

ARTS WAY MANUFACTURING CO INC
Form 10-K/A
March 17, 2015

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended November 30, 2014

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

For the transition period from _____ to _____

Commission file number 000-5131

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

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

5556 Highway 9

Armstrong, Iowa 50514
(Address of principal executive offices)

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

Securities registered under Section 12(b) of the Act:

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

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

None

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

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

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

Yes No

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

Yes No

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

Art's-Way Manufacturing Co., Inc. (the "Company") is filing this Amendment No. 1 (the "Amendment") to its Annual Report on Form 10-K for the fiscal year ended November 30, 2014, which was originally filed with the Securities and Exchange Commission (the "Commission") on January 29, 2015 (the "Original Filing"), for the purpose of including the Consolidated Statement of Stockholders' Equity table, which was inadvertently omitted from Item 8 of the Original Filing, and furnishing the associated XBRL Interactive Data File, which was inadvertently omitted from the Original Filing. In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment also includes currently dated certifications from the Company's principal executive officer and principal financial officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and a currently dated consent of the independent auditor. As required by the rules of the Commission, this Amendment sets forth an amended "Item 15. Exhibits, Financial Statement Schedules" in its entirety, which includes the currently dated consent of the independent auditor and currently dated certifications of the Company's principal executive officer and principal financial officer as Exhibits 23.1, 31.1, 31.2, 32.1 and 32.2, respectively. This Amendment does not otherwise update any exhibits of the Original Filing.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the dates described in the Original Filing, and the Company has not updated the disclosures contained therein to reflect any events that occurred subsequent to such dates. Accordingly, this Amendment should be read in conjunction with the Company's filings made with the Commission subsequent to the filing of the Original Filing, as information in such filings may update or supersede certain information contained in this Amendment.

Art's-Way Manufacturing Co., Inc.

Index to Annual Report on Form 10-K/A

Amendment No. 1

Part I

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA 5

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES 25

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Art's-Way Manufacturing Co., Inc.

Armstrong, Iowa

We have audited the accompanying consolidated balance sheets of Art's-Way Manufacturing Co., Inc. and Subsidiaries as of November 30, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. Art's-Way Manufacturing Co., Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Art's-Way Manufacturing Co., Inc. and Subsidiaries as of November 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Fargo, North Dakota

January 29, 2015

5

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Balance Sheets

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

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

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Operations

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

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

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Cash Flows

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

Edgar Filing: ARTS WAY MANUFACTURING CO INC - Form 10-K/A

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

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

ART'S-WAY MANUFACTURING CO., INC.

Consolidated Statements of Stockholders' Equity

Years Ended November 30, 2014 and 2013

	Common Stock Number of shares	Par value	Additional paid-in capital	Retained earnings	Total
Balance, November 30, 2012	4,035,052	\$40,351	\$2,540,320	\$14,490,551	\$17,071,222
Exercise of stock options	9,000	90	46,300	-	46,390
Stock based compensation	2,500	25	29,787	-	29,812
Dividends paid, \$0.10 per share	-	-	-	(404,655)	(404,655)
Net income	-	-	-	1,551,376	1,551,376
Balance, November 30, 2013	4,046,552	\$40,466	\$2,616,407	\$15,637,272	\$18,294,145
Exercise of stock options	2,000	20	7,740	-	7,760
Stock based compensation	-	-	14,504	-	14,504
Net income	-	-	-	935,247	935,247
Balance, November 30, 2014	4,048,552	\$40,486	\$2,638,651	\$16,572,519	\$19,251,656

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

Art's-Way Manufacturing Co., Inc.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Nature of Business

Art's-Way Manufacturing Co., Inc. is primarily engaged in the fabrication and sale of specialized farm machinery in the agricultural sector of the United States. Primary product offerings include: portable and stationary animal feed processing equipment; hay and forage equipment; sugar beet harvesting equipment; land maintenance equipment; a line of portable grain augers; a line of manure spreaders; moldboard plows and a line of reels. The Company sells its labeled products through independent farm equipment dealers throughout the United States. In addition, the Company manufactures and supplies hay blowers to OEMs. The Company also provides after-market service parts that are available to keep its branded and OEM produced equipment operating to the satisfaction of the end user of the Company's products.

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

Our Pressurized Vessels segment is primarily engaged in the fabrication and sale of pressurized vessels and tanks through the Company's wholly-owned subsidiary, Art's-Way Vessels, Inc. This segment provides a combination of services as a manufacturer and supplier of steel vessels and steel containment systems. The vessels are primarily sold to manufacturing facilities that will use the vessel as a component part of their end product. In addition to its role as a fabricator of vessels, it provides services including: custom CAD drawing; welding; interior linings and exterior finishing; passivation of stainless steel; hydrostatic and pneumatic testing; design, build and finishing of skids; installation of piping; non-destructive examination and heat treating.

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

On September 30, 2013, the Company acquired the assets of Ohio Metal Working Products Company (“Ohio Metals”) in Canton, Ohio consisting of inventory, equipment, land, and building. Ohio Metal is a domestic manufacturer and distributor of standard single point brazed carbide tipped tools as well as PCD (polycrystalline diamond) and CBN (cubic boron nitride) inserts and tools. The existing Ohio Metal operational team was retained to continue the manufacturing of the carbide, PCD, and CBN tipped tools and inserts. The acquired assets and operations are reported in our Tools segment for financial reporting purposes. For financial information related to the acquisition, see Note 12, “Acquisitions”.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Art’s-Way Manufacturing Co., Inc. and its wholly-owned subsidiaries, Universal Harvester by Art’s-Way, Inc., Art’s-Way Vessels, Inc., Art’s-Way Scientific, Inc., Art’s-Way Manufacturing International LTD, and Ohio Metal Working Products/Art’s-Way, Inc. Universal Harvester by Art’s-Way was formed in 2012 in connection with the Company’s acquisition of certain assets of UHC. Art’s-Way Manufacturing International LTD was formed in June 2013 when the Company acquired certain assets of Agro Trend while Ohio Metal Working Products/Art’s-Way, Inc. was formed in September 2013 when the Company acquired certain assets of Ohio Metal. All material inter-company accounts and transactions are eliminated in consolidation.

The financial books of International are kept in the functional currency of Canadian dollars and the financial statements are converted to U.S. Dollars for consolidation. When consolidating the financial results of the Company into U.S. Dollars for reporting purposes, the Company uses the All-Current translation method. The All-Current method requires the balance sheet assets and liabilities be translated to U.S. Dollars at the exchange rate as of quarter end. Owner's equity is translated at historical exchange rates and retained earnings are translated at an average exchange rate for the period. Additionally, revenue and expenses are translated at average exchange rates for the periods presented. The Company monitors the resulting cumulative translation adjustment and considers it to be immaterial.

(c) Cash Concentration

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

(d) Customer Concentration

During the years ended November 30, 2014, and November 30, 2013 no one customer accounted for more than 7% and 6% of consolidated revenues, respectively.

(e) Accounts Receivable

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

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

(f) Inventories

Inventories are stated at the lower of cost or market, and cost is determined using the standard costing method. Management monitors the carrying value of inventories using inventory control and review processes that include, but are not limited to, sales forecast review, inventory status reports, and inventory reduction programs. The Company records inventory write downs to market based on expected usage information for raw materials and historical selling trends for finished goods. Additional write downs may be necessary if the assumptions made by management do not occur.

(g) Property, Plant, and Equipment

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

(h) Lessor Accounting

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

(i) Goodwill and Impairment

Goodwill represents costs in excess of the fair value of net tangible and identifiable net intangible assets acquired in business combinations. Art's-Way performs an annual test for impairment of goodwill during the fourth quarter. There was no impairment of goodwill as of November 30, 2014 and 2013.

(j) Income Taxes

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

The Company shall classify interest and penalties to be paid on an underpayment of taxes as income tax expense. The Company files income tax returns in the U.S. federal jurisdiction and various states and Canada. The company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended before November 30, 2010.

(k) Revenue Recognition

Revenue is recognized when risk of ownership and title pass to the buyer, generally upon the shipment of the product. All sales are made to authorized dealers whose application for dealer status has been approved and who have been informed of general sales policies. Any changes in Company terms are documented in the most recently published price lists. Pricing is fixed and determinable according to the Company's published equipment and parts price lists. Title to all equipment and parts sold shall pass to the Buyer upon delivery to the carrier and is not subject to a customer acceptance provision. Proof of the passing of title is documented by the signing of the delivery receipt by a representative of the carrier. Post shipment obligations are limited to any claim with respect to the condition of the equipment or parts. Applicable sales taxes imposed on our revenues are presented on a net basis on the consolidated statements of operations and therefore do not impact net revenues or cost of goods sold. A provision for warranty expenses, based on sales volume, is included in the financial statements. The Company's return policy allows for new

and saleable parts to be returned, subject to inspection and a restocking charge which is included in net sales. Whole goods are not returnable. Shipping costs charged to customers are included in net sales. Freight costs incurred are included in cost of goods sold.

In certain circumstances, upon the customer's written request, we may recognize revenue when production is complete and the good is ready for shipment. At the buyer's request, we will bill the buyer upon completing all performance obligations, but before shipment. The buyer dictates that we ship the goods per their direction from our manufacturing facility, as is customary with this type of agreement, in order to minimize shipping costs. The written agreement with the customer specifies that the goods will be delivered on a schedule to be determined by the customer, with a final specified delivery date, and that we will segregate the goods from our inventory, such that they are not available to fill other orders. This agreement also specifies that the buyer is required to purchase all goods manufactured under this agreement. Title of the goods will pass to the buyer when the goods are complete and ready for shipment, per the customer agreement. At the transfer of title, all risks of ownership have passed to the buyer, and the buyer agrees to maintain insurance on the manufactured items that have not yet been shipped. The Company has operated using bill and hold agreements with certain customers for many years. The credit terms on this agreement are consistent with the credit terms on all other sales. All risks of loss are shouldered by the buyer, and there are no exceptions to the buyer's commitment to accept and pay for these manufactured goods. Revenues recognized at the completion of production in 2014 and 2013 were approximately \$628,000 and \$788,000, respectively.

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

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

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

(l) Research and Development

Research and development costs are expensed when incurred. Such costs approximated \$191,000 and \$174,000 for the years ended November 30, 2014 and 2013, respectively.

(m) Advertising

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

(n) Income Per Share

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

Basic and diluted earnings per common share have been computed based on the following as of November 30, 2014 and 2013:

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

(o) Stock Based Compensation

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

(p) Use of Estimates

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

(q) Recently Issued Accounting Pronouncements

Presentation of an Unrecognized Tax Benefit

In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” that clarifies how an unrecognized tax benefit should be presented in the financial statements when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists; as a reduction to a deferred tax asset or as a liability. The amendments are meant to eliminate the diversity that exists in the financial statement presentation of the unrecognized tax benefits. The amendments in this ASU do not require new recurring disclosures and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. The effective date for the Company will be the fiscal year beginning December 1, 2014. The Company currently has no unrecognized tax benefits that are impacted by the amendment and the Company does not expect this standard to have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” which supersedes the guidance in “Revenue Recognition (Topic 605)” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. We are evaluating the new standard, but do not at this time expect this standard to have a material impact on our consolidated financial statements.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern" which is authoritative guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures, codified in ASC 205-40, *Going Concern*. The guidance provides a definition of the term substantial doubt, requires an evaluation every reporting period including interim periods, provides principles for considering the mitigating effect of management's plans, requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, requires an express statement and other disclosures when substantial doubt is not alleviated, and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU No. 2015-15 is effective for annual reporting periods ending after December 15, 2016. The Company will adopt this guidance for the year-ended November 30, 2017, and it will apply to each interim and annual period thereafter. Its adoption is not expected to have a material effect on the Company's consolidated financial statements.

(q) Fair Value Measurements

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

(2) Allowance for Doubtful Accounts

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

	For the 12 months ended	
	November 30, 2014	November 30, 2013
Balance, beginning	\$35,474	\$ 27,958
Provision charged to expense	4,540	7,516
Less amounts charged-off	(4,839)	-
Balance, ending	\$35,175	\$ 35,474

(3) Inventories

Major classes of inventory are:

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

(4) Contracts in Progress

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

The amounts billed on these long term contracts are due 30 days from invoice date. All amounts billed are expected to be collected within the next 12 months. Retainage was \$8,048 and \$0 as of November 30, 2014 and 2013, respectively.

	Cost and Profit in Excess of Billings	Billings in Excess of Costs and Profit
November 30, 2014		
Costs	\$ 14,724	\$ 623,670
Estimated earnings	4,819	204,114
	19,543	827,784
Less: amounts billed	(2,000)	(924,166)
	\$ 17,543	\$ (96,382)
November 30, 2013		
Costs	\$ 326,560	\$ 115,789
Estimated earnings	106,848	21,470
	433,408	137,259
Less: amounts billed	(391,170)	(154,980)
	\$ 42,238	\$ (17,721)

(5) Property, Plant, and Equipment

Major classes of property, plant, and equipment are:

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

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

(6) Accrued Expenses

Major components of accrued expenses are:

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

(7) Product Warranty

The Company offers warranties of various lengths to its customers depending on the specific product and terms of the customer purchase agreement. The average length of the warranty period is 1 year from date of purchase. The

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

Changes in the Company's product warranty liability included in "accrued expenses" for the years ended November 30, 2014 and 2013 are as follows:

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

(8) Loan and Credit Agreements

On May 1, 2013, the Company began to move all banking arrangements previously held through West Bank to U.S. Bank. The relationship with U.S. Bank now includes an \$8,000,000 revolving line of credit (the "Line of Credit") which was renewed in 2014, and is now scheduled to mature on May 1, 2015. The Line of Credit is renewable annually with advances funding the Company's working capital needs and is secured by real property and fixed asset collateral. The interest rate is U.S. Bank's prime interest rate, adjusted each time that the Federal prime rate changes, with a minimum rate of 3.50%. As of November 30, 2014, the interest rate was the minimum of 3.50%. Monthly interest-only payments are required and the unpaid principal is due on the maturity date. As of November 30, 2014, the Company had a principal balance of \$2,569,109 outstanding against the Line of Credit. The Line of Credit states that the borrowing base will be an amount equal to the sum of 75% of accounts receivable (discounted for aged accounts and customer balances exceeding 20% of aggregate receivables), plus 50% of inventory (this component cannot exceed \$6,000,000 and only includes finished goods and raw materials deemed to be in good condition and not obsolete), less any outstanding loan balance of the Line of Credit, and less undrawn amounts of outstanding letters of credit issued by U.S. Bank or any affiliate. The Company's obligations under the Line of Credit are evidenced by a Revolving Credit Note effective May 1, 2013, a Revolving Credit Agreement dated May 1, 2013 and certain other ancillary documents.

In addition to the Line of Credit, on May 1, 2013, the Company refinanced all outstanding West Bank term loans with U.S. Bank. The West Bank long-term debt, which had outstanding principal balances of \$4,342,000 at a fixed interest rate of 4.75% and \$1,749,000 at a fixed interest rate of 4.50%, was paid off with four U.S. Bank loans totaling \$6,319,000 at a fixed interest rate of 2.98% (the "2013 U.S. Bank Term Loans"). As detailed in the Company's long-term debt summary below, monthly principal and interest payments in the aggregate amount of \$93,850 are required, with final payments of principal and accrued interest on the four loans, in the aggregate amount of \$1,372,000, due on May 1, 2018.

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

On May 29, 2014, the Company obtained \$1,000,000 in long-term debt from U.S. Bank to partially pay down the line of credit draw from 2013 that it had used to finance the building and property of Ohio Metal in Canton, Ohio. The maturity date of this loan is May 25, 2017, with a final payment of principal and accrued interest in the amount of \$890,000 due May 25, 2017. This loan is secured by a mortgage on the building and property acquired from Ohio Metal in Canton, Ohio pursuant to a Mortgage, Security Agreement and Assignment of Rents between the Company and U.S. Bank, dated May 29, 2014. The Term Loan Agreements also require the Company to comply with a covenant to obtain consent from U.S. Bank prior to declaring a dividend payment.

Except for the U.S. Bank UHC Loan (as defined below), each of the Company's term loans from U.S. Bank is governed by a Term Note and a Term Loan Agreement. Each Term Loan Agreement and the Revolving Credit Agreement require the Company to provide monthly internally prepared financial reports, year-end audited financial statements, and a monthly aging of accounts receivable. The Company, as of the end of each fiscal quarter, must maintain a debt to tangible net worth ratio of not more than 1.5 to 1.0 and a fixed charge coverage ratio of at least 1.15 to 1.00. The Company was in compliance with all covenants under the Term Loan Agreements and the Revolving Credit Agreement as measured on November 30, 2014. The next measurement date is February 28, 2015. The loans are secured by a first position security interest on the assets of the Company and its subsidiaries, including but not limited to, inventories, machinery, equipment and real estate, in accordance with the Business Security Agreements entered into by the Company and its subsidiaries and the Pledge Agreements entered into by the subsidiaries. Additionally, the Company has mortgaged certain real property in favor of U.S. Bank as documented by mortgage agreements dated May 1, 2013 and May 29, 2014 (together, the "Mortgages").

If the Company or its subsidiaries (as guarantors pursuant to continuing guaranties) commits an event of default under the Term Loan Agreements, Business Security Agreements, Pledge Agreements, Mortgages, or Revolving Credit Agreement and fails or is unable to cure that default, the interest rate on each of the loans and Line of Credit could increase by 5.0% per annum and U.S. Bank can immediately terminate its obligation, if any, to make additional loans to the Company. In addition, U.S. Bank may collect any and all money due or to become due and shall have all other rights and remedies for default provided by the Uniform Commercial Code, as well as any other applicable law and the various loan agreements, including, without limitation, the right to repossess, render unusable and/or dispose of the collateral without judicial process. In addition, in an event of default, U.S. Bank may foreclose on mortgaged property pursuant to the terms of the Mortgages.

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

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

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

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

This loan from the Iowa Finance Authority, which has been assigned to The First National Bank of West Union (n/k/a Bank 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 and does not cure the event of default within the time specified by the IFA Loan Agreement, the lender may cause the entire amount of the loan to be immediately due and payable and take any other action that it is lawfully permitted to take or in equity to enforce the

Company's performance.

The Company was in compliance with all covenants under the IFA Loan Agreement as measured on November 30, 2014. The next measurement date is November 30, 2015.

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

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

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

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

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

(9) Employee Benefit Plans

The Company sponsors a defined contribution 401(k) savings plan which covers substantially all full-time employees who meet eligibility requirements. Participating employees may contribute as salary reductions any amount of their compensation up to the limit prescribed by the Internal Revenue Code. The Company makes a 25% matching contribution to employees contributing a minimum of 4% of their compensation, up to 1% of eligible compensation. The Company recognized an expense of \$54,544 and \$38,145 related to this plan during the years ended November 30, 2014 and 2013, respectively.

(10) Equity Incentive Plan

On November 30, 2014, the Company had one equity incentive plan, the 2011 Plan, which is described below. The compensation cost charged against income was \$14,504 and \$29,812 for 2014 and 2013, respectively. The total income tax deductions for share-based compensation arrangements were \$7,260 and \$17,210 for 2014 and 2013, respectively. No compensation cost was capitalized as part of inventory or fixed assets.

On January 27, 2011, the Board of Directors of the Company authorized and approved the Art's-Way Manufacturing Co., Inc. 2011 Equity Incentive Plan (the "2011 Plan"), subject to approval by the stockholders on or before January 27, 2012. The 2011 Plan was approved by the stockholders on April 28, 2011. It replaced the Employee Stock Option Plan and the Directors' Stock Option Plan (collectively, the "Prior Plans"), and no further stock options will be awarded under the Prior Plans. Awards to directors and executive officers under the 2011 Plan will be governed by the forms of agreement approved by the Board of Directors. The 2011 Plan permits the plan administrator to award nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance awards, and stock appreciation rights to employees (including officers), directors, and consultants. The Board of Directors has approved a director compensation policy pursuant to which non-employee directors are automatically granted non-qualified stock options to purchase 2,000 shares of common stock annually or initially upon their election to the Board, which are fully vested.

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

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

	2014		2013	
Expected Volatility		32.28%		53.71 %
Expected Dividend Yield	1.236%	-	1.277%	1.063 %
Expected Term (in years)		2		2
Risk-Free Rate		3.25%		3.25 %

Summary of activity under the plans as of November 30, 2014 and 2013, and changes during the years then ended as follows:

2014 Option Activity

Options	Shares	Weighted Average	Weighted Average	Aggregate Intrinsic
----------------	---------------	-----------------------------	-----------------------------	--------------------------------

		Exercise	Remaining	Value
		Price	Contractual	
			Term	
Options Outstanding at beginning of period	143,000	\$ 9.00	-	-
Granted	19,000	\$ 6.10	-	-
Exercised	(2,000)	\$ 3.88	-	\$ 4,020
Options Expired or Forfeited	-	\$ -	-	-
Options Outstanding at end of Period	160,000	\$ 8.72	5.14	\$ 15,400
Options Exercisable at end of Period	155,000	\$ 8.81	5.27	\$ 15,400

2013 Option Activity

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

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

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

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

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

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

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

(11) Income Taxes

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

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

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

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

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

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

(12) Acquisitions

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

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

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

The financial books of the International operations are kept in the functional currency of Canadian dollars and the financial statements are converted to U.S. Dollars for consolidation. When consolidating the financial results of International into U.S. Dollars for reporting purposes, the Company uses the All-Current translation method. The All-Current method requires the balance sheet assets and liabilities be translated to U.S. Dollars at the exchange rate as of quarter end. Owner's equity is translated at historical exchange rates and retained earnings are translated at an average exchange rate for the period. Additionally, revenue and expenses are translated at average exchange rates for the periods presented. The Company monitors the resulting cumulative translation adjustment and considers it to be immaterial.

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

(13) Disclosures About the Fair Value of Financial Instruments

At November 30, 2014 and 2013, the carrying amount approximates fair value for cash, accounts receivable, accounts payable, notes payable to bank, and other current liabilities due to the short maturity of these instruments. The fair value of the Company's installment term loans payable also approximate recorded value because the interest rates charged under the loan terms are not substantially different than current interest rates.

(14) Litigation and Contingencies

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

(15) Segment Information

There are four reportable segments: agricultural products, pressurized vessels, modular buildings, and tools. The agricultural products segment fabricates and sells farming products as well as replacement parts for these products in the United States and worldwide. The pressurized vessel segment produces and services pressurized tanks. The modular building segment produces modular buildings for animal containment and various laboratory uses. The tools

segment manufactures steel cutting tools and inserts.

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

Approximate financial information with respect to the reportable segments is as follows.

	Twelve Months Ended November 30, 2014				
	Agricultural	Pressurized	Modular	Tools	Consolidated
	Products	Vessels	Buildings		
Revenue from external customers	\$27,952,000	\$ 1,736,000	\$2,965,000	\$3,517,000	\$ 36,170,000
Gross Profit	7,150,000	39,000	626,000	910,000	\$ 8,725,000
Operating Expense	5,051,000	351,000	768,000	890,000	\$ 7,060,000
Income (loss) from operations	2,099,000	(312,000)	(142,000)	20,000	\$ 1,665,000
Income (loss) before tax	1,842,000	(341,000)	(165,000)	(33,000)	\$ 1,303,000
Total Assets	24,587,000	2,548,000	2,503,000	3,210,000	\$ 32,846,000
Capital expenditures	581,000	27,000	-	25,000	\$ 633,000
Depreciation & Amortization	537,000	108,000	146,000	116,000	\$ 907,000

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

(16) Subsequent Events

Management evaluated all other activity of the Company and concluded that no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the notes to the consolidated financial statements.

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/A:

Report of Eide Bailly, LLP on Consolidated Financial Statements as of November 30, 2014 and 2013

Consolidated Balance Sheets as of November 30, 2014 and 2013

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

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

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

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules. Not applicable.

(3) Exhibits. See "Exhibit Index to Form 10-K/A" immediately following the signature page of this Form 10-K/A.

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: March 17, 2015 /s/ Carrie L. Majeski
Carrie L. Majeski
President and Chief Executive Officer

Art's-Way Manufacturing Co., Inc.

Exhibit Index to Form 10-K/A (Amendment No. 1)

For Fiscal Year Ended November 30, 2014

Exhibit

No.	Description
2.1	Asset Purchase Agreement, between Art's-Way Manufacturing Co., Inc. and Ohio Metal Working Products Company, dated September 30, 2013 – incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 4, 2013.
3.1	Certificate of Incorporation of Art's-Way Manufacturing Co., Inc.– incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter year ended May 31, 2012.
3.2	

- Certificate of Amendment to the Certificate of Incorporation of Art's-Way Manufacturing Co., Inc. – incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-K for the quarter ended May 31, 2012. Bylaws of Art's-Way Manufacturing Co., Inc.– incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2008.
- 3.3
- Amendments to Bylaws of Art's-Way Manufacturing Co., Inc. – incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended May 31, 2004.
- 3.4
- 10.1* Art's-Way Manufacturing Co., Inc. 2007 Non-Employee Directors Stock Option Plan –

- incorporated by
reference to
Exhibit 10.1 of
the Company's
Quarterly
Report on Form
10-Q for the
quarter ended
February 28,
2007.
Art's-Way
Manufacturing
Co., Inc. 2007
Employee
Stock Option
Plan –
- 10.2* incorporated by
reference to
Exhibit 10.3 of
the Company's
Annual Report
on Form 10-K
for the fiscal
year ended
November 30,
2009.
Form of
Non-Qualified
Option
Agreement
under 2007
Non-Employee
Directors' Stock
Option Plan
and 2007
Employee
Stock Option
Plan –
- 10.3* incorporated by
reference to
Exhibit 10.30
of the
Company's
Quarterly
Report on Form
10-Q for the
quarter ended
May 31, 2009.
- 10.4* Director
Compensation
Policy –

incorporated by
reference to
Exhibit 10.1 to
the Company's
Quarterly
Report on Form
10-Q for the
quarter ended
August 31,
2014.

10.5* Art's-Way
Manufacturing
Co., Inc. 2011
Equity
Incentive Plan –
incorporated by
reference to
Exhibit 10.1 to
the Company's
Current Report
on Form 8-K
dated April 28,
2011.

10.6* Form of
Incentive Stock
Option
Agreement
under the
Art's-Way
Manufacturing
Co., Inc. 2011
Equity
Incentive Plan –
incorporated by
reference to
Exhibit 10.2 to
the Company's
Current Report
on Form 8-K
dated April 28,
2011.

10.7* Form of
Nonqualified
Stock Option
Agreement
under the
Art's-Way
Manufacturing
Co., Inc. 2011
Equity
Incentive Plan –

incorporated by
reference to
Exhibit 10.3 to
the Company's
Current Report
on Form 8-K
dated April 28,
2011.

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

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

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

10.9* Incentive Plan –
incorporated by
reference to
Exhibit 10.5 to
the Company's
Current Report
on Form 8-K
dated April 28,
2011.

10.10* Employment
Agreement, by
and between
the Company
and Carrie L.
Majeski, dated
December 20,

- 2011 –
incorporated by
reference to
Exhibit 10.1 to
the Company’s
Current Report
on Form 8-K
dated
December 20,
2011.
Amendment to
Employment
Agreement, by
and between
the Company
and Carrie L.
Majeski, dated
January 26,
2012 –
- 10.11* incorporated by
reference to
Exhibit 10.2 to
the Quarterly
Report on Form
10-Q for the
quarter ended
February 29,
2012.
Manufacturing
Facility
Revenue Note
in the principal
amount of
\$1,300,000,
from Art’s-Way
Manufacturing
Co., Inc. to
Iowa Finance
- 10.12 Authority dated
May 28, 2010 –
incorporated by
reference to
Exhibit 10.1 to
the Company’s
Quarterly
Report on Form
10-Q for the
quarter ended
May 31, 2010
- 10.13 Loan
Agreement

Between Iowa
Finance
Authority and
Art's-Way
Manufacturing
Co., Inc. dated
May 1, 2010 –
incorporated by
reference to
Exhibit 10.2 to
the Company's
Quarterly
Report on Form
10-Q for the
quarter ended
May 31, 2010

- Installment or
Single Payment
Note between
Art's-Way
Manufacturing
Co., Inc. and
U.S. Bank
- 10.14 N.A., dated
May 10, 2012 –
incorporated by
reference to
Exhibit 10.2 to
the Company's
Form 8-K filed
July 16, 2012.
Manufacturing
Facility
Revenue Note,
dated May 28,
2010, as
amended
February 1,
2013 –
- 10.15 incorporated by
reference to
Exhibit 10.2 to
the Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended February
28, 2013.
- 10.16 First
Amendment to
Loan
Agreement
between the
Company and
the Iowa
Finance
Authority,
dated February
1, 2013 –
incorporated by
reference to
Exhibit 10.3 to
the Company's

- Quarterly
Report on
Form 10-Q for
the quarter
ended February
28, 2013.
Revolving
Credit Note,
between
Art's-Way
Manufacturing
Co., Inc. and
U.S. Bank
N.A., dated
May 1, 2013 –
10.17 incorporated by
reference to
Exhibit 10.2 to
the Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.
Revolving
Credit
Agreement,
between
Art's-Way
Manufacturing
Co., Inc. and
U.S. Bank
N.A., dated
May 1, 2013 –
10.18 incorporated by
reference to
Exhibit 10.3 to
the Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.
10.19 Term Note for
loan in the
amount of
\$1,143,600,
between
Art's-Way

Manufacturing
Co., Inc. and
U.S. Bank
N.A., dated
May 1, 2013 –
incorporated by
reference to
Exhibit 10.4 to
the Company’s
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.

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

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

10.20 N.A., dated
May 1, 2013 –
incorporated by
reference to
Exhibit 10.5 to
the Company’s
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.

10.21 Term Note for
loan in the
amount of
\$2,335,500,
between
Art’s-Way
Manufacturing
Co., Inc. and
U.S. Bank
N.A., dated
May 1, 2013 –
incorporated by
reference to
Exhibit 10.6 to

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

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

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

10.22 N.A., dated
May 1, 2013 –
incorporated by
reference to
Exhibit 10.7 to
the Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.

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

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

10.23 N.A., dated
May 1, 2013 –
incorporated by
reference to
Exhibit 10.8 to
the Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.

10.24

Term Loan Agreement for loan in the amount of \$1,833,510.26, between Art's-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.

10.25 Term Note for loan in the amount of \$1,006,500, between Art's-Way Manufacturing Co., Inc. and U.S. Bank N.A., dated May 1, 2013 – incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.

10.26 Term Loan Agreement for loan in the amount of \$1,006,500, between Art's-Way

Manufacturing
Co., Inc. and
U.S. Bank
N.A., dated
May 1, 2013 –
incorporated by
reference to
Exhibit 10.11
to the
Company’s
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.

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

10.27 reference to
Exhibit 10.12
to the
Company’s
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.

10.28 Business
Security
Agreement, by
Art’s-Way
Vessels, Inc.,
dated May 1,
2013 –
incorporated by
reference to
Exhibit 10.13
to the
Company’s
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,

2013.
Business
Security
Agreement, by
Art's-Way
Scientific, Inc.,
dated May 1,
2013 –
incorporated by
reference to
10.29 Exhibit 10.14
to the
Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.
Business
Security
Agreement, by
Universal
Harvester by
Art's-Way, Inc.,
dated May 1,
2013 –
incorporated by
10.30 reference to
Exhibit 10.15
to the
Company's
Quarterly
Report on
Form 10-Q for
the quarter
ended May 31,
2013.
10.31 Pledge
Agreement, by
Art's-Way
Vessels, Inc.,
dated May 1,
2013 –
incorporated by
reference to
Exhibit 10.16
to the
Company's
Quarterly
Report on

Form 10-Q for
the quarter
ended May 31,
2013.

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

10.32 Exhibit 10.17

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

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

10.33 reference to
Exhibit 10.18

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

10.34 Continuing

Guaranty
(Unlimited), by
Art's-Way
Vessels, Inc.,
dated May 1,
2013 –
incorporated by

reference to
Exhibit 10.19
to the
Company's

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

- Continuing Guaranty (Unlimited), by Universal Harvester by Art's-Way, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- Mortgage, Security Agreement and Assignment of Rents, by Art's-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- Mortgage, Security Agreement and Assignment of Rents, by Art's-Way Vessels, Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- Amendment to Note dated May 10, 2012, by Art's-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- Amendment to Mortgage dated May 10, 2012, by Art's-Way Manufacturing Co., Inc., dated May 1, 2013 – incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2013.
- 10.41* Employment Agreement, by and between the Company and Amber Murra, dated May 1, 2014 (effective as of May 27, 2014) – incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 6, 2014.
- 10.42 Term Note for loan in the amount of \$1,000,000, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated May 29, 2014 – incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.43 Term Loan Agreement for loan in the amount of \$1,000,000, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated May 29, 2014 – incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.44 Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, between Ohio Metal Working Products/Art's-Way, Inc. and U.S. Bank National Association, dated May 29, 2014-- incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.45 Amendment to Loan Agreements, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated June, 2014 incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.46 Amendment to Loan Agreement, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, regarding Ohio Term Note and Loan Agreement, dated June, 2014 incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.47 Pledge Agreement, by Ohio Metal Working Products/Art's-Way, Inc., dated June, 2014 -- incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.48 Reaffirmation of Guaranty, by Ohio Metal Working Products/Art's-Way, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.49 Reaffirmation of Guaranty, by Art's-Way Vessels, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.50 Reaffirmation of Guaranty, by Art's-Way Scientific, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.51 Reaffirmation of Guaranty, by Universal Harvester by Art's-Way, Inc., dated May 29, 2014 – incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.
- 10.52 Amendment to Loan Agreement and Note, between Art's-Way Manufacturing Co., Inc. and U.S. Bank National Association, dated June 1, 2014 – incorporated by reference to Exhibit 10.11 to the Company's

Edgar Filing: ARTS WAY MANUFACTURING CO INC - Form 10-K/A

Quarterly Report on Form 10-Q for the quarter ended May 31, 2014.

- 21.1 List of Subsidiaries – incorporated by reference to Exhibit 21.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014.
- 23.1 Consent of independent registered public accounting firm – filed herewith.
- 24.1 Power of Attorney (included on the “Signatures” page of the Annual Report on Form 10-K for the fiscal year ended November 30, 2014).
- 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.

The following financial statements from the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the consolidated Balance
101 Sheets, (ii) the Consolidated Statement of Operations, (iii) the Consolidated Statement of Cash Flows, (iv) the Consolidated Statement of Stockholders’ Equity filed herewith, and (v) Notes to the Consolidated Financial Statements.

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