ARTS WAY MANUFACTURING CO INC
Form 10-K
February 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended November 30, 2017

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

For the transition period from ___________ to ____________

Commission file number 000-5131

ART'S-WAY MANUFACTURING CO., INC.
(Exact name of registrant as specified in its charter)

Delaware	**42-0920725**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 288
5556 Highway 9

Armstrong, Iowa 50514
(Address of principal executive offices)

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

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

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

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

None

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter, based on the closing sale price on May 31, 2017 as reported on the NASDAQ Stock Market LLC ($3.0384 per share), was approximately $12,648,106.

As of January 30, 2018, there were 4,156,914 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Registrant's 2018 Annual Meeting of Stockholders to be filed within 120 days of November 30, 2017 are incorporated by reference into Part III of this Form 10-K.

Art's-Way Manufacturing Co., Inc.

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FORWARD LOOKING STATEMENTS

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

You should read this report thoroughly with the understanding that our actual results may differ materially from those set forth in the forward-looking statements for many reasons, including events beyond our control and assumptions that prove to be inaccurate or unfounded. We cannot provide any assurance with respect to our future performance or results. Our actual results or actions could and likely will differ materially from those anticipated in the forward-looking statements for many reasons, including but not limited to: the impact of tightening credit markets on our ability to continue to obtain financing on reasonable terms; our ability to repay current debt, continue to meet debt obligations and comply with financial covenants; obstacles related to integration of acquired product lines and businesses; obstacles related to liquidation of product lines and segments; the effect of general economic conditions, including consumer and governmental spending, on the demand for our products and the cost of our supplies and materials; fluctuations in seasonal demand and our production cycle; the ability of our suppliers to meet our demands for raw materials and component parts; our OEM customers’ decisions regarding supply chain structure, inventory levels, and overall business conditions; fluctuations in the price of raw materials, especially steel; our ability to predict and meet the demands of each market in which our segments operate; our ability to predict and respond to any seasonal fluctuations in demand; our ability to maintain intellectual property rights; the existence and outcome of product liability claims and other ordinary course litigation; changes in environmental, health and safety regulations and employment laws; our ability to retain our executive officers; the cost of complying with laws, regulations, and standards relating to corporate governance and public disclosure, and the demand such compliance places on management’s time; our ability to liquidate the assets of our discontinued Pressurized Vessels segment; our ability to continue as a going concern; and other factors described in this report and from time to time in our other reports to the SEC. We do not intend to update the forward-looking statements contained in this report other than as required by law. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. You should read this report and the documents that we reference in this report and have filed as exhibits completely and with the understanding that our actual future results may be materially different from what we currently expect. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. BUSINESS.

General

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

We have organized our business into three operating segments. Management separately evaluates the financial results of each segment because each is a strategic business unit offering different products and requiring different technology and marketing strategies. Our Agricultural Products segment manufactures and distributes farm equipment under our own and private labels and includes the operations of our wholly-owned subsidiary, Art's-Way Manufacturing International LTD, a Canadian company ("International"). Our Modular Buildings segment manufactures modular buildings for various uses, commonly animal containment and research laboratories, through our wholly-owned subsidiary, Art's-Way Scientific, Inc., an Iowa corporation. Our Tools segment manufactures standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools through our wholly-owned subsidiary, Ohio Metal Working Products/Art's Way, Inc., an Ohio corporation ("Ohio Metal"). During the third quarter of the 2016 fiscal year, we discontinued operations of a fourth segment, Pressurized Vessels, which manufactured pressure vessels through our wholly-owned subsidiary, Art's-Way Vessels, Inc., an Iowa corporation, which was merged into the Company effective October 31, 2016. For detailed financial information relating to discontinued operations and segment reporting, see Note 2 and Note 17, respectively, to our financial statements in Item 8 of this Annual Report on Form 10-K.

Business of Our Segments

Agricultural Products

Our Agricultural Products segment, which accounted for 74.4% of our net revenue in the 2017 fiscal year and 73.1% of our net revenue in the 2016 fiscal year, is located primarily in our Armstrong, Iowa facility. This segment manufactures a variety of specialized farm machinery under our own label, including portable and stationary animal feed processing equipment and related attachments used to mill and mix feed grains into custom animal feed rations; a line of hay and forage equipment consisting of forage boxes, blowers, running gear, and dump boxes; a line of portable grain augers; a line of manure spreaders; sugar beet harvesting equipment; a line of land maintenance equipment; moldboard plows; and reels for combines and swathers. We also previously manufactured industrial grade snow blowers under the Agro Trend label, but we sold the Agro Trend product line to Metco, Inc. on December 15, 2017. We sell our labeled products through independent farm equipment dealers throughout the United States and Canada. In addition, we manufacture and supply silage blowers and reels under original equipment manufacturer ("OEM") agreements. Sales to our OEM customers accounted for 4% of our consolidated sales for the 2017 fiscal year and 5% of our consolidated sales for the 2016 fiscal year. We also provide after-market service parts that are available to keep our branded and OEM-produced equipment operating to the satisfaction of the end user of our products.

Modular Buildings

Our Modular Buildings segment, which accounted for 13.0% of our net revenue in the 2017 fiscal year and 17.0% of our net revenue in the 2016 fiscal year, is located in Monona, Iowa. This segment produces and sells modular buildings, which are custom-designed to meet the specific research needs of our customers. The buildings we commonly produce range from basic swine buildings to complex containment research laboratories. We plan to continue our focus on providing research facilities for academic research institutions, government research and diagnostic centers, public health institutions and private research and pharmaceutical companies, as those are our primary market sectors. We provide services from start to finish by designing, manufacturing, delivering and installing these facilities to meet customers' critical requirements. In addition to selling these facilities, we also offer a lease option to customers in need of temporary facilities.

Tools

Our Tools segment, which is located in Canton, Ohio, accounted for 12.6% of our net revenue in the 2017 fiscal year and 9.9% of our net revenue in the 2016 fiscal year. This segment produces and sells standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools. The tools are used by manufacturers in various industries to cut and shape various parts, pipes, and fittings. The marketing of the tools is primarily through independent distributors supplying manufacturers with industrial tools and supplies. We plan to continue our focus on providing cutting tools to industries such as automotive, aerospace, oil and gas piping, and appliances.

Pressurized Vessels – Discontinued Segment

Our Pressurized Vessels segment was discontinued during the third quarter of the 2016 fiscal year and was located in Dubuque, Iowa. The operations of the Pressure Vessels segment are reported in the accompanying financial statements as discontinued operations in accordance with GAAP. The Pressurized Vessels segment produced and sold pressurized vessels, both American Society of Mechanical Engineers code and non-code. It provided a combination of services as a manufacturer and supplier of steel vessels and steel containment systems. We built in carbon steel and stainless steel, ranging from atmospheric (0 PSI) storage vessels up to any PSI pressure rating required. We provided vessels ranging in size from 4 inches to 168 inches in diameter and in various lengths as our customers required. The vessels were primarily sold to manufacturing facilities that used the vessel as a component part of their end product. We primarily served the following industries: water treatment; air receivers; refineries; co-generation; chemical; petrochemical; storage tanks; agriculture; marine; refrigeration; hydro pneumatic; heavy equipment; pharmaceuticals and mining. In addition to our role as a fabricator of vessels, we provided various services, including custom CAD drawing; welding; interior linings and exterior finishing; passivation of stainless steel; hydrostatic and pneumatic testing; design, build and finishing of skids; installation of piping; non-destructive examination; and heat treating. For detailed financial information relating to discontinued operations, see Note 2 to our financial statements in Item 8 of this Annual Report on Form 10-K.

Our Principal Agricultural Products

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

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

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

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

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

Sugar beet harvesting line. Our sugar beet defoliators and harvesters are innovative products in the industry due to our focus on continuous improvement, both in reaction to customer requests and in anticipation of our customers' needs. Our machines can harvest six, eight, or twelve rows at one time. Along with being the first manufacturer to introduce a larger, 12-row harvester, we also sell a self-propelled unit produced by another manufacturer. During 2017, we introduced the 692Z model, which is a smaller, more contained model, commonly used by smaller producers. Our sugar beet defoliators cut and remove the leaves of the sugar beets without damaging them, and the leaf particles are then incorporated back into the soil.

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

Augers line. Our portable grain auger models are available painted white or hot dipped galvanized. Rolling hopper augers are constructed from 12 gauge tube and ¼” flighting. These augers feature an internal drive with externally mounted gear boxes for proper venting and easier maintenance. Driveline augers are also available with either PTO or electric drive. These heavy-duty augers have a reversible gear box which permits PTO operation from either side.

Manure spreaders line. Roda manure spreaders are a well-known name with a rich tradition in the West North Central region of the United States with the origin of the spreaders dating back to the 1950s. We offer vertical and horizontal beaters and rear discharge manure spreaders in both truck-mount and pull-type configurations. Our products are ideal for spreading livestock manure, compost, and lime. We offer a scale system and a scale system with GPS for proper nutrient placement. These spreaders boast a heavy-duty and rugged design with one of the best spread patterns in the industry, allowing for efficient and consistent nutrient and land management.

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

Product Distribution and Markets

We distribute goods for our Agricultural Products segment primarily through a network of approximately 1,500 U.S. and Canadian independent dealers, as well as overseas dealers in the U.K. and Australia, whose customers require specialized agricultural machinery. We have sales representation in 48 states and seven Canadian provinces; however, many dealers sell only service parts for our products. Our dealers sell our products to various agricultural and commercial customers. We also maintain a local sales force in our Armstrong, Iowa facility to provide oversight services for our distribution network, communicate with end users, and recruit and train dealers on the uses of our products. Our local service parts staff is available to help customers and dealers with their service parts needs. Our Modular Buildings segment typically sells products customized to the end-users’ requirements directly to the end-users. Our Tools segment distributes products through manufacturers’ representatives, direct sales, and OEM sales channels.

We currently export products to four foreign countries. We have been shipping grinder mixers abroad since 2006 and have exported portable rollermills and sugar beet harvesters as well. We continue to strengthen these relationships and intend to develop new international markets. Our international sales accounted for 7.1% of consolidated sales during the 2017 fiscal year.

Backlog. Our backlogs of orders vary on a daily basis. As of January 29, 2018, our Tools segment had approximately $121,000 of backlog, our Modular Buildings segment had approximately $151,000 of backlog, and our Agricultural

Products segment had a net backlog of approximately $4,214,000. While our backlog from our Agricultural Products Segment is down from $4,322,000 at the same time last year, our backlog last year included passthrough income from self-propelled beet equipment around $1,300,000 and backlog from our Agro Trend around $70,000. We expect that our order backlogs will continue to fluctuate as orders are received, filled, or cancelled, and, due to dealer discount arrangements we may enter into from time to time, these figures are not necessarily indicative of future revenue.

Recent Product Developments

During the 2017 fiscal year, development in our Agricultural Products segment consisted of several products. We introduced the 7165 grinder mixer, which replaced our 6530 model. This model has a beefed up jack shaft and bearing to withstand additional stresses from newer tractors, a hydraulic cooler to allow for more efficient use of hydraulic oil, and various other improvements aimed at improved efficiencies. We introduced our commercial forage box, which has an all-welded design for greater strength and features polished stainless steel sides. The forage box is paired with a rugged chassis that is designed for a smooth, stable ride. We also introduced the 692-Z sugar beet harvester. This smaller sugar beet harvester has a new gear box design, heavy duty frame and lifters, and standardized components for ease of maintenance.

Our Tools and Modular Buildings segments completed projects based on customer specifications and did not engage in specific product development during the 2017 fiscal year.

Competition

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

Agricultural Products

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

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

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

In addition, in order to capitalize on brand recognition for our Agricultural Products segment, we have numerous product lines produced under our labels and private labels, and we have made strategic acquisitions to strengthen our dealer base. We also provide aftermarket service parts which are available to keep our branded and OEM-produced equipment operating to the satisfaction of the customer. We sell products to customers in the United States and four foreign countries through a network of approximately 1,500 independent dealers in the United States and Canada, as well as overseas dealers in the United Kingdom and Australia.

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

Modular Buildings

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

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

Tools

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

Raw Materials, Principal Suppliers, and Customers

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

We have an OEM supplier agreement with Case New Holland ("CNH") for our Agricultural Products segment. Under the OEM agreement, we have agreed to supply CNH's requirements for certain feed processing and service parts, primarily blowers, under CNH's label. The agreement has no minimum requirements and can be cancelled upon certain conditions. The initial term of the agreement with CNH ran through September 2006, but the agreement continues in force until terminated or cancelled by either party. Neither party has terminated or cancelled the agreement as of November 30, 2017. We also sell reels to Honey Bee and Agco under an OEM agreement. For the year ended November 30, 2017, sales to OEM customers were approximately 4% of consolidated sales compared to 5% in 2016.

We do not rely on sales to one customer or a small group of customers. During the year ended November 30, 2017, no one customer accounted for more than 4% of consolidated revenues.

Intellectual Property

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

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

Research and Development Activities

Our Agricultural Products segment is continually engaged in research and development activities to improve and enhance our existing products. We perform research and development activities internally, and the cost of our research and development activities is not borne by our customers. Our research and development expenses are cyclical; they may be high in one year, but would tend to be lower the next, with an increase in production expenses as our new ideas are manufactured. Research and development expenses during our 2017 fiscal year accounted for $183,000 of our total consolidated engineering expenses compared to $140,000 during our 2016 fiscal year.

Our Tools segment produces standard cutting tools and inserts and special tools per customer specifications, and our Modular Buildings segment designs modular buildings in accordance with customer specifications. As a result, we have no research and development expenses for these segments.

Government Relationships and Regulations; Environmental Compliance

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

Employees

As of November 30, 2017, we employed approximately 88 employees in our Agricultural Products segment, four of whom were employed on a part-time basis. As of the same date, we had 17 employees in our Tools segment, one of whom was employed on a part-time basis. Nearly all of the employees in our Tools segment are represented by a union and covered by a collective bargaining agreement. In addition, our Modular Buildings segment employed approximately 13 employees as of the same date, three of whom worked on a part-time basis. These numbers do not necessarily represent peak employment during the 2017 fiscal year.

Item 1A. RISK FACTORS.

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

Item 1B. UNRESOLVED STAFF COMMENTS.

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

Item 2. PROPERTIES.

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

We purchased an office, production, and warehousing facility for our Agricultural Products segment located in West Union, Iowa on approximately 29 acres in fiscal 2010. The property is in good condition and contains approximately 190,000 square feet of usable space. A substantial portion of the facility has been leased to third parties and we are currently using the remainder of the space for inventory storage. This property is currently available for sale.

In connection with the acquisition of certain assets of UHC in May 2012, we also purchased the land and building used for manufacturing of the products sold by UHC, located in Ames, Iowa. We sold this facility, which contained approximately 41,640 square feet of usable space and land of approximately 10 acres, on February 10, 2016 for $1,192,000. After closing expenses, we recognized a gain on the sale of $36,000.

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

In February 2008, we completed construction on a facility in Dubuque, Iowa, which was used for our discontinued Pressurized Vessels segment. The facility is 34,450 square feet, steel-framed, with a crane that runs the length of the building. A paint booth and a blast booth were installed in the first quarter of the 2009 fiscal year. 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.

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

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

Our owned real property in West Union, Iowa is subject to a mortgage granted to The First National Bank of West Union (n/k/a Bank 1st) as security for a term loan. All of our remaining owned real property is subject to mortgages granted to Bank Midwest as security for our long-term debt and our line of credit. See “Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Liquidity and Capital Resources” for more information.

Item 3. LEGAL PROCEEDINGS.

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

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

Market Information

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

	Common Stock High and Low Sales Prices Per Share by Quarter			
	Fiscal Year Ended November 30, 2017		**Fiscal Year Ended November 30, 2016**	
	High	**Low**	**High**	**Low**
First Quarter	$4.70	$2.95	$3.30	$2.46
Second Quarter	$4.15	$3.00	$3.25	$2.70
Third Quarter	$3.36	$2.05	$3.16	$2.50
Fourth Quarter	$3.40	$2.00	$3.25	$2.80

Stockholders

We have two classes of stock, undesignated preferred stock and $0.01 par value common stock. No shares of preferred stock have been issued or are outstanding. As of January 30, 2018, we had 89 common stock stockholders of record, which number does not include stockholders who hold our common stock in street name.

Dividends

We did not pay a dividend during the 2017 or the 2016 fiscal year. We expect that the payment of and the amount of any future dividends will depend on our financial condition at that time.

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities by the Company

None.

Equity Compensation Plans

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

Item 6. SELECTED FINANCIAL DATA.

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

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

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

Financial Position

We believe that our consolidated balance sheet indicates a stable financial position. During the 2017 fiscal year, we decreased our total liabilities by $1,378,000, a 14.1% decrease compared to our total liabilities at the end of the 2016 fiscal year. We were able to decrease these liabilities even while sustaining operating losses. We expect our access to capital will continue to provide future cash for equipment investments, acquisitions, or debt pay down. During the 2017 fiscal year, our working capital decreased approximately $1,182,000, primarily as a result of the adoption of ASU 2015-17, “Income Taxes (Topic 740)”, which simplified the presentation of deferred income taxes, and required all deferred income taxes to be classified as noncurrent. This was somewhat mitigated by the increase in our accounts receivable balance from 2016 to 2017 as a result of higher shipments in our fourth quarter year over year. Other factors impacting our working capital were our planned reduction in inventories and the reclassification of debt, as we were able to refinance our term debt under more favorable terms during 2017, and a larger portion is now due in future years. We have approximately $2,537,000 available on our line of credit as of November 30, 2017.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 to our Consolidated Financial Statements contained in Item 8 of this report, which were prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). Critical accounting policies are those that we believe are both important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We believe that the following discussion represents the most critical accounting policies and estimates used in the preparation of our consolidated financial statements, although it is not inclusive.

Inventories

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

Revenue Recognition

Revenue is recognized when risk of ownership and title pass to the buyer, generally upon the shipment of the product. All sales are made to authorized de