tank, which is now the largest in the industry. Our Cattle Maxx rollermill mixer products offer consistent feed grain rations for beef and dairy operations and are available in 105-bushel, 140-bushel, and 165-bushel capacities. Also, in 2018, we added the JR50 and JR75 grinder mixer models to our line featuring 50- and 75-bushel mixing tanks, respectively.

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

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

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

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

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

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. We also offer manure spreaders with flared sides for increased capacity and a guillotine slop gate for accurate metering. Our products are ideal for spreading livestock manure, compost, and lime. We offer a scale system and a scale system with GPS for proper nutrient placement. These spreaders boast a heavy-duty and rugged design with one of the best spread patterns in the industry, allowing for efficient and consistent nutrient and land management.

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

Product Distribution and Markets

We distribute goods for our Agricultural Products segment primarily through a network of approximately 1,100 U.S. and Canadian independent dealers, as well as overseas dealers in the United Kingdom and Australia, whose customers require specialized agricultural machinery. We have sales representation in 48 states and seven Canadian provinces; however, many dealers sell only service parts for our products. Our dealers sell our products to various agricultural and commercial customers. We also maintain a local sales force in our Armstrong, Iowa facility to provide oversight services for our distribution network, communicate with end users, and recruit and train dealers on the uses of our products. Our local service parts staff is available to help customers and dealers with their service parts needs. Our Modular Buildings segment typically sells products customized to the end-users' requirements directly to the end-users. Our Tools segment distributes products through manufacturers' representatives, direct sales, and OEM sales channels.

We currently export products to four foreign countries. We have been shipping grinder mixers abroad since 2006 and have exported portable rollermills and sugar beet harvesters as well. We continue to strengthen these relationships and intend to develop new international markets. Our international sales accounted for 7.7% of consolidated sales during the 2018 fiscal year.

Backlog. Our backlogs of orders vary on a daily basis. As of January 30, 2018, our Tools segment had approximately \$95,000 of backlog, our Modular Buildings segment had approximately \$333,000 of backlog, and our Agricultural Products segment had a net backlog of approximately \$2,024,000. We expect that our order backlogs will continue to fluctuate as orders are received, filled, or cancelled, and, due to dealer discount arrangements we may enter into from time to time, these figures are not necessarily indicative of future revenue.

Recent Product Developments

During the 2018 fiscal year, development in our Agricultural Products segment consisted of several products. We introduced two new manure spreaders at the end of 2018, the X700 and X900. These units feature a guillotine slop gate for accurate metering and additional capacity due to flared sides. We also developed the 8215 grinder mixer, which we expect will be unveiled in the 2019 fiscal year. This model incorporates the quality and traditional features of previous units with our largest capacity in a grinder mixer of 215 bushels. We neared completion on our 40-foot commercial forage box, which features a rear unload, has an all-welded design for greater strength and features polished stainless-steel sides. The 40-foot forage box is also welded to a semi-trailer for straight from the field to over-the-road use.

Our Tools and Modular Buildings segments complete projects based on customer specifications and did not engage in specific product development during the 2018 fiscal year.

Competition

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

Agricultural Products

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

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

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

In addition, in order to capitalize on brand recognition for our Agricultural Products segment, we have numerous product lines produced under our labels and private labels, and we have made strategic acquisitions to strengthen our dealer base. We also provide aftermarket service parts which are available to keep our branded and OEM-produced equipment operating to the satisfaction of the customer. We sell products to customers in the United States and four foreign countries through a network of approximately 1,100 independent dealers in the United States and Canada, as well as overseas dealers in the United Kingdom and Australia.

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

Modular Buildings

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

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

Tools

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

Raw Materials, Principal Suppliers, and Customers

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

We have an OEM supplier agreement with Case New Holland (“CNH”) for our Agricultural Products segment. Under the OEM agreement, we have agreed to supply CNH’s requirements for certain feed processing and service parts, primarily blowers, under CNH’s label. The agreement has no minimum requirements and can be cancelled upon certain conditions. The initial term of the agreement with CNH expired in September 2006, but the agreement continues in force until terminated or cancelled by either party. Neither party has terminated or cancelled the agreement as of November 30, 2018. We also sell reels to Honey Bee and Agco under an OEM agreement. For the 2018 fiscal year, sales to OEM customers were approximately 5% of consolidated sales compared to 4% in the 2017 fiscal year.

We do not rely on sales to one customer or a small group of customers. During the 2018 fiscal year, no one customer accounted for more than 6% of consolidated revenues.

Intellectual Property

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

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

Government Relationships and Regulations; Environmental Compliance

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

Employees

As of November 30, 2018, we employed approximately 90 employees in our Agricultural Products segment, two of whom were employed on a part-time basis. As of the same date, we had 18 employees in our Tools segment, one of whom was employed on a part-time basis. Nearly all of the employees in our Tools segment are represented by a union and covered by a collective bargaining agreement. In addition, our Modular Buildings segment employed

approximately 24 employees as of the same date, one of whom worked on a part-time basis. These numbers do not necessarily represent peak employment during the 2018 fiscal year.

Item 1A. RISK FACTORS.

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

Item 1B. UNRESOLVED STAFF COMMENTS.

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

Item 2. PROPERTIES.

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

We purchased an office, production, and warehousing facility for our Agricultural Products segment located in West Union, Iowa on approximately 29 acres in fiscal 2010. The property contained approximately 190,000 square feet of usable space. A substantial portion of the facility was leased to third parties during the 2018 fiscal year. This property was sold on December 14, 2018 for \$900,000. We recognized an impairment of approximately \$216,000 on this property in the 2018 fiscal year.

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

In February 2008, we completed construction on a facility in Dubuque, Iowa, which was used for our discontinued Pressurized Vessels segment. The facility was 34,450 square feet, steel-framed, with a crane that ran the length of the building. A paint booth and a blast booth were installed in the first quarter of the 2009 fiscal year. On March 29, 2018, we sold this facility for \$1,500,000.

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

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

All of our owned real property is subject to mortgages granted to Bank Midwest as security for our long-term debt and our line of credit. See “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Liquidity and Capital Resources” for more information.

Item 3. LEGAL PROCEEDINGS.

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

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

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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."

Stockholders

We have two classes of stock, undesignated preferred stock and \$0.01 par value common stock. No shares of preferred stock have been issued or are outstanding. As of January 30, 2019, we had 90 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 2018 or 2017 fiscal years. We expect that the payment of and the amount of any future dividends will depend on our financial condition at that time.

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities by the Company

None.

Equity Compensation Plans

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

Item 6. SELECTED FINANCIAL DATA.

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

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

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

Financial Condition

In our 62 years, we have maneuvered the peaks and valleys of the agriculture market many times, but the last several years of the struggling economy have been especially trying. With our core business struggling from the depressed agriculture economy, we were not able to properly provide resources to turn around prior acquisitions and had to make difficult decisions to abandon some of these segments. Our strategy going forward is to focus on the key product lines that support our customer base, provide us with an opportunity to distinguish ourselves from competition, and enable us to grow in both volume and profitability.

We continued our balance sheet cleanup in the 2018 fiscal year and we believe that our consolidated balance sheet indicates a stable financial position as of November 30, 2018. Despite showing a net loss from continuing operations of \$(3,336,000) for the 2018 fiscal year we were able to decrease our total liabilities by \$100,000 compared to the 2017 fiscal year. Our debt dropped to the lowest level it has been in almost ten years after the sale of our West Union facility on December 14, 2018, and we made indirect cuts in December of 2018 to help us continue to weather this economic storm.

We expect to have access to capital as needed in 2019 through the sale of inventory and from our line of credit. At November 30, 2018 we had \$1,494,470 available on our line of credit. Our banking relationship has remained in good favor despite the recent losses, due to our transparency and ongoing corporate strategy. During the 2018 fiscal year, our working capital decreased approximately \$3,003,000, primarily as a result of a reduction of inventory and an increase in our line of credit at November 30, 2018. Despite the drop, our current ratio still remains strong at 2.11. We do expect our inventory value to continue to drop as we bring our inventory to more manageable levels and implement lean manufacturing practices. We also are placing an emphasis on debt retirement as we go forward.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 “Summary of Significant Accounting Policies” to our financial statements in “Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of this report. 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 represents the most critical accounting policies and estimates used in the preparation of our consolidated financial statements, although it is not inclusive.

Inventories

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

Revenue Recognition

Revenue is recognized when risk of ownership and title pass to the buyer, generally upon the shipment of the product. All sales are made to authorized dealers whose application for dealer status has been approved and who have been informed of general sales policies. Any changes in our terms are documented in the most recently published price lists. Pricing is fixed and determinable according to our published equipment and parts price lists. Title to all

equipment and parts sold pass to the buyer upon delivery to the carrier and is not subject to a customer acceptance provision. Proof of the passing of title is documented by the signing of the delivery receipt by a representative of the carrier. Post shipment obligations are limited to any claim with respect to the condition of the equipment or parts. A provision for warranty expenses, based on sales volume, is included in the financial statements. Our returns policy allows for new and saleable parts to be returned, subject to inspection and a restocking charge, which is included in net sales. Whole goods are not returnable. Shipping costs charged to customers are included in net sales. Freight costs incurred are included in cost of goods sold. Customer deposits consist of advance payments from customers, in the form of cash, for revenue to be recognized in the following year.

In certain circumstances, upon the customer's written request, we may recognize revenue when production is complete and the goods are ready for shipment. At the buyer's request, we will bill the buyer upon completing all performance obligations, but before shipment. The buyer dictates that we ship the goods per their direction from our manufacturing facility, as is customary with this type of agreement, in order to minimize shipping costs. The written agreement with the customer specifies that the goods will be delivered on a schedule to be determined by the customer, with a final specified delivery date, and that we will segregate the goods from our inventory, such that they are not available to fill other orders. This agreement also specifies that the buyer is required to purchase all goods manufactured under this agreement. Title of the goods will pass to the buyer when the goods are complete and ready for shipment, per the customer agreement. At the transfer of title, all risks of ownership have passed to the buyer, and the buyer agrees to maintain insurance on the manufactured items that have not yet been shipped. We have operated using bill and hold agreements with certain customers for many years, with consistent satisfactory results for both buyer and seller. The credit terms on this agreement are consistent with the credit terms on all other sales. All risks of loss are shouldered by the buyer, and there are no exceptions to the buyer's commitment to accept and pay for these manufactured goods. Revenues recognized at the completion of production in the 2018 and 2017 fiscal years were approximately \$202,000 and \$184,000, respectively.

Our Modular Buildings segment is in the construction industry, and as such accounts for 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 costs consist of direct costs on contracts, including labor, materials, amounts payable to subcontractors and those indirect costs related to contract performance, such as equipment costs, insurance and employee benefits. Contract cost is recorded as incurred, and revisions in contract revenues and cost estimates are reflected in the accounting period when known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. 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. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract change orders, penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

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.

We lease modular buildings to certain customers and account for these transactions as operating or sales-type leases. These leases have terms of up to 36 months and are collateralized by a security interest in the related modular building. On sales-type leases, the lessee has a bargain purchase option available at the end of the lease term. A minimum lease receivable is recorded net of unearned interest income and profit on sale at the time the building is substantially complete. Profit related to the sale of the building is recorded upon fulfillment of our obligation to the lessee. On operating leases, we recognize rent when the lessee has all the rights and benefits of ownership of the asset.

Results of Operations – Continuing Operations

Fiscal Year Ended November 30, 2018 Compared to Fiscal Year Ended November 30, 2017

Our consolidated net sales for continuing operations totaled \$19,727,000 for the 2018 fiscal year, which represents a 4.8% decrease from our consolidated net sales of \$20,715,000 for the 2017 fiscal year. The decrease in revenue is due to decreased sales in our Agricultural Products and Tools segments. We experienced fairly steady demand in the 2018 fiscal year in our Agricultural Products segment and attribute the sales decrease to our decision to terminate a relationship to sell passthrough beet equipment and to liquidate our Canadian operations. The decrease in our Tools segment is due to the loss of a high-volume customer. Our consolidated gross profit decreased as a percentage of net sales to 17.8% in the 2018 fiscal year from 19.7% of net sales in the 2017 fiscal year. Our gross profit was down in all three segments for the 2018 fiscal year, mainly due to increased material costs. The increased material costs drove price increases at the end of the 2018 fiscal year to help mitigate this concern for the 2019 fiscal year. Our consolidated operating expenses increased by 13.8%, from \$5,804,000 in the 2017 fiscal year to \$6,607,000 in the

2018 fiscal year. This was due largely to one-time non-cash expenses in our Agricultural Products segment further described below. Because the majority of our corporate general and administrative expenses are borne by our Agricultural Products segment, that segment represented \$4,959,000 of our total consolidated operating expenses, while our Modular Buildings segment represented \$939,000 and our Tools segment represented \$709,000.

Our consolidated operating loss from continuing operations for the 2018 fiscal year was \$(3,095,000) compared to an operating loss of \$(1,722,000) for the 2017 fiscal year. Our Agricultural Products segment had an operating loss of \$(2,462,000), our Modular Buildings segment had an operating loss of \$(566,000), and our Tools segment had an operating loss of \$(67,000).

Consolidated net loss for the 2018 fiscal year was \$(3,336,000) for continuing operations compared to net loss of \$(1,369,000) in the 2017 fiscal year for continuing operations, an increase in loss of \$1,967,000. This increased loss is due to several factors. In the first quarter of the 2018 fiscal year we recognized a loss of approximately \$298,000 from the revaluation of our deferred tax asset at the new income tax rates. We also recognized a loss of approximately \$253,000 from the liquidation of our Canadian subsidiary related to the cumulative translation adjustment in the second quarter of the 2018 fiscal year. We recognized an impairment of approximately \$216,000 on our West Union facility during the third and fourth quarters of the 2018 fiscal year which was equal to the selling price less commissions. This facility required mold remediation of \$235,000 and scrapping of \$67,000 of inventory, which was captured in the third quarter of the 2018 fiscal year. We also impaired our goodwill on our Miller Pro product line in the amount of \$375,000 in the fourth quarter of the 2018 fiscal year. Another factor contributing to the increased loss was management's decision to place increased reserves on inventory resulting in expense of approximately \$543,000 in the fourth quarter of the 2018 fiscal year. The revaluation of our deferred tax asset, release of our current translation adjustment, impairment of assets and inventory reserve revaluation were all one-time non-cash expenses that greatly impacted our bottom line in the 2018 fiscal year. Net loss from our discontinued Pressurized Vessels segment was \$(51,000) in the 2018 fiscal year compared to \$(268,000) in the 2017 fiscal year.

Our effective tax rate for continuing operations for the 2018 and 2017 fiscal years was 13.3% and 23.6%, respectively. The decrease in the effective tax rate is due to the Tax Cuts and Job Act of 2017 as discussed in Note 1, “Summary of Significant Accounting Policies” to our financial statements in “Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of this report.

Agricultural Products. Our Agricultural Products segment’s sales revenue for the 2018 fiscal year was \$14,344,000 compared to \$15,407,000 during the 2017 fiscal year, a decrease of \$1,063,000, or 6.9%. The decrease in sales was primarily due to terminating a relationship in 2018 in which we sold beet harvesters as passthrough equipment. Total sales revenue related to this relationship in the 2017 fiscal year was \$727,000 compared to \$0 in the 2018 fiscal year. We also attribute \$687,000 of decreased sales to the liquidation of our Canadian operations in December 2017. Gross profit for the 2018 fiscal year was 17.4% compared to 18.1% for the 2017 fiscal year. The decrease in margin is attributable to an increase in steel prices driven by economic factors. We implemented two separate price increases in 2018 to mitigate the impact on our gross profit, but ultimately were unable to entirely avoid the decrease.

Our Agricultural Products segment’s operating expenses for the 2018 fiscal year were \$4,959,000 compared to \$4,173,000 for the 2017 fiscal year, an increase of \$786,000 or 18.8%. In the 2018 fiscal year, operating expenses included one-time non-cash expenses of \$216,000 for the impairment of our West Union facility and \$375,000 for the impairment of goodwill related to our Miller Pro product line. We also increased our obsolescence reserve by \$543,000 in the fourth quarter for slow-moving inventory related to prior acquisitions. This segment’s operating expenses for the 2018 fiscal year were 34.6% of sales compared to 27.1% of sales for the 2017 fiscal year. Total loss from operations for our Agricultural Products segment during the 2017 fiscal year was \$(2,462,000) compared to an operating loss of \$(1,381,000) for the 2017 fiscal year, an increase in loss of \$1,081,000.

Modular Buildings. Our Modular Buildings segment’s net sales for the 2018 fiscal year were \$3,109,000 compared to \$2,700,000 for the 2017 fiscal year, an increase of \$409,000, or 15.1%. The increase in sales was attributable to increased capital and operating lease activity in 2018. Gross profit for the 2018 fiscal year was 12.0% compared to 18.3% during the 2017 fiscal year. The decrease in gross profit was largely due to the depreciation of leased assets with short estimated useful lives. Operating expenses for the 2018 fiscal year were 30.2% of sales compared to 29.9% for the 2017 fiscal year. Total loss from operations from our Modular Buildings segment during the 2018 fiscal year was \$(566,000) compared to an operating loss of \$(313,000) in the 2017 fiscal year, an increase in loss of \$253,000.

Tools. Our Tools segment’s net sales for the 2018 fiscal year were \$2,274,000 compared to \$2,608,000 for the 2017 fiscal year, a decrease of \$334,000, or 12.8%. The decrease is primarily due to the loss of a large volume customer. Gross profit for the 2018 fiscal year was 28.2% compared to 30.6% for the 2017 fiscal year. Our decreased gross margin for the twelve months is largely due to lower revenues with less variable margin to absorb fixed costs. Operating expenses were \$709,000 for the 2018 fiscal year compared to \$825,000 for the 2017 fiscal year, a decrease of \$116,000, or 14.1%. This decrease is largely a reduction of our sales force from two traveling salesmen to one, along with decreased commissions as a result of lower revenues.

Results of Operations – Discontinued Operations

During the third quarter of the 2016 fiscal year, we made the decision to exit the pressure vessels industry. On March 29, 2018 we disposed of the remaining assets for \$1,500,000. We did not have net sales from our Pressurized Vessels segment in 2018 or 2017. We continued to incur expenses during the 2018 and 2017 fiscal years due to holding the facility in Dubuque, Iowa. An impairment to our assets of \$289,000 was recorded in the 2017 fiscal year. Our pretax loss in the 2018 fiscal year was \$(67,000) compared to \$(401,000) in the 2017 fiscal year, a decrease of \$334,000, or 83.3%.

Trends and Uncertainties

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

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

Seasonality

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

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

Liquidity and Capital Resources

Our main source of funds during the 2018 fiscal year was cash generated by investing activities, which was primarily from the sale of our Dubuque, Iowa facility. We used approximately \$435,000 of cash to update facilities and equipment which includes software and hardware related to information technology advances, transportation equipment, and manufacturing equipment. We used another \$330,000 to add additional assets held for lease to our modular building rental fleet.

On September 28, 2017, we entered into a new credit facility with Bank Midwest, which superseded and replaced in its entirety our previous credit facility with U.S. Bank National Association ("U.S. Bank"). The Bank Midwest credit facility consists of a \$5,000,000 revolving line of credit, pursuant to which we had borrowed \$3,505,530, with \$1,494,470 remaining, as of November 30, 2018, and two term loans, which had outstanding principal balances of \$2,517,510 and \$0 as of November 30, 2018. Proceeds of the new line of credit and two term loans were used to refinance all of the indebtedness outstanding under the U.S. Bank credit facility in the amount of approximately \$6,562,030, which consisted of \$6,528,223 in unpaid principal and approximately \$33,807 in accrued and unpaid interest and fees. The revolving line of credit is being used for working capital purposes.

We also had a loan relating to our production facility in West Union, Iowa, from the Iowa Finance Authority, which had an outstanding balance of \$232,967 as of November 30, 2018. This loan was paid in full with the sale of the West Union facility on December 14, 2018.

Our loans require us to comply with various covenants, including maintaining certain financial ratios and obtaining prior written consent from Bank Midwest for any investment in, acquisition of, or guaranty relating to another business or entity. We were in compliance with all covenants in place under the Bank Midwest loans as of November 30, 2018 except for the debt service coverage ratio as measured on November 30, 2018. We were also in compliance with all covenants under the Iowa Finance Authority loan agreement except for the debt service coverage ratio as measured on November 30, 2018. The First National Bank of West Union loan was paid off on December 14, 2018 with the sale of our West Union building rendering a waiver unnecessary. Bank Midwest has issued a waiver forgiving the noncompliance as of November 30, 2018, and no event of default has occurred.

For additional information about our financing activities, please refer to Note 10 “Loan and Credit Agreements: to our financial statements in “Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of this report.

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

	Fiscal Year Ended	
	November	November
	30, 2018	30, 2017
Current Assets	\$12,145,158	\$14,432,771
Current Liabilities	5,765,381	5,049,756
Working Capital	\$6,379,777	\$9,383,015
Current Ratio	2.11	2.86

We believe that our current cash and financing arrangements provide sufficient cash to finance operations for the next 12 months. We expect to continue to rely on cash from financing activities to supplement our cash flows from operations in order to meet our liquidity and capital expenditure needs in the near future. We expect to continue to be able to procure financing upon reasonable terms.

Off-Balance Sheet Arrangements

None.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Art's-Way Manufacturing Co., Inc. and Subsidiaries (the Company) as of November 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2018 and 2017, 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.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Eide Bailly LLP

We have served as the Company's auditor since 2006.

Minneapolis, Minnesota

February 5, 2019

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

Consolidated Balance
Sheets

	November 30, 2018	November 30, 2017
Assets		
Current assets:		
Cash	\$3,512	\$212,400
Accounts receivable-customers, net of allowance for doubtful accounts of \$25,100 and \$32,298 in 2018 and 2017, respectively	1,537,113	1,910,294
Inventories, net	10,257,102	11,966,722
Cost and profit in excess of billings	99,287	65,146
Net investment in sales-type leases, current	123,055	-
Assets of discontinued operations	-	2,454
Other current assets	125,089	275,755
Total current assets	12,145,158	14,432,771
Property, plant, and equipment, net	5,647,485	5,946,957
Assets held for lease, net	1,870,125	1,217,164
Deferred income taxes	1,432,422	901,396
Goodwill	-	375,000
Net investment in sales-type leases, long-term	153,787	-
Other assets of discontinued operations	-	1,425,000
Other assets	76,497	81,545
Total assets	\$21,325,474	\$24,379,833
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$802,062	\$673,653
Customer deposits	145,632	600,325
Billings in excess of cost and profit	185,014	48,211
Income taxes payable	6,400	3,100
Accrued expenses	893,284	981,558
Liabilities of discontinued operations	-	59,149
Line of credit	3,505,530	2,462,530
Current portion of long-term debt	227,459	221,230
Total current liabilities	5,765,381	5,049,756
Long-term liabilities		
Long-term liabilities of discontinued operations	-	590,366
Long-term debt, excluding current portion	2,523,018	2,748,677
Total liabilities	8,288,399	8,388,799

Commitments and Contingencies (Notes 9, 10 and 17)

Stockholders' equity:

Undesignated preferred stock - \$0.01 par value. Authorized 500,000 shares in 2018 and 2017; issued and outstanding 0 shares in 2018 and 2017.	-	-
Common stock – \$0.01 par value. Authorized 9,500,000 shares in 2018 and 2017; issued and outstanding 4,225,050 in 2018 and 4,158,752 in 2017	42,250	41,587
Additional paid-in capital	3,055,632	2,859,052
Retained earnings	9,966,928	13,353,830
Accumulated other comprehensive loss	-	(257,010)
Treasury stock, at cost (9,286 in 2018 and 1,954 in 2017 shares)	(27,735)	(6,425)
Total stockholders' equity	13,037,075	15,991,034
Total liabilities and stockholders' equity	\$21,325,474	\$24,379,833

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, 2018	November 30, 2017
Sales	\$19,726,793	\$20,715,080
Cost of goods sold	16,215,237	16,632,979
Gross profit	3,511,556	4,082,101
Expenses:		
Engineering	640,430	501,182
Selling	1,936,147	1,889,461
General and administrative	3,438,981	3,343,500
Impairment of assets	591,268	70,000
Total expenses	6,606,826	5,804,143
(Loss) from operations	(3,095,270)	(1,722,042)
Other income (expense):		
Interest expense	(304,566)	(319,622)
Other	(446,629)	248,507
Total other income (expense)	(751,195)	(71,115)
Income	(3,846,465)	(1,793,157)
Income tax (benefit)	(510,416)	(423,798)
(Loss) from continuing operations	(3,336,049)	(1,369,359)
Discontinued Operations		
Loss from operations of discontinued segment	(67,177)	(400,739)
Income tax benefit	(16,324)	(133,017)
Loss on discontinued operations		