NOVO NORDISK A S
Form 6-K
February 25, 2004

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

18 February 2004

NOVO NORDISK A/S

(Exact name of Registrant as specified in its charter)

Novo Allé
DK- 2880, Bagsvaerd
Denmark

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F þ Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g-32(b):82- __________

TABLE OF CONTENTS

Table of Contents

Table of Contents

Financial highlights

Net turnover	1999 DKK million	2000 DKK million	2001 DKK million	2002 DKK million	2003 DKK million	Change 2002-2003	2002 EUR million	2003 EUR million
Diabetes care	11,777	14,578	16,624	17,665	**18,723**	6%	2,374	2,516
Biopharmaceuticals:								
Haemostasis management (NovoSeven®)	1,313	2,270	3,096	3,621	**3,875**	7%	485	520
Growth hormone therapy	1,721	2,107	2,164	2,131	**2,220**	4%	287	298
Hormone replacement therapy	1,130	1,306	1,435	1,342	**1,331**	(1%)	180	178
Other	482	550	457	428	**392**	(8%)	57	52
Total turnover	16,423	20,811	23,776	25,187	**26,541**	5%	3,383	3,564
Europe	7,796	9,189	10,605	10,933	**11,743**	7%	1,470	1,577
North America	2,769	4,114	5,277	5,913	**6,359**	8%	794	854
Japan & Oceania	3,761	4,697	4,498	4,239	**4,210**	(1%)	569	565
International Operations	2,097	2,811	3,396	4,102	**4,229**	3%	550	568
Total turnover	16,423	20,811	23,776	25,187	**26,541**	5%	3,383	3,564
Price and volume/mix	15%	16%	17%	11%	**15%**			
Currency	5%	11%	(3%)	(5%)	**(10%)**			
Total growth	20%	27%	14%	6%	**5%**			

Key figures	1999 DKK million	2000 DKK million	2001 DKK million	2002 DKK million	2003 DKK million	Change 2002-2003	2002 EUR million	2003 EUR million
Operating profit (EBIT)	3,527	4,816	5,614	5,979	**6,384**	7%	804	857
Net financials	(178)	24	416	321	**999**	211%	42	135
Profit before taxation	3,349	4,840	6,030	6,300	**7,383**	17%	846	992
Net profit	2,001	3,087	3,865	4,095	**4,858**	19%	551	653
Shareholders funds	15,876	16,981	20,137	22,928	**25,224**	10%	3,080	3,388
Total assets	23,082	24,920	28,905	31,496	**34,394**	9%	4,231	4,620
Capital expenditure (net)	1,265	2,141	3,846	4,011	**2,312**	(42%)	539	309
Free cash flow	1,533	2,712	186	497	**3,846**	674%	67	517

Per share/ADR of DKK 2	1999 DKK	2000 DKK	2001 DKK	2002 DKK	2003 DKK	Change 2002-2003	2002 EUR	2003 EUR
Earnings per share	5.60	8.84	11.18	11.81	**14.24**	21%	1.59	1.91
Earnings per share diluted	5.59	8.82	11.10	11.72	**14.14**	21%	1.57	1.90
Proposed dividend	1.95	2.65	3.35	3.60	**4.40**	22%	0.48	0.59
Quoted price at year-end for B shares	178	285	342	205	**241**	18%	28	32

	1999	2000	2001	2002	2003	Long-term financial targets

Ratios	**%**	**%**	**%**	**%**	**%**	**%**
Growth in operating profit (EBIT)	20.3	36.5	16.6	6.5	**6.8**	15
Growth in operating profit, three-year average	N/A	25.7	24.5	19.9	**10.0**	
Operating profit margin	21.5	23.1	23.6	23.7	**24.1**	25
Return on invested capital (ROIC)	15.3	22.0	23.1	20.1	**19.1**	25
Cash to earnings	76.6	87.9	4.8	12.1	**79.2**	
Cash to earnings, three-year average	48.4	66.5	56.4	34.9	**32.0**	60
Net profit margin	12.2	14.8	16.3	16.3	**18.3**	
Return on shareholders funds	12.6	18.8	20.8	19.0	**20.2**	
Equity ratio	68.8	68.1	69.7	72.8	**73.3**	
Change in market capitalisation	13.7	56.2	20.4	(40.4)	**15.4**	

Figures for 1999 are derived from the consolidated accounts of the former Novo Nordisk Group (prior to the demerger) all dividend is allocated to the continuing Novo Nordisk. Key figures and per share data are translated into EUR as supplementary information the translation is based on the currency rate at 31 December 2003 (EUR 1=DKK 7.4446).

Contents

Table of Contents

Lars Rebien Sørensen, president and CEO, and Mads Øvlisen, chairman of the Board of Directors.

Welcome letter

Continuing focus on operational excellence

The corporate world, and with that Novo Nordisk, faces many challenges these years, several of which are specifically related to the pharmaceutical industry. Can corporations be trusted? Public trust is of paramount importance for corporations, and especially pharmaceutical companies, who rely on public acceptance to be able to innovate and to operate.

Whom do corporations serve? Not so many years ago, we would have said the shareholders , without hesitation. But increasingly business enterprises are recognising commitments to several other stakeholders such as customers, employees, societies at large in addition to shareholders. In order to serve the long-term interest of stakeholders, companies must regard it as a core part of their business to assume a wider responsibility and consider broadly the wide range of factors which may impact its ability to generate returns over long periods of time.

To reflect this broader view, which for several years has guided the way Novo Nordisk conducts its business, at this year s Annual General Meeting the Board of Directors will ask our shareholders to amend the company s Articles of Association. After this change, the articles will specify that the company besides its financial purpose will strive to achieve its objectives in an environmentally and socially responsible way. This is the Novo Nordisk way of doing business.

Good governance is not just a fashionable topic, but a continuous process which seeks to align the way companies are controlled and managed with the ever changing societal conditions and expectations. In fact it is never a job done it is continuous hard work. In 2003 we strengthened our risk management system, we continued our work on board self-evaluation and developed a new long-term share-based incentive programme for executives to replace the existing share option-based scheme which will be presented at the Annual General Meeting.

For Novo Nordisk and for other research-based companies innovation is our biggest challenge: the ability to consistently generate new pharmaceuticals that meet significant medical needs and hence warrant the investment of capital and efforts, as well as justifying the application of break-through technologies and animal testing.

Our focus over the last few years has been on operational excellence. This has led to a strengthening of our business operations, manufacturing, staff and quality functions and an overhaul of the way we conduct our research and development activities.

We are as the first insulin supplier close to having a full insulin analogue portfolio. Our innovative insulin analogues will offer superior glucose control and convenience to people with diabetes. The insulin market thus changes from a generic market to a market of value-adding proprietary insulin.

Our search for new and improved oral therapies for type 2 diabetes continues. And we believe we have an important research pipeline in this field. However, general disappointments

Table of Contents

Welcome letter continued

within research into oral antidiabetic drugs have only further strengthened the importance of insulin as the ultimate drug for treating diabetes.

We have gained new knowledge about the potential use of NovoSeven® in critical life- or limb-threatening bleeds. In particular the confirmation from phase 2 clinical studies that NovoSeven® does reduce the need for blood transfusions in connection with traumatic injuries was highly promising and encouraging. Furthermore, we have taken the first steps to build a portfolio of new biopharmaceutical drugs within the areas of inflammation and cancer which hold promise for the longer term.

We have strengthened our market position, especially as a result of the roll-out of our rapid-acting (NovoRapid®/NovoLog®) and our dual-acting insulin analogue preparations (NovoMix® 30/ NovoLog® Mix 70/30). In particular our business in the US has developed nicely, and enabled us to make further investments both in our US organisation, in local manufacturing and also in expanded clinical development activities for this the world s biggest market for pharmaceuticals.

We have consolidated our European organisation with its headquarters in Switzerland, and we are accelerating our expansion in the developing part of the world.

Throughout 2003, we have tightly managed our cost base, by improving operational efficiency without sacrificing medium-to long-term growth opportunities. This has only been possible through an impressive effort, creativity and dedication from staff throughout our company. Measurement of working climate indicates that this has been accomplished without affecting employee morale. In fact morale is at an all-time high! This tells something about the quality of Novo Nordisk people.

Our financial performance in 2003 was, considering the adverse currency environment, satisfactory. We saw significant growth in operating profit in local currencies, but the weak invoicing currencies, particularly the US dollar and Japanese yen, reduced growth rates based on Danish kroner results significantly. Our hedging practices retained earnings short term but it is clear that the current currency environment is very challenging for European-based companies if it persists longer term.

We are very pleased to note that the shareholders, who have loyally supported the company in 2003, were rewarded with an appreciation of Novo Nordisk s share price.

On the cover of this report we asked the question What does being there mean to you? Being there is our promise, and in the *Annual Review 2003* we have given examples of what being there means to Novo Nordisk. We value all our stakeholders opinions and so invite readers to tell us what this means to you. E-mail your thoughts and ideas to beingthere@novonordisk.com.

Mads Øvlisen, chairman of the Board of Directors Lars Rebien Sørensen, president and CEO

Management report

Financial performance

Operating profit increased by 7% to DKK 6,384 million in 2003 and net profit increased by 19% to DKK 4,858 million. Sales in local currencies increased by 15% compared to 2002. Measured in Danish kroner sales increased by 5% to DKK 26,541 million in 2003. The performance in local currencies per therapy area was as follows:

- Diabetes care sales increased by 16%.

In biopharmaceuticals:

- Haemostasis management sales increased by 20%.
- Growth hormone therapy sales increased by 13%.
- Hormone replacement therapy sales increased by 5%.

Business highlights

Novo Nordisk s business events and highlights from the year are as follows:

Research and development

Several development milestones have been met over the past year and expansion of collaborations within research continued.

Liraglutide, also known as NN2211, achieved Clinical Proof of Concept (CPoC).

The US Food and Drug Administration issued an Approvable Letter for insulin detemir (Levemir).

The European Union s Committee for Proprietary Medicinal Products (CPMP) issued a positive opinion on NovoSeven® for prevention of bleeding during invasive procedures in people with factor VII deficiency, and treatment of Glanzmann s thrombastenia. Late in the year NovoSeven® obtained CPoC for use in victims of traumatic injury. And in January 2004, CPoC was obtained for the use of NovoSeven® in connection with liver transplantation.

The European Agency for the Evaluation of Medicinal Products (EMEA) approved Norditropin® SimpleXx® for treatment of children born small for gestational age.

To expand the portfolio of potential new biopharmaceutical drugs Novo Nordisk entered into a collaboration agreement with ZymoGenetics for the preclinical development of inter-leukin-21 (IL-21), a potential cancer therapy.

Novo Nordisk acquired the North American rights from Zymo-Genetics to develop drugs targeting the Interleukin-20 receptor, and thereby a potential therapy against severe psoriasis. Novo Nordisk now holds global rights for this application.

Development of the North American market

Solid insulin sales growth in North America in 2003 is to a large extent driven by the penetration of Novo Nordisk s insulin analogues, in particular NovoRapid® (NovoLog® in the US). The launch of NovoMix® 30 (NovoLogMix® 70/30 in the US) in the disposable delivery device FlexPen® in late 2002 is underpinning this growth. Insulin analogues now comprise more than one-third of Novo Nordisk s total insulin sales in North America.

The growth opportunities for Novo Nordisk in the US remain significant and Novo Nordisk is therefore increasing its sales force in the US by approximately 150 new sales representatives. The focus of these sales representatives will be key strategic products including NovoLog®, NovoLogMix® 70/30 and FlexPen®.

The development of sales of NovoSeven® in North America was very positive, and several clinical studies are ongoing to

Table of Contents

support the expansion of the use of NovoSeven® into areas of critical and life- or limb-threatening bleeds.

Sales of Norditropin® SimpleXx® for treatment of short stature continue to expand strongly.

Regarding Novo Nordisk s HRT portfolio in the US, in July 2003 Novo Nordisk assumed US marketing rights for Activella® and Vagifem® back from Pfizer.

Consolidation in Europe

Novo Nordisk has consolidated its organisation in Europe, managed out of the headquarters in Zurich, Switzerland. Under difficult political market conditions Novo Nordisk managed to grow the business significantly in all major areas: in diabetes care with the continued penetration of NovoRapid® and NovoMix® 30, with NovoSeven® and with Norditropin® SimpleXx®.

Expansion in Latin America

The Brazilian anti-trust authorities granted final approval of Novo Nordisk s acquisition of Biobrás in 2003. The decision by the Administrative Council of Economic Defence (CADE) came approximately 18 months after Novo Nordisk acquired the majority of the shares in the Brazilian pharmaceutical company.

Investments

The total investments in facilities during 2003 amounted to 2.3 billion Danish kroner, which was necessitated by the increasing demand for the company s products.

Production for regulatory approval has started at the bulk insulin factory in Kalundborg, Denmark, which is expected to begin producing insulin for consumer use in 2004. With a total investment of about 2.5 billion Danish kroner the factory will be Novo Nordisk s primary supplier of insulin and insulin analogues.

Novo Nordisk began a 1 billion Danish kroner (135 million euros) expansion of its factory in Chartres, France. The factory produces FlexPen® and Penfill®. It is Novo Nordisk s largest production facility outside Denmark.

Novo Nordisk intends to invest more than 200 million US dollars (1.2 billion Danish kroner) in a new production plant in Brazil, as an expansion of the former Biobrás facility, with the project initiation taking place in the first half of 2004.

Corporate governance

Developments in 2003 and proposals for 2004 are as follows:

Articles of Association

In order to serve the long-term interest of the shareholders, at the Annual General Meeting in March 2004 the Board of Directors will propose an amendment to the company s Articles of Association to specify that the company will strive to conduct its activities in a financially, environmentally and socially responsible way .

Board of Directors

In March 2003, Sten Scheibye, CEO of Coloplast A/S, was elected as member of the Board of Directors. At the same time Niels Jacobsen and Jørgen Wedel were re-elected to the Board.

Shareholder-elected board members have historically served a three-year term and could be re-elected. At the Annual General Meeting in March 2004 the Board of Directors will propose that the term of office is reduced to one year in order to facilitate a more flexible succession process. Continuity will still be ensured as the proposal will not affect the possibility of being re-elected

Audit Committee

The Board has historically worked without permanent committees. However, in line with international trends and in accordance with the Sarbanes-Oxley Act in the US the Board will in March 2004 establish an Audit Committee, which will be responsible for a number of predefined tasks such as the oversight of the external auditors and procedures for handling complaints regarding financial reporting matters.

Long-term share-based incentive programme

As from 2004 the grant of share options as long-term benefit to senior management will be replaced by a new performance-based incentive programme where Novo Nordisk B shares will annually be allocated to a bonus pool when predefined overall business-related targets have been achieved. The maximum annual allocation of shares to the bonus pool will be capped. The shares in the bonus pool will be paid out to the executives following a three-year vesting period.

Dividends and share repurchase

At the Annual General Meeting on 16 March 2004, the Board of Directors will propose a dividend for 2003 of DKK 4.40 per share of DKK 2, an increase of 22% compared to 2002 and corresponding to a pay-out ratio of 30.6%. No dividend will be paid on the company s holding of own shares.

During 2003 Novo Nordisk repurchased own shares worth DKK 1.6 billion corresponding to 7,230,000 B shares and thereby completed the share repurchase programme announced in August 2002.

At the end of 2003, and as of 5 February 2004, Novo Nordisk A/S and its wholly-owned affiliates owned 16,542,841 of its own B shares corresponding to 4.66% of the total share capital.

Long-term financial targets

The long-term financial targets of Novo Nordisk were defined and communicated to the stock market in 2001:

Operating profit (EBIT) growth of 15% per annum

Operating margin (EBIT margin) of 25%

Return on invested capital (ROIC) of 25% per annum

Cash to earnings ratio of 60% as a three-year average.

The targets, defined as reported results measured in Danish kroner, were selected to ensure management focus on long-term growth of the business, transformation of results into cash and a significant improvement in return on invested capital. The pursuit of these long-term targets will support the creation of a competitive shareholder return. As demonstrated by the moderate growth in operating profit in both 2002 and 2003 the development in the exchange rates can have significant impact on the reported growth in operating profit in an individual year. In fact, if Novo Nordisk s main invoicing currencies remain at their current level it is unlikely that in 2004 Novo Nordisk will be able to meet its 15% operating profit growth target. The company s view is, however, that the 15% growth target is a re-

Management report

alistic target which Novo Nordisk will be able to meet in most years, based on the performance of the recurring business and assuming that currencies are relatively stable. In other words, the company s ability to deliver on the target in a particular year will be impacted by significant changes in currency exchange rates or events of a non-recurring nature.

Outlook 2004

Novo Nordisk will with effect from 1 January 2004 prepare financial statements using International Financial Reporting Standards (IFRS). The change from historically applied Danish Generally Accepted Accounting Principles (Danish GAAP) will ensure that Novo Nordisk complies with the EU requirement for listed companies of adopting IFRS before the end of 2005.

The guidance in this outlook section is provided using IFRS accounting principles. The adoption of IFRS will have no significant impact on the reported operating profit growth, the balance sheet or the operating free cash flow, but for reference Novo Nordisk has included a comment to the IFRS-based guidance, indicating the comparable guidance if Danish GAAP had been applied for 2004. Please refer to pages 51-53 for further details of the consequences of this change on the 2002 and 2003 financial statements.

Expectations of a strong demand for insulin products in general and the continued market penetration of the Novo Nordisk insulin analogue portfolio, combined with the expectations of increasing NovoSeven® and Norditropin® SimpleXx® sales, underpin the expectations of a double-digit percentage point growth in sales for 2004 measured in local currencies. However, if the current level of Novo Nordisk s major currencies remains throughout the year, the sales growth measured in DKK is expected to be high single-digit. The expected sales growth for 2004 would have been similar if Danish GAAP had been applied for 2004.

For 2004, operating profit growth measured in local currencies and excluding the impact from non-recurring items is expected to be in line with Novo Nordisk s long-term target of growing operating profit by 15%. However, the operating profit for 2004 measured in Danish kroner is expected to be at the level of 2003, reflecting a significant negative currency impact and a lower level of non-recurring income in 2004 compared to 2003. The expected development in operating profit from 2003 to 2004 would have been similar if Danish GAAP had been applied.

As Novo Nordisk has hedged expected cash flows for 2004 in relation to US dollars, Japanese yen and British pounds, the negative influence from the depreciation of those main currencies versus DKK on operating profit will be partly offset by currency hedging gains included in net financials.

Novo Nordisk s reported Net financials will be impacted by the change in accounting policies to IFRS as from 2004 and onwards. The key change will be that Novo Nordisk s share of the profit & loss in both ZymoGenetics Inc and Aradigm Corporation in the future will be recorded as Share of profit and loss in associated companies included in Net financials . Historically, using Danish GAAP Novo Nordisk s share of net losses have been included in Research and development costs . Given the conversion to IFRS, Novo Nordisk expects Net financials in 2004 to provide an income of DKK 250 million, reflecting

A financial income, net (excluding Novo Nordisk s share of loss & profit in associated companies) to be around DKK 450 million; primarily reflecting the impact of the forward contracts hedging future cash flows; and

A negative impact from its share of profit & loss from associated companies of around DKK 200 million, reflecting expectations of net losses in ZymoGenetics Inc and Aradigm Corporation.

The expected Net financials for 2004 would have been an income of DKK 650 million if Danish GAAP had been applied for 2004. This higher level of expected Danish GAAP Net financials is partly reflecting two elements: the historic treatment of Novo Nordisk s share of losses in associated R&D companies as being included in R&D costs, and the ability to defer the recording of income related to currency options hedging future cash flows to the period in which the cash flow is realised.

For 2004 Novo Nordisk expects the tax rate to be 33%, 1 percentage point lower than the tax rate realised in 2003. The expected tax rate for 2004 would have been similar if Danish GAAP had been applied for 2004.

Novo Nordisk plans to invest around DKK 3 billion in fixed assets in 2004, and depreciations and amortisation are expected to be realised at the level of DKK 1.8 billion. The expected investments and depreciations and amortisation for 2004 would have been similar if Danish GAAP had been applied for 2004.

The free cash flow is expected to be around DKK 3 billion. The expected free cash flow for 2004 would have been similar if Danish GAAP had been applied for 2004.

Forward-looking statement

The above contains forward-looking statements as the term is defined in the US Private Securities Litigation Reform Act of 1995. Forward-looking statements provide our expectations or forecasts of future events such as new product introductions, product approvals and financial performance. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate , estimate , expect , project , intend , plan , and other words and terms of similar meaning in connection with a discussion of future operating or financial performance.

Such forward-looking statements are subject to risks, uncertainties and inaccurate assumptions. This may cause actual results to differ materially from expectations and it may cause any or all of our forward-looking statements here or in other publications to be wrong. Factors that may affect future results include interest rate and currency exchange rate fluctuations, delay or failure of development projects, production problems, unexpected contract breaches or terminations, government-mandated or market-driven price decreases for Novo Nordisk s products, introduction of competing products, Novo Nordisk s ability to successfully market both new and existing products, exposure to product liability and other lawsuits, changes in reimbursement rules and governmental laws and related interpretation thereof, and unexpected growth in costs and expenses.

Risks and uncertainties are further described in reports filed by Novo Nordisk with the US Securities and Exchange Commission (SEC) including the company s Form 20-F, which was filed on 27 March 2003. Please also refer to the section Financial risk factors and financial risk management in this *Annual Financial Report 2003*. Novo Nordisk is under no duty to update any of the forward-looking statements or to conform such statements to actual results, unless required by law.

Table of Contents

About Novo Nordisk

Novo Nordisk is a healthcare company and a world leader in diabetes care. The company has the broadest diabetes product portfolio in the industry, including the most advanced products within the area of insulin delivery systems.

In addition, Novo Nordisk has a leading position within areas such as haemostasis management, growth hormone therapy and hormone replacement therapy. Novo Nordisk manufactures and markets pharmaceutical products and services that make a significant difference to patients, the medical profession and society.

With headquarters in Denmark, Novo Nordisk employs approximately 18,800 full-time employees in 69 countries, and markets its products in 179 countries. Novo Nordisk s B shares are listed on the stock exchanges in Copenhagen and London. Its ADRs are listed on the New York Stock Exchange under the symbol NVO . For more information, visit novonordisk.com.

Research and development pipeline

Phase	Compound	Indication	Description
Phase 1 The substance is tested on a limited number of healthy volunteers	NN344	Type 1 and 2 diabetes	A soluble, long-acting human insulin analogue for treatment of diabetes, with long duration of action and a very predictable response.
	NN2501	Type 2 diabetes	An oral tablet for the treatment of type 2 diabetes, which inhibits excessive hepatic glucose production.
Phase 2 The substance is tested on a limited number of patients in short-term treatment	Liraglutide (NN2211)	Type 2 diabetes	A once-daily, long-acting derivative of the natural human hormone GLP-1 for treatment of type 2 diabetes. Liraglutide has been shown to lower blood glucose with little or no risk of inducing hypoglycaemia, and is expected to affect appetite regulation leading to weight management. Liraglutide may also have beta-cell regenerative capacity. Liraglutide has completed phase 2.
	Balaglitazone (NN2344)	Type 2 diabetes	A potent insulin sensitiser for the treatment of type 2 diabetes, which increases glucose uptake in the peripheral tissue.
	NovoSeven®	Critical bleeding	Clinical programme aimed at regulatory filing of new indications for NovoSeven®. The project aims to position NovoSeven® as the world s first haemostatic agent for critical bleeds.
	ASIS	Acute Respiratory Distress Syndrome	A project focused on using Active Site Inhibited Seven (ASIS) for the treatment of Acute Respiratory Distress Syndrome (ARDS)

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

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

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

Results of Operations – Continuing Operations

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

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

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

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

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

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

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

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

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

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

Results of Operations – Discontinued Operations

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

Trends and Uncertainties

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

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

Seasonality

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

None.

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

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Art's-Way Manufacturing Co., Inc.

Armstrong, Iowa

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

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

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

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

/s/ Eide Bailly

Minneapolis, Minnesota

February 7, 2018

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Balance Sheets

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

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

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

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Operations

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

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

19

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Comprehensive Income

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

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

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Stockholders' Equity

Years Ended November 30, 2017 and 2016

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

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

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Cash Flows

	Twelve Months Ended	
	November 30, 2017	**November 30, 2016**
Cash flows from operations:		
Net (loss) from continuing operations	$(1,369,359)	$(426,182)
Net (loss) from discontinued operations	(267,722)	(395,152)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Stock based compensation	113,039	79,979
Unrealized foreign currency gain (loss)	45,222	(72,803)
Impairment of Asset Available for Sale	70,000	44,858
(Gain)/Loss on disposal of property, plant, and equipment	(3,673)	(17,395)
Depreciation and amortization expense	702,349	671,967
Bad debt expense	9,552	3,935
Deferred income taxes	(572,175)	(29,939)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(499,795)	458,542
Inventories	1,562,630	1,655,084
Income taxes receivable	265,924	79,988
Other assets	(161,358)	(92,356)
Increase (decrease) in:		
Accounts payable	203,795	(26,386)
Contracts in progress, net	87,117	15,762
Customer deposits	311,130	126,398
Income taxes payable	3,100	-
Accrued expenses	(37,498)	(172,308)
Net cash provided by operating activities - continuing operations	730,000	2,299,144
Net cash provided by (used in) operating activities - discontinued operations	17,399	82,632
Net cash provided by operating activities	747,399	2,381,776
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(513,614)	(274,089)
Net proceeds from sale of assets	43,481	1,173,735
Net cash provided by (used in) investing activities - continuing operations	(470,133)	899,646
Net cash provided by (used in) investing activities - discontinued operations	40,936	16,900
Net cash provided by (used in) investing activities	(429,197)	916,546
Cash flows from financing activities:		
Proceeds from line of credit borrowings	4,170,530	-
Repayment of line of credit borrowings	(4,992,114)	-
Net change in line of credit	-	(675,542)
Proceeds from term debt	2,600,000	-
Repayment of term debt	(2,825,148)	(1,911,506)
Repurchases of common stock	(6,425)	-

Net cash (used in) financing activities - continuing operations	(1,053,157)	(2,587,048)
Net cash (used in) financing activities - discontinued operations	(116,361)	(94,789)
Net cash (used in) financing activities	(1,169,518)	(2,681,837)
Net increase (decrease) in cash	(851,316)	616,485
Cash at beginning of period	1,063,716	447,231
Cash at end of period	$212,400	$1,063,716
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$319,319	$274,836
Income taxes	5,627	4,872

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

22

Art’s-Way Manufacturing Co., Inc.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Nature of Business

Art’s-Way Manufacturing Co., Inc. is primarily engaged in the fabrication and sale of specialized farm machinery in the agricultural sector of the United States. Primary product offerings include portable and stationary animal feed processing equipment; hay and forage equipment; sugar beet harvesting equipment; land maintenance equipment; a line of portable grain augers; a line of manure spreaders; moldboard plows; potato harvesters; and a line of reels. The Company also manufactured commercial snow blowers under the Agro Trend label but sold the Agro Trend product line to Metco, Inc. on December 15, 2017. The Company sells its labeled products through independent farm equipment dealers throughout the United States. In addition, the Company manufactures and supplies hay blowers pursuant to OEM agreements. The Company also provides after-market service parts that are available to keep its branded and OEM-produced equipment operating to the satisfaction of the end user of the Company’s products.

The Company’s Pressurized Vessels segment was primarily engaged in the fabrication and sale of pressurized vessels and tanks through the Company’s wholly-owned subsidiary, Art’s-Way Vessels, Inc. On August 11, 2016, the Company announced its plan to discontinue the operations of its Pressurized Vessels segment in order to focus its efforts and resources on the business segments that have historically been more successful and that are expected to present greater opportunities for meaningful long-term shareholder returns. The Company continues to work to dispose of these assets. In January 2018, the Company accepted an offer on the remaining assets and expects to close on the disposition in the second fiscal quarter of 2018.

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

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

(b)Principles of Consolidation

The consolidated financial statements include the accounts of Art’s-Way Manufacturing Co., Inc. and its wholly-owned subsidiaries for the 2017 fiscal year, which includes Art’s-Way Scientific, Inc., Art’s-Way Manufacturing International LTD (“International”), and Ohio Metal Working Products/Art’s-Way, Inc. The operations of Art’s-Way Vessels, Inc. were discontinued in the third quarter of the 2016 fiscal year, and the corporation was merged with the parent company of Art’s-Way Manufacturing Co., Inc. effective October 31, 2016. All material inter-company accounts and transactions are eliminated in consolidation.

The financial books of International are kept in the functional currency of Canadian dollars and the financial statements are converted to U.S. Dollars for consolidation. When consolidating the financial results of the Company into U.S. Dollars for reporting purposes, the Company uses the All-Current translation method. The All-Current method requires the balance sheet assets and liabilities be translated to U.S. Dollars at the exchange rate as of year-end. Owner’s equity is translated at historical exchange rates and retained earnings are translated at an average exchange rate for the period. Additionally, revenue and expenses are translated at average exchange rates for the periods presented. The resulting cumulative translation adjustment is recorded in stockholder’s equity in fiscal 2017 and fiscal 2016. Since the Company believes that it is more likely than not that no income tax benefit will occur when the foreign equity is sold or liquidated, the cumulative translation adjustment has not been tax adjusted.

(c) Cash Concentration

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

(d) Customer Concentration

During the years ended November 30, 2017, and November 30, 2016 no one customer accounted for more than 4% and 8% of consolidated revenues for continuing operations, respectively.

(e) Accounts Receivable

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

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

(f) Inventories

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

(g) Property, Plant, and Equipment

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

(h) Lessor Accounting

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

(i) Goodwill and Impairment

Goodwill represents costs in excess of the fair value of net tangible and identifiable net intangible assets acquired in business combinations. The Company performs an annual test for impairment of goodwill during the fourth quarter, unless factors determine an earlier test is necessary. An impairment of goodwill has not been recorded in years ending November 30, 2017 or November 30, 2016.

(j) Income Taxes

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

The Company shall classify interest and penalties to be paid on an underpayment of taxes as income tax expense. The Company files income tax returns in the U.S. federal jurisdiction and various states and Canada. The Company is no longer subject to Canadian, U.S. federal or state income tax examinations by tax authorities for years ended before November 30, 2013.

On December 22, 2017, a new tax law was adopted that reduces the top corporate income tax rate from 35% to 21%. This law is generally effective for tax years beginning after December 31, 2017. The application of this new rate is expected to be recognized in the first quarter of fiscal 2018.

(k) Revenue Recognition

Revenue is recognized when risk of ownership and title pass to the buyer, generally upon the shipment of the product. All sales are made to authorized dealers whose application for dealer status has been approved and who have been informed of general sales policies. Any changes in Company terms are documented in the most recently published price lists. Pricing is fixed and determinable according to the Company’s published equipment and parts price lists. Title to all equipment and parts sold shall pass to the buyer upon delivery to the carrier and is not subject to a customer acceptance provision. Proof of the passing of title is documented by the signing of the delivery receipt by a representative of the carrier. Post shipment obligations are limited to any claim with respect to the condition of the equipment or parts. Applicable sales taxes imposed on our revenues are presented on a net basis on the consolidated statements of operations and therefore do not impact net revenues or cost of goods sold. A provision for warranty expenses, based on sales volume, is included in the financial statements. The Company’s return policy allows for new and saleable parts to be returned, subject to inspection and a restocking charge which is included in net sales. Whole goods are not returnable. Shipping costs charged to customers are included in net sales. Freight costs incurred are included in cost of goods sold. 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, the Company may recognize revenue when production is complete and the good is ready for shipment. At the buyer's request, the Company will bill the buyer upon completing all performance obligations, but before shipment. The buyer dictates that the Company ship the goods per their direction from the Company's 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 the Company will segregate the goods from its inventory, such that they are not available to fill other orders. This agreement also specifies that the buyer is required to purchase all goods manufactured under this agreement. Title of the goods will pass to the buyer when the goods are complete and ready for shipment, per the customer agreement. At the transfer of title, all risks of ownership have passed to the buyer, and the buyer agrees to maintain insurance on the manufactured items that have not yet been shipped. The Company has operated using bill and hold agreements with certain customers for many years. The credit terms on these 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 2017 and 2016 were approximately $184,000 and $424,000, respectively.

The Company's 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 losses are recognized when current estimates of total contract revenue and contract cost indicate a loss. Estimated contract costs include any and all costs appropriately allocable to the contract. The provision for these contract losses will be the excess of estimated contract costs over estimated contract revenues.

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

(l) Research and Development

Research and development costs are expensed when incurred. Such costs approximated $183,000 and $140,000 for the years ended November 30, 2017 and 2016, respectively.

(m) Advertising

Advertising costs are expensed when incurred. Such costs approximated $356,000 and $420,000 for the years ended November 30, 2017 and 2016, respectively.

(n) (Loss) Per Share

Basic net (loss) per common share has been computed on the basis of the weighted average number of common shares outstanding. Diluted net (loss) per share has been computed on the basis of the weighted average number of common shares outstanding plus equivalent shares assuming exercise of stock options.

Basic and diluted (loss) per common share have been computed based on the following as of November 30, 2017 and 2016:

	For the twelve months ended	
	November 30, 2017	**November 30, 2016**
Numerator for basic and diluted (loss) per common share:		
Net (loss) from continuing operations	$(1,369,359)	$(426,182)
Net (loss) from discontinued operations	(267,722)	(395,152)
Net (loss)	$(1,637,081)	$(821,334)
Denominator:		
For basic (loss) per share - weighted average common shares outstanding	4,151,406	4,097,748
Effect of dilutive stock options	-	-

For diluted (loss) per share - weighted average common shares outstanding	4,151,406	4,097,748
(Loss) per share - Basic:		
Continuing Operations	$(0.33)	$(0.10)
Discontinued Operations	$(0.06)	$(0.10)
Net (Loss) per share	$(0.39)	$(0.20)
(Loss) per share - Diluted:		
Continuing Operations	$(0.33)	$(0.10)
Discontinued Operations	$(0.06)	$(0.10)
Net (Loss) per share	$(0.39)	$(0.20)

26

(p) Stock Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of each stock-based award on the measurement date using the Black-Scholes option valuation model which incorporates assumptions as to stock price volatility, the expected life of the options, risk-free interest rate and dividend yield. Restricted stock is valued at market value at the day of grant.

(q) Use of Estimates

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

(r) Recently Issued Accounting Pronouncements

Adopted Accounting Pronouncements

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern" which is authoritative guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures, codified in ASC 205-40, *Going Concern*. The guidance provides a definition of the term substantial doubt, requires an evaluation every reporting period including interim periods, provides principles for considering the mitigating effect of management's plans, requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, requires an express statement and other disclosures when substantial doubt is not alleviated, and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU No. 2014-15 is effective for annual reporting periods ending after December 15, 2016. The Company has adopted this guidance for the year ended November 30, 2017, and it will apply to each interim and annual period thereafter. Its adoption has not had a material impact on the Company's consolidated financial statements other than the increased disclosures in the interim periods of fiscal 2017.

Inventory

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330)," which requires inventory measured using any method other than last-in, first-out or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than the lower of cost or market. ASU No. 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. The Company has adopted this guidance for the year ended November 30, 2017, including interim periods within that reporting period. The Company chose early adoption for this guidance, as its impact was expected not to be material, and it will allow the Company to focus more of its efforts on preparing for the adoption of more complex guidance. Its adoption has not had a material impact on the Company's consolidated financial statements.

Income Taxes

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740)", to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and assets are required to be classified as noncurrent in a classified balance sheet. ASU No. 2015-17 is effective for fiscal years beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. During the first quarter of fiscal 2017, the Company elected to prospectively adopt ASU 2015-17, thus reclassifying current deferred tax assets to noncurrent on the accompanying consolidated balance sheet. The prior reporting period was not retrospectively adjusted. The Company chose early adoption for this guidance, as its impact was expected not to be material, and it will allow the Company to focus more of its efforts on preparing for the adoption of more complex guidance. The adoption of this guidance had no impact on the Company's consolidated statements of operations and comprehensive income.

Accounting Pronouncements Not Yet Adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” which supersedes the guidance in “Revenue Recognition (Topic 605)” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and is to be applied retrospectively, with early application not permitted. The Company is evaluating the new standard, and at this time believes that its Modular Buildings segment will be impacted most significantly by this standard. The Company believes that this segment will need to work to revise its standard contracts with customers to more clearly define the rights and considerations transferred at the various milestones identified in the contracts. The Company believes that the other segments already have the necessary tools to evaluate their revenues in a manner consistent with the application of this standard, and will have the ability to meet the disclosure requirements using current systems. The Company continues to research and assess the implications of the adoption of this standard on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (topic 842)”, which requires a lessee to recognize a right-of-use asset and a lease liability on its balance sheet for all leases with terms of twelve months or greater. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. The Company will adopt this guidance for the year ending November 30, 2020 including interim periods within that reporting period. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

(2) Discontinued Operations

Effective October 31, 2016, the Company discontinued the operations of its Pressurized Vessels segment in order to focus its efforts and resources on the business segments that have historically been more successful and that are expected to present greater opportunities for meaningful long-term shareholder returns. The Company’s plan is to dispose of these assets.

As the Pressurized Vessels segment was a unique business unit of the Company, its liquidation was a strategic shift. In accordance with Accounting Standard Code Topic 360, the Company has classified Vessels as discontinued operations for all periods presented.

Income from discontinued operations, before income taxes in the accompanying Consolidated Statements of Operations is comprised of the following:

	Twelve Months Ended	
	November 30, 2017	November 30, 2016
Revenue from external customers	$-	$1,598,330
Gross Profit	-	(198,567)
Asset Impairment	289,198	-
Total Operating Expense	357,709	399,503
Income (loss) from operations	(357,709)	(598,070)
Income (loss) before tax	(400,739)	(617,425)

The components of discontinued operations in the accompanying consolidated balance sheets are as follows:

	November 30, 2017	**November 30, 2016**
Cash	$2,454	$-
Accounts Receivable - Net	-	9,700
Property, plant, and equipment, net	1,425,000	1,745,528
Assets of discontinued operations	$1,427,454	$1,755,228
Accounts payable	$-	$1,588
Accrued expenses	49,931	50,061
Notes Payable	599,584	715,945
Liabilities of discontinued operations	$649,515	$767,594

28

In January 2018, the Company accepted an offer on the real estate assets for $1,500,000, which was below the carrying value at that time. Based on these facts the Company recorded an impairment of the real estate of approximately $289,000, which reduced the value to $1,425,000 which is the value the Company expects to receive after commissions on the sale of this asset.

(3) Allowance for Doubtful Accounts

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

	For the 12 months ended November 30, 2017	November 30, 2016
Balance, beginning	$22,746	$ 18,810
Provision charged to expense	11,187	4,925
Less amounts charged-off	(1,635)	(989)
Balance, ending	$32,298	$ 22,746

(4) Inventories

Major classes of inventory are:

	November 30, 2017	November 30, 2016
Raw materials	$8,731,985	$8,568,624
Work in process	460,687	509,198
Finished goods	5,395,353	7,054,736
	$14,588,025	$16,132,558
Less: Reserves	(2,621,303)	(2,603,206)
	$11,966,722	$13,529,352

(5) Contracts in Progress

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

	Cost and Profit in Excess of Billings	Billings in Excess of Costs and Profit
November 30, 2017		
Costs	$105,639	$612,370
Estimated earnings	34,611	173,764
	140,250	786,134
Less: amounts billed	(75,104)	(834,345)
	$65,146	$(48,211)
November 30, 2016		
Costs	$121,118	$159,717
Estimated earnings	27,231	65,471
	148,349	225,188
Less: amounts billed	(40,000)	(229,485)
	$108,349	$(4,297)

The amounts billed on these long term contracts are due 30 days from invoice date. All amounts billed are expected to be collected within the next 12 months. Retainage was $37,052 and $0 as of November 30, 2017 and 2016, respectively.

(6) Property, Plant, and Equipment

Major classes of property, plant, and equipment used in continuing operations are:

	November 30, 2017	November 30, 2016
Land	$220,503	$536,103
Buildings and improvements	6,966,550	7,859,477
Construction in Progress	14,798	10,353
Manufacturing machinery and equipment	10,932,085	10,772,933
Trucks and automobiles	428,774	450,171
Furniture and fixtures	113,956	113,956
	18,676,666	19,742,993
Less accumulated depreciation	(12,729,709)	(12,355,806)
Property, plant and equipment	$5,946,957	$7,387,187

Depreciation and amortization expense for continuing operations totaled $702,349 and $671,967 for the fiscal years ended November 30, 2017 and 2016, respectively.

(7) Assets Available for Sale and Assets Held for Lease

Major components of assets available for sale (excluding assets of discontinued operations as discussed in Note 2 “Discontinued Operations”) are:

	November 30, 2017	November 30, 2016
Ames, Iowa powder coat paint system	$ -	$ 70,000
	$ -	$ 70,000

Due to reduced demand for the Company’s reels produced by the Universal Harvester by Art’s Way subsidiary, the Company has been able to absorb the production of the reels in its Armstrong, Iowa facility. The Company continues to hold its powder coat system previously used in its Ames, Iowa location as available for sale. During fiscal 2017, the

Company recognized an impairment of $70,000 related to this asset due to its inability to find a buyer for this type of specialized equipment. During fiscal 2016, the Company had recognized an impairment of $44,858 related to this asset based on a previous offer.

Major components of assets held for lease are:

	November 30, 2017	**November 30, 2016**
West Union Facility	$1,118,330	$ -
Modular Buildings	98,834	-
	$1,217,164	$ -

The Company currently leases more than half the West Union facility to third parties for storage purposes.

The Company's Modular Buildings segment enters into leasing arrangements with customers from time-to-time. A small leased facility was put into service in the third quarter of fiscal 2017.

30

(8) Accrued Expenses

Major components of accrued expenses are:

	November 30, 2017	November 30, 2016
Salaries, wages, and commissions	$584,768	$542,449
Accrued warranty expense	68,451	134,373
Other	328,339	342,234
	$981,558	$1,019,056

(9) Product Warranty

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

Changes in the Company's product warranty liability included in "accrued expenses" for the years ended November 30, 2017 and 2016 are as follows:

	For the twelve months ended	
	November 30, 2017	November 30, 2016
Balance, beginning	$134,373	$176,531
Settlements / adjustments	(276,667)	(246,235)
Warranties issued	210,745	204,077
Balance, ending	$68,451	$134,373

(10) Loan and Credit Agreements

The Company maintains a revolving line of credit and term loans with Bank Midwest as well as a term loan with The First National Bank of West Union.

Bank Midwest Revolving Line of Credit and Term Loans

On September 28, 2017, the Company entered into a credit facility with Bank Midwest, which supersedes and replaces in its entirety the Company's previous credit facility with U.S. Bank. The new Bank Midwest credit facility consists of a $5,000,000 revolving line of credit, a $2,600,000 term loan due October 1, 2037, and a $600,000 term loan due October 1, 2019. The proceeds of the new line of credit and the term loans were used to refinance all debt previously held by U.S. Bank 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.

On November 30, 2017, the balance of the line of credit was $2,462,530 with $2,537,470 remaining available, limited by the borrowing base calculation. The line of credit borrowing base is an amount equal to 75% of accounts receivable balances (discounted for aged receivables), plus 50% of inventory, less any outstanding loan balance on the line of credit. Any unpaid principal amount borrowed on the revolving line of credit accrues interest at a floating rate per annum equal to 1.000% above the Wall Street Journal rate published from time to time in the money rates section of the Wall Street Journal. The interest rate floor is set at 4.250% per annum and the current interest rate is 5.250% per annum. The revolving line of credit is payable upon demand by Bank Midwest, and monthly interest-only payments are required. If no earlier demand is made, the unpaid principal and accrued interest is due on March 1, 2018.

The $2,600,000 term loan accrues interest at a rate of 5.000% for the first sixty months. Thereafter, this loan will accrue interest at a floating rate per annum equal to 0.750% above the Wall Street Journal rate published from time to time in the money rates section of the Wall Street Journal. The interest rate floor is set at 4.150% per annum and the interest rate may only be adjusted by Bank Midwest once every five years. Monthly payments of $17,270.57 for principal and interest are required. This loan will also be guaranteed by the United States Department of Agriculture (USDA), which requires an upfront guarantee fee of $62,400 and an annual fee of 0.5% of the unpaid balance. As part of the USDA guarantee requirements, shareholders owning more than 20% are required to personally guarantee a portion of the loan as well, in an amount equal to their stock ownership percentage. J. Ward McConnell Jr. is guaranteeing approximately 38% of this loan, for a fee of 2% of the personally guaranteed amount. The initial guarantee fee will be amortized over the life of the loan, and the annual fees and personally guaranteed amounts are expensed monthly. The $600,000 term loan accrues interest at a rate of 5.000%, and monthly payments of $3,249.00 for principal and interest are required.

Each of the revolving line of credit and the term loans are governed by the terms of a separate Promissory Note, dated September 28, 2017, entered into between the Company and Bank Midwest.

In connection with the revolving line of credit, the Company, Art’s-Way Scientific Inc. and Ohio Metal Working Products/Art’s-Way Inc. each entered into a Commercial Security Agreement with Bank Midwest, dated September 28, 2017, pursuant to which each granted to Bank Midwest a first priority security interest in certain inventory, equipment, accounts, chattel paper, instruments, letters of credit and other assets to secure the obligations of the Company under the revolving line of credit. Each of Art’s-Way Scientific Inc. and Ohio Metal Working Products/Art’s-Way Inc. also agreed to guarantee the obligations of the Company pursuant to the revolving line of credit, as set forth in Commercial Guaranties, each dated September 28, 2017.

To further secure the line of credit, the Company has granted Bank Midwest a second mortgage on its West Union, Iowa property and Ohio Metal Working Products/Art’s-Way Inc. has granted Bank Midwest a mortgage on its property located in Canton, Ohio. The $2,600,000 term loan is secured by a mortgage on the Company’s Armstrong, Iowa and Monona, Iowa properties, and the $600,000 term loan is secured by a mortgage on the Company’s Dubuque, Iowa property. Each mortgage is governed by the terms of a separate Mortgage, dated September 28, 2017, and each property is also subject to a separate Assignment of Rents, dated September 28, 2017.

If the Company or its subsidiaries (as guarantors pursuant to the Commercial Guaranties) commits an event of default with respect to the promissory notes and fails or is unable to cure that default, Bank Midwest may immediately terminate its obligation, if any, to make additional loans to the Company and may accelerate the Company’s obligations under the promissory notes. Bank Midwest shall also have all other rights and remedies for default provided by the Uniform Commercial Code, as well as any other applicable law and the various loan agreements. In addition, in an event of default, Bank Midwest may foreclose on the mortgaged property.

Bank Midwest Loan Covenants

The terms of these loan agreements require the Company to maintain a minimum working capital ratio of 1.75, while maintaining a minimum of $5,100,000 of working capital. A maximum debt to worth ratio of 1 to 1 will be maintained as well, with a minimum of 40% tangible balance sheet equity, with variations subject to mutual agreement. The Company is also required to maintain a minimum debt service coverage ratio of 1.25, with at 0.10 tolerance. The Company was in compliance with all covenants as of November 30, 2017 other than the debt service coverage ratio. Bank Midwest has issued a waiver forgiving the noncompliance, and no event of default has occurred and the next measurement date is November 30, 2018. The Company will provide audited financial statements within 120 days of the fiscal year end.

Iowa Finance Authority Term Loan and Covenants

On May 1, 2010, the Company obtained a loan to finance the purchase of an additional facility located in West Union, Iowa to be used as a distribution center, warehouse facility, and manufacturing plant for certain products under the Art's-Way brand. The funds for this loan were made available by the Iowa Finance Authority by the issuance of tax exempt bonds. This loan had an original principal amount of $1,300,000, an interest rate of 3.5% per annum and a maturity date of June 1, 2020. On February 1, 2013, the interest rate was decreased to 2.75% per annum. The other terms of the loan remain unchanged.

This loan from the Iowa Finance Authority, which has been assigned to The First National Bank of West Union (n/k/a Bank 1st), is governed by a Manufacturing Facility Revenue Note dated May 28, 2010 as amended February 1, 2013 and a Loan Agreement dated May 1, 2010 and a First Amendment to Loan Agreement dated February 1, 2013 (collectively, "the IFA Loan Agreement"), which requires the Company to provide quarterly internally prepared financial reports and year-end audited financial statements and to maintain a minimum debt service coverage ratio of 1.5 to 1.0, which is measured at November 30 of each year. Among other covenants, the IFA Loan Agreement also requires the Company to maintain proper insurance on, and maintain in good repair, the West Union Facility, and continue to conduct business and remain duly qualified to do business in the State of Iowa. The loan is secured by a mortgage on the Company's West Union Facility, pursuant to a Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Financing Statement dated May 1, 2010 between the Company and The First National Bank of West Union (the "West Union Mortgage").

If the Company commits an event of default under the IFA Loan Agreement or the West Union Mortgage and does not cure the event of default within the time specified by the IFA Loan Agreement, the lender may cause the entire amount of the loan to be immediately due and payable and take any other action that it is lawfully permitted to take or in equity to enforce the Company's performance.

The Company was in compliance with all covenants except for the debt service coverage ratio covenant as measured on November 30, 2017. The First National Bank of West Union has issued a waiver and the next measurement date is November 30, 2018.

U.S. Bank Credit Facility

The Company previously maintained a revolving line of credit and term loans with U.S. Bank. The material terms of the U.S. Bank credit facility were most recently disclosed in the Company's Form 10-Q for the quarter ended August 31, 2017, in Note 8 to the Condensed Consolidated Financial Statements. On September 28, 2017, the Company repaid its U.S. Bank debt in full in connection with its new credit facility with Bank Midwest, as discussed above.

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

	November 30, 2017	**November 30, 2016**
U.S. Bank loan payable in monthly installments of $11,000 including interest at 2.98%, due May 1, 2018	$-	$632,126
U.S. Bank loan payable in monthly installments of $12,550 including interest at 2.98%, due May 1, 2018	-	715,946
U.S. Bank loan payable in monthly installments of $27,800 including interest at 2.98%, due May 1, 2018	-	808,096
U.S. Bank loan payable in monthly installments of $11,700 including interest at 3.15%, due May 10, 2017	-	337,147
U.S. Bank loan payable in monthly installments of $5,556 including interest at 2.98%, due May 25, 2017	-	904,751
Bank Midwest loan payable in monthly installments of $17,271 including interest at 5.00%, due October 1, 2037	2,595,007	-
Bank Midwest loan payable in monthly installments of $3,249 including interest at 5.00%, due October 1, 2019	599,584	-
Iowa Finance Authority loan payable in monthly installments of $12,500 including interest at 2.75%, due June 1, 2020	374,900	512,935
Total term debt	$3,569,491	$3,911,001

Less current portion of term debt	221,230	1,807,937
Term debt of discontinued operations	599,584	715,946
Term debt, excluding current portion	$2,748,677	$1,387,118

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

Year:	Amount
2018	$230,448
2019	819,662
2020	174,644
2021	92,102
2022	96,814
Thereafter	2,155,821
	$3,569,491

33

(11) Related Party Transactions

During fiscal years 2017 and 2016, the Company did not recognize any revenues with a related party, and no amounts in accounts receivable balances were due from a related party. From time to time, the Company purchases various supplies from related parties, which are companies owned by J. Ward McConnell, Jr., our Vice Chairman of the Board of Directors. Also, J. Ward McConnell, Jr. as a shareholder owning more than 20% of the Company's outstanding stock was required to guarantee a portion of our term debt in accordance with the USDA guarantee on our term loan. Mr. McConnell is paid a monthly fee for his guarantee. In fiscal 2017, the Company recognized $8,281 of expense with related parties, compared to $2,937 in 2016. As of November 30, 2017, accrued expenses contained a balance of $1,621 owed to a related party compared to $0 on November 30, 2016.

(12) Employee Benefit Plans

The Company sponsors a defined contribution 401(k) savings plan which covers substantially all full-time employees who meet eligibility requirements. Participating employees may contribute as salary reductions any amount of their compensation up to the limit prescribed by the Internal Revenue Code. The Company makes a 25% matching contribution to employees contributing a minimum of 4% of their compensation, up to 1% of eligible compensation. The Company recognized an expense of $34,523 and $37,606 related to this plan during the years ended November 30, 2017 and 2016, respectively.

(13) Equity Incentive Plan

On November 30, 2017, the Company had one equity incentive plan, the 2011 Plan, which is described below. The compensation cost charged against income was $113,039 and $79,979 for 2017 and 2016, respectively, for all awards granted under the 2011 Plan during such years. The total income tax deductions for share-based compensation arrangements were $68,886 and $88,278 for 2017 and 2016 respectively. No compensation cost was capitalized as part of inventory or fixed assets.

On January 27, 2011, the Board of Directors of the Company authorized and approved the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan (the "2011 Plan"), subject to approval by the stockholders on or before January 27, 2012. The 2011 Plan was approved by the stockholders on April 28, 2011. It replaced the Employee Stock Option Plan and the Directors' Stock Option Plan (collectively, the "Prior Plans"), and no further stock options will be awarded under the Prior Plans. Awards to directors and executive officers under the 2011 Plan will be governed by the forms of agreement approved by the Board of Directors. The 2011 Plan permits the plan administrator to award nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance awards, and stock appreciation rights to employees (including officers), directors, and consultants. The Board of Directors has approved a director compensation policy pursuant to which non-employee directors are annually granted 1,000 stock units annually or initially upon their election to the board, which are fully vested. In addition, directors may elect to receive cash retainer fees in the form of fully-vested restricted stock issued under the 2011 Plan.

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

The fair value of each option award is estimated on the date of grant using the Black Scholes option-pricing model. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical option exercise and termination data to estimate the expected term the options are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is calculated using historical dividend amounts and the stock price at the option issuance date.

	2017	**2016**
Expected Volatility	-	-
Expected Dividend Yield	-	-
Expected Term (in years)	-	-
Risk-Free Rate	-	-

The following is a summary of activity under the plans as of November 30, 2017 and 2016, and changes during the years then ended:

2017 Option Activity

Options	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Options Outstanding at the Beginning of the Period	143,500	$ 8.78		
Granted	-	-		-
Exercised	-	-		-
Options Expired or Forfeited	(47,500)	10.84		
Options Outstanding at the End of the Period	96,000	7.77	3.55	-
Options Exercisable at the End of the Period	96,000	7.77	3.55	-

2016 Option Activity

Options	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Options Outstanding at the Beginning of the Period	174,000	$ 8.39	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Options Expired or Forfeited	(30,500)	6.39	-	-
Options Outstanding at the End of the Period	143,500	8.78	3.37	-
Options Exercisable at the End of the Period	143,500	8.78	3.37	-

No options were granted during fiscal 2017 or 2016. As of both November 30, 2017 and November 30, 2016, there were no non-vested options. As of November 30, 2017, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements under the plan related to stock options.

No options vested during fiscal 2017. During fiscal 2016, 5,000 options vested and compensation expense of $3,881 was recognized in 2016 for the vesting of stock options. The total fair value of options vested during fiscal 2016 was $1.14.

The Company received no cash from the exercise of options during fiscal years 2017 or 2016.

During fiscal year 2017, the Company issued 53,700 shares of restricted stock, and 22,550 shares of restricted stock became unrestricted. During fiscal year 2017, there were 4,000 shares of restricted stock forfeited, and none were forfeited in fiscal year 2016. During fiscal year 2016, the Company issued 48,000 shares of restricted stock, and 12,550 shares of restricted stock became unrestricted. Compensation expense of $113,039 and $76,098 was recognized in fiscal years 2017 and 2016, respectively, for shares of restricted stock.

(14) Income Taxes

Total income tax expense (benefit) for the years ended November 30, 2017 and 2016 consists of the following:

	November 30, 2017	**November 30, 2016**
Current Expense (benefit)	$ 15,360	$ (288,935)
Deferred expense (benefit)	(572,175)	(29,939)
	$ (556,815)	$ (318,874)

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

	November 30, 2017	November 30, 2016
Statutory federal income tax rate	34.0 %	34.0 %
Valuation allowance on foreign net operating loss	(7.8)	0.0
Permanent differences and other	(0.7)	(6.0)
	25.5 %	28.0 %

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets (liabilities) at November 30, 2017 and 2016 are presented below:

	November 30 2017	2016
Current deferred tax assets (liabilities):		
Accrued expenses	$95,000	$110,000
Inventory capitalization	33,000	16,000
Net operating loss and tax credit carryforward	586,000	133,000
Asset reserves	746,000	808,000
Total current deferred tax assets	$1,460,000	$1,067,000
Non-current deferred tax assets		
Property, plant, and equipment	$(559,000)	$(737,000)
Total non-current deferred tax assets (liabilities)	$(559,000)	$(737,000)
Net deferred taxes	$901,000	$330,000

Based on the Company’s adoption of ASU 2015-17, Income Taxes, the Company has prospectively classified the 2017 net deferred tax asset as a noncurrent asset in the accompanying financial statements. The 2016 presentation reports the deferred tax asset and deferred tax liability as a current asset and noncurrent liability pursuant to previous GAAP guidance.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based on these assessments, in fiscal 2016 the Company recorded a reserve against its deferred tax assets related to its net operation loss of its Canadian operations of approximately $75,000. During fiscal 2017 the Company has continued to create a reserve for any estimated income tax benefits related to the Canadian net operating losses. From the time of acquisition, the Company has not yet generated taxable income from these operations, and management believes that the amount of this deferred tax asset will not be realized. The Company’s net operating loss amounting to approximately $1,800,000 and tax credit carryforward amounting to approximately $105,000 for its US operations expires on November 30, 2036 and 2037. Management believes that the Company will be able to utilize the US net operating losses before their expiration.

On December 22, 2017, a new tax law was enacted that reduces the top corporate income tax rate from 35% to 21%. The law and rate change is generally effective for tax years beginning after December 31, 2017. While the Company is assessing the impact of the law on its reported assets, liabilities, and results of operations, management believes that going forward, the overall rate reduction will have a positive impact on the Company's net earnings in the long run. However, during the first quarter of the Company's 2018 fiscal year, its reported net deferred tax asset will have to be substantially restated using the new lower rates. Based on the Company's recorded deferred tax asset at November 30, 2017, management estimates the rate change will reduce the Company's deferred tax asset by approximately $300,000, which will be recorded as an adjustment to its tax provision in the first quarter ending February 28, 2018.

(15) Disclosures About the Fair Value of Financial Instruments

At November 30, 2017 and 2016, the carrying amount approximates fair value for cash, accounts receivable, accounts payable, notes payable to bank, and other current liabilities due to the short maturity of these instruments. The fair value of the Company's installment term loans payable also approximate recorded value because the interest rates charged under the loan terms are not substantially different than current interest rates.

(16) Litigation and Contingencies

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

(17) Segment Information

There are three reportable segments: Agricultural Products, Modular Buildings, and Tools. The Agricultural Products segment fabricates and sells farming products as well as replacement parts for these products in the United States and worldwide. The Modular Buildings segment produces modular buildings for animal containment and various laboratory uses. The Tools segment manufactures steel cutting tools and inserts.

The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies. Management evaluates the performance of each segment based on profit or loss from operations before income taxes.

Approximate financial information with respect to the reportable segments is as follows. The tables below exclude income and balance sheet data from discontinued operations. See Note 2 "Discontinued Operations."

	Twelve Months Ended November 30, 2017			
	Agricultural Products	Modular Buildings	Tools	Consolidated
Revenue from external customers	$15,407,000	$2,700,000	$2,608,000	$20,715,000
Income (loss) from operations	(1,381,000)	(313,000)	(28,000)	$(1,722,000)
Income (loss) before tax	(1,371,000)	(349,000)	(73,000)	$(1,793,000)
Total Assets	17,237,000	3,108,000	2,607,000	$22,952,000
Capital expenditures	303,000	121,000	90,000	$514,000

Depreciation & Amortization	506,000	69,000	127,000	$702,000

	Twelve Months Ended November 30, 2016			
	Agricultural Products	Modular Buildings	Tools	Consolidated
Revenue from external customers	$15,756,000	$3,674,000	$2,128,000	$21,558,000
Income (loss) from operations	(378,000)	88,000	(141,000)	$(431,000)
Income (loss) before tax	(403,000)	70,000	(189,000)	$(522,000)
Total Assets	20,292,000	2,588,000	2,608,000	$25,488,000
Capital expenditures	212,000	-	62,000	$274,000
Depreciation & Amortization	487,000	61,000	124,000	$672,000

(18) Subsequent Events

Management evaluated all other activity of the Company and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements other than those previously described in Note 2 regarding the disposition of assets of discontinued operations.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The persons serving as our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e), as of the end of the period subject to this report. Based on this evaluation, the persons serving as our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective and provide reasonable assurance that information required to be disclosed by us in the periodic and current reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the periods specified by the Securities and Exchange Commission’s rules and forms.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Under the supervision and with the participation of management, including the person serving as our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of November 30, 2017.

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

Limitations on Controls

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

Changes to Internal Control Over Financial Reporting

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

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. Directors, Executive Officers and corporate governance.

The information required by Item 10 is incorporated by reference to the sections entitled “Questions and Answers about the 2018 Annual Meeting and Voting,” “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance,” and “Executive Officers” in our definitive proxy statement relating to our 2018 Annual Meeting of Stockholders.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to the sections entitled “Executive Compensation” and “Director Compensation” in our definitive proxy statement relating to our 2018 Annual Meeting of Stockholders.

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

The information required by Item 12 is incorporated by reference to the sections entitled “Security Ownership of Principal Stockholders,” “Security Ownership of Directors and Management” and “Equity Compensation Plan Information” in our definitive proxy statement relating to our 2018 Annual Meeting of Stockholders.

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

The information required by Item 13 is incorporated by reference to the sections entitled “Corporate Governance” and “Certain Transactions and Business Relationships” in our definitive proxy statement relating to our 2018 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the section entitled "Independent Registered Public Accountant Firm" in our definitive proxy statement relating to our 2018 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this report.

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

Report of Eide Bailly, LLP on Consolidated Financial Statements as of November 30, 2017 and 2016

Consolidated Balance Sheets as of November 30, 2017 and 2016

Consolidated Statements of Operations for each of the two years in the period ended November 30, 2017 and 2016

Consolidated Statements of Comprehensive Income for each of the two years in the period ended November 30, 2017 and 2016

Consolidated Statements of Stockholders' Equity for each of the two years in the period ended November 30, 2017 and 2016

Consolidated Statements of Cash Flows for each of the two years in the period ended November 30, 2017 and 2016

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules.

Not applicable.

(3) Exhibits.

Exhibit No.	**Description**
3.1	Certificate of Incorporation of Art's-Way Manufacturing Co., Inc.– incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter year ended May 31, 2012.
3.2	Certificate of Amendment to the Certificate of Incorporation of Art's-Way Manufacturing Co., Inc. – incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-K for the quarter ended May 31, 2012.
3.3	Bylaws of Art's-Way Manufacturing Co., Inc.– incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008.
3.4	Amendments to Bylaws of Art's-Way Manufacturing Co., Inc. – incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended May 31, 2004.
10.1*	Art's-Way Manufacturing Co., Inc. 2007 Non-Employee Directors Stock Option Plan – incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-QSB for the quarter ended February 28, 2007.
10.2*	Art's-Way Manufacturing Co., Inc. 2007 Employee Stock Option Plan – incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2009.
10.3*	Form of Non-Qualified Option Agreement under 2007 Non-Employee Directors' Stock Option Plan and 2007 Employee Stock Option Plan – incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2009.

10.4*	Director Compensation Policy – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 29, 2016.
10.5*	Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 3, 2011.
10.6*	Form of Incentive Stock Option Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 3, 2011.
10.7*	Form of Nonqualified Stock Option Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed May 3, 2011.
10.8*	Form of Restricted Stock Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed May 3, 2011.
10.9*	Form of Restricted Stock Unit Agreement under the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan – incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed May 3, 2011.
10.10*	Employment Agreement, by and between the Company and Carrie L. Gunnerson, dated December 20, 2011 – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 21, 2011.
10.11*	Amendment to Employment Agreement, by and between the Company and Carrie L. Gunnerson, dated January 26, 2012 – incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended February 29, 2012.
10.12*	Employment Agreement, by and between the Company and Amber Murra, dated January 27, 2015 – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 28, 2015.
10.13	Loan Agreement Between Iowa Finance Authority and Art's-Way Manufacturing Co., Inc. dated May 1, 2010 – incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2010.
10.14	First Amendment to Loan Agreement between the Company and the Iowa Finance Authority, dated February 1, 2013 – incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2013.
10.15	Manufacturing Facility Revenue Note, dated May 28, 2010, as amended February 1, 2013 – incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2013.
10.16	Loan Modification Agreement dated April 27, 2016 – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 2, 2016.

10.17	Second Loan Modification Agreement dated July 12, 2016 – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2016.
10.18	Third Loan Modification Agreement dated March 30, 2017 – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2017.
10.19	Forbearance and Fourth Loan Modification Agreement dated August 10, 2017 – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 16, 2017.
10.20	Consent to Merger of Wholly-Owned Subsidiary, by U.S. Bank National Association, dated October 11, 2016 – incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K for the year ended November 31, 2016.
10.21	Promissory Note, between Bank Midwest and Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.22	Promissory Note, between Bank Midwest and Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed September 29, 2017.

10.23	Promissory Note, between Bank Midwest and Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.24	Commercial Guaranty, by Ohio Metal Working Products/Art's-Way Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.25	Commercial Guaranty, by Art's-Way Scientific Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.26	Commercial Security Agreement, between Bank Midwest and Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.27	Commercial Security Agreement, between Bank Midwest and Ohio Metal Working Products/Art's-Way Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.28	Commercial Security Agreement, between Bank Midwest and Art's-Way Scientific Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.29	Mortgage (800 Highway 150 South, West Union, IA 52175), by Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.30	Open-End Mortgage (3620 Progress Street ND, Canton, OH 44705), by Ohio Metal Working Products/Art's-Way Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.31	Mortgage (556 Highway 9 and 203 West Oak Street, Armstrong & Monona, Iowa, 50514/55215), by Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.32	Mortgage (7010 Chavenelle Rd, Dubuque, IA 52002) , by Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.12 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.33	Assignment of Rents (3620 Progress Street ND, Canton, OH 44705), by Ohio Metal Working Products/Art's-Way Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.34	Assignment of Rents (800 Highway 150 South, West Union, IA 52175) by Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.35	

	Assignment of Rents (556 Highway 9 and 203 West Oak Street, Armstrong & Monona, Iowa, 50514/55215), by Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.15 to the Company's Current Report on Form 8-K filed September 29, 2017.
10.36	Assignment of Rents (7010 Chavenelle Rd, Dubuque, IA 52002) , by Art's-Way Manufacturing Co., Inc., dated September 28, 2017 – incorporated by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K filed September 29, 2017.
21.1	List of Subsidiaries – filed herewith.
23.1	Consent of independent registered public accounting firm – filed herewith.
24.1	Power of Attorney (included on the "Signatures" page of this Annual Report on Form 10-K).
31.1	Certificate pursuant to 17 CFR 240 13(a)-14(a) – filed herewith.
31.2	Certificate pursuant to 17 CFR 240 13(a)-14(a) – filed herewith.
32.1	Certificate pursuant to 18 U.S.C. Section 1350 – filed herewith.
32.2	Certificate pursuant to 18 U.S.C. Section 1350 – filed herewith.
101	The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statement of Operations, (iii) the Consolidated Statement of Comprehensive Income (iv) the Consolidated Statement of Cash Flows, (v) the Consolidated Statement of Stockholders' Equity, and (vi) Notes to the Consolidated Financial Statements.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ART'S-WAY MANUFACTURING CO., INC.

Date: February 7, 2018 /s/ Carrie L. Gunnerson
Carrie L. Gunnerson, President and Chief Executive Officer

POWER OF ATTORNEY

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

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

Date: February 7, 2018 /s/ Carrie L. Gunnerson
Carrie L. Gunnerson, President and Chief Executive Officer

Date: February 7, 2018 /s/ Amber J. Murra
Amber J. Murra, Chief Financial Officer (principal accounting officer)

Date: February 7, 2018 /s/ Marc H. McConnell
Marc H. McConnell, Chairman, Director

Date: February 7, 2018 /s/ J. Ward McConnell, Jr.
J. Ward McConnell, Jr., Vice Chairman, Director

Date: February 7, 2018	/s/ Joseph R. Dancy Joseph R. Dancy, Director
Date: February 7, 2018	/s/ Thomas E. Buffamante Thomas E. Buffamante, Director
Date: February 7, 2018	/s/ David R. Castle David R. Castle, Director
Date: February 7, 2018	/s/ David A. White David A. White, Director

43

CORPORATE INFORMATION

DIRECTORS

Marc H. McConnell

Chairman of the Board of Directors

President of Bauer Corporation

Director and Former President of Farm Equipment Manufacturers Association

Director and Former President of American Ladder Institute

Vice Chairman of McConnell Holdings, Inc.

Chairman and Director of West Town Bancorp, Inc.

J. Ward McConnell, Jr.

Vice Chairman of the Board of Directors

Private Investor

Thomas E. Buffamante

Chairman of the Audit Committee

Director of Buffamante Whipple Buttafaro, P.C.

David R. Castle

Chairman of the Compensation & Stock Option Committee

Former Director of Avery Weigh-Tronix Holdings, Inc.

Joseph R. Dancy

President and Director of LSGI Advisors Inc.

David A. White

President and Chief Executive Officer of First Call Services, LLC

Director of Ag Growth International, Inc.

Director of Sunrise Transportation Holdings LLC

OFFICERS

Carrie L. Gunnerson

President and Chief Executive Officer, Corporate Secretary

Amber J. Murra

Chief Financial Officer

ART'S-WAY MANUFACTURING

Jeff Lalumendre	Eugene Tonne
Director of Manufacturing	Director of Supply Chain
Glen Parrett	Darren McGregor
Director of Sales & Marketing	Director of Engineering

ART'S-WAY SCIENTIFIC

Dan Palmer	Mark Tschirgi
President of Art's Way Scientific	General Manager

OHIO METAL WORKING PRODUCTS/ART'S WAY

Mark Bresson	Travis Horton
General Manager	Director of Sales & Marketing

CORPORATE INFORMATION

Principal Office	
5556 Highway 9 West	Transfer Agent
	American Stock Transfer & Trust Company
P.O. Box 288	New York, New York
Armstrong, Iowa 50514-0288	
Registered Office	Stock Information
	Carrie L. Gunnerson
National Corporate Research,	(712) 864-3131

LTD.

615 S.
Dupont Hwy

Dover, DE

Independent Registered Public Accounting Firm	Trading Information
	NASDAQ Stock Market, LLC
Eide Bailly, LLP	NASDAQ symbol: ARTW

Minneapolis,
Minnesota