

RAVEN INDUSTRIES INC  
Form 10-Q  
September 02, 2011  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended July 31, 2011

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File: 001-07982

RAVEN INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

South Dakota

46-0246171

(State of incorporation)

(IRS Employer Identification No.)

205 East 6th Street, P.O. Box 5107, Sioux Falls, SD 57117-5107

(Address of principal executive offices)

(605) 336-2750

(Registrant's telephone number including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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. (Check one):

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

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

As of August 31, 2011 there were 18,092,240 shares of common stock, \$1 par value, of Raven Industries, Inc. outstanding. There were no other classes of stock outstanding.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

RAVEN INDUSTRIES, INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

(in thousands, except per-share data)	July 31, 2011	January 31, 2011	July 31, 2010
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$46,978	\$37,563	\$51,115
Short-term investments	—	1,000	2,500
Accounts receivable, net of allowances of \$262, \$300 and \$299, respectively	43,248	39,967	34,670
Inventories:			
Materials	34,782	30,261	29,453
In process	7,687	5,424	8,387
Finished goods	7,780	7,994	7,352
Total inventories	50,249	43,679	45,192
Deferred income taxes	2,804	2,733	2,725
Prepaid expenses and other current assets	2,937	3,239	3,295
Total current assets	146,216	128,181	139,497
Property, plant and equipment	111,518	102,080	91,702
Accumulated depreciation	(63,507)	(60,558)	(57,799)
Property, plant and equipment, net	48,011	41,522	33,903
Goodwill	10,777	10,777	10,777
Amortizable intangible assets, net	1,816	1,585	1,887
Other assets, net	4,508	5,695	6,933
<b>TOTAL ASSETS</b>	<b>\$211,328</b>	<b>\$187,760</b>	<b>\$192,997</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities			
Accounts payable	\$16,825	\$16,715	\$14,842
Accrued liabilities	12,643	14,643	12,748
Taxes — accrued and withheld	2,244	1,453	1,449
Customer advances	2,258	1,524	3,034
Total current liabilities	33,970	34,335	32,073
Other liabilities	13,229	12,211	11,512
Total liabilities	47,199	46,546	43,585
Commitments and contingencies			
Shareholders' equity:			
	32,539	32,511	32,487

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Common stock, \$1 par value, authorized shares 100,000; issued 32,539,  
32,511 and 32,487, respectively

Paid in capital	8,088	7,060	6,134
Retained earnings	177,783	156,125	165,252
Accumulated other comprehensive loss	(919	) (1,120	) (1,099
Less treasury stock, at cost, 14,449 shares	(53,362	) (53,362	) (53,362
Total shareholders' equity	164,129	141,214	149,412

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$211,328 \$187,760 \$192,997

The accompanying notes are an integral part of the unaudited consolidated financial information.

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RAVEN INDUSTRIES, INC.  
 CONSOLIDATED STATEMENTS OF INCOME  
 (unaudited)

(in thousands, except per-share data)	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net sales	\$90,344	\$73,174	\$191,885	\$158,204
Cost of sales	62,214	52,785	130,819	110,644
Gross profit	28,130	20,389	61,066	47,560
Research and development expenses	2,374	1,956	4,617	4,082
Selling, general and administrative expenses	7,082	5,810	14,242	11,350
Operating income	18,674	12,623	42,207	32,128
Other income (expense), net	(76 )	(94 )	(89 )	(42 )
Income before income taxes	18,598	12,529	42,118	32,086
Income taxes	6,137	4,176	13,941	10,788
Net income	\$12,461	\$8,353	\$28,177	\$21,298
Net income per common share:				
Basic	\$0.69	\$0.46	\$1.56	\$1.18
Diluted	\$0.68	\$0.46	\$1.55	\$1.18
Cash dividends paid per common share	\$0.18	\$0.16	\$0.36	\$0.32

The accompanying notes are an integral part of the unaudited consolidated financial information.

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RAVEN INDUSTRIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

(in thousands)	Six Months Ended	
	July 31, 2011	July 31, 2010
<b>OPERATING ACTIVITIES:</b>		
Net income	\$28,177	\$21,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,159	3,594
Change in fair value of acquisition-related contingent consideration	(93	) 352
Deferred income taxes	1,352	(753
Share-based compensation expense	984	567
Change in operating assets and liabilities:		
Accounts receivable	(3,192	) (280
Inventories	(6,546	) (10,712
Prepaid expenses and other assets	(932	) (594
Operating liabilities	2,427	6,464
Other operating activities, net	(73	) (120
Net cash provided by operating activities	26,263	19,816
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(11,000	) (3,774
Purchase of short-term investments	—	(1,700
Sale of short-term investments	1,000	2,200
Payments related to business acquisitions	(52	) (383
Other investing activities, net	(449	) 75
Net cash used in investing activities	(10,501	) (3,582
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(6,509	) (5,771
Other financing activities, net	62	(36
Net cash used in financing activities	(6,447	) (5,807
Effect of exchange rate changes on cash	100	4
Net increase in cash and cash equivalents	9,415	10,431
Cash and cash equivalents:		
Beginning of period	37,563	40,684
End of period	\$46,978	\$51,115

The accompanying notes are an integral part of the unaudited consolidated financial information.

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RAVEN INDUSTRIES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited)  
 (in thousands, except per-share amounts)

## (1) Basis of Presentation

The accompanying unaudited consolidated financial information has been prepared by Raven Industries, Inc. (the “company”) in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, it does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of this financial information have been included. Financial results for the interim three and six-month periods ended July 31, 2011 are not necessarily indicative of the results that may be expected for the year ending January 31, 2012. The January 31, 2011 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. This financial information should be read in conjunction with the consolidated financial statements and notes included in the company’s Annual Report on Form 10-K for the year ended January 31, 2011.

## (2) Summary of Significant Accounting Policies

There have been no material changes to the company's significant accounting policies as compared to the significant accounting policies described in the company's Annual Report on Form 10-K for the fiscal year ended January 31, 2011.

## (3) Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average common shares and stock units outstanding. Diluted net income per share is computed by dividing net income by the weighted-average common and common equivalent shares outstanding (which includes the shares issuable upon exercise of employee stock options net of shares assumed purchased with the option proceeds) and stock units outstanding. Certain outstanding options were excluded from the diluted net income per-share calculations because their effect would have been anti-dilutive. For the three and six-month periods ended July 31, 2011 and July 31, 2010, 136 and 155 shares were excluded, respectively. Details of the earnings per share computation are presented below:

	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Numerator:				
Net income	\$12,461	\$8,353	\$28,177	\$21,298
Denominator:				
Weighted average common shares outstanding	18,083	18,037	18,079	18,033
Weighted average stock units outstanding	29	26	28	24
Denominator for basic calculation	18,112	18,063	18,107	18,057
Weighted average common shares outstanding	18,083	18,037	18,079	18,033
Weighted average stock units outstanding	29	26	28	24
Dilutive impact of stock options	103	33	107	22
Denominator for diluted calculation	18,215	18,096	18,214	18,079

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Net income per share — basic	\$0.69	\$0.46	\$1.56	\$1.18
Net income per share — diluted	\$0.68	\$0.46	\$1.55	\$1.18



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## (4) Segment Reporting

The company has four business segments: Applied Technology Division, Engineered Films Division, Aerostar Division and Electronic Systems Division which are defined by their common technologies, production processes and inventories. Applied Technology has precision agriculture representatives on location in key geographic areas, including Canada, Europe, Ukraine and Australia. The company measures the performance of its segments based on their operating income exclusive of administrative and general expenses. Other income, interest expense and income taxes are not allocated to individual operating segments. Segment information is reported consistent with the company's management reporting structure.

Intersegment sales were primarily from Electronic Systems to Applied Technology. Business segment results are as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net sales				
Applied Technology	\$32,269	\$20,966	\$71,394	\$53,891
Engineered Films	32,459	26,120	62,550	51,753
Aerostar	10,861	9,195	26,000	20,888
Electronic Systems	16,530	18,067	36,007	34,355
Intersegment eliminations	(1,775 )	(1,174 )	(4,066 )	(2,683 )
Consolidated net sales	\$90,344	\$73,174	\$191,885	\$158,204
Operating income (loss)				
Applied Technology	\$12,118	\$5,518	\$27,192	\$17,921
Engineered Films	5,284	5,543	9,413	9,670
Aerostar	2,184	1,345	6,246	3,509
Electronic Systems	2,307	2,813	5,719	5,937
Intersegment eliminations	8	2	20	(47 )
Total reportable segment income	21,901	15,221	48,590	36,990
Administrative and general expenses	(3,227 )	(2,598 )	(6,383 )	(4,862 )
Consolidated operating income	\$18,674	\$12,623	\$42,207	\$32,128

## (5) Financing Arrangements

Raven has an uncollateralized credit agreement providing a line of credit of \$8,000 with a maturity date of September 29, 2011, bearing interest at the prime rate with a minimum rate of 4.00%. Letters of credit totaling \$1,342 have been issued under the line, primarily to support self-insured workers compensation bonding requirements. No borrowings were outstanding as of July 31, 2011, January 31, 2011 or July 31, 2010, and \$6,658 was available at July 31, 2011.

## (6) Dividends

The company announced on August 31, 2011, that its board of directors approved a quarterly cash dividend of 18 cents per share, payable October 14, 2011, to shareholders of record on September 30, 2011.

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## (7) Comprehensive Income

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains, and losses that under U.S. generally accepted accounting principles are recorded as an element of shareholders' equity but are excluded from net income.

The components of total comprehensive income follow:

	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Net income	\$12,461	\$8,353	\$28,177	\$21,298
Other comprehensive income:				
Foreign currency translation	21	(49	) 160	48
Amortization of postretirement benefit plan actuarial losses, net of income tax of \$7, \$15, \$22, and \$29	12	27	41	54
Total other comprehensive income	33	(22	) 201	102
Total comprehensive income	\$12,494	\$8,331	\$28,378	\$21,400

## (8) Employee Retirement Benefits

The components of net periodic benefit cost for postretirement benefits are as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Service cost	\$30	\$15	\$60	\$31
Interest cost	84	81	168	162
Amortization of actuarial losses	31	42	63	83
Net periodic benefit cost	\$145	\$138	\$291	\$276

## (9) Product Warranty Costs

Accruals necessary for product warranties are estimated based on historical warranty costs and average time elapsed between purchases and returns for each division. Additional accruals are made for any significant, discrete warranty issues. Changes in the warranty accrual were as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Balance, beginning of period	\$1,631	\$1,613	\$1,437	\$1,259
Accrual for warranties	781	711	1,588	1,445
Settlements made (in cash or in kind)	(770	) (512	) (1,383	) (892
Balance, end of period	\$1,642	\$1,812	\$1,642	\$1,812

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(10) New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of comprehensive income. This guidance gives an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as a part of the statement of changes in shareholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively, and for public companies is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The company is evaluating the presentation options.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This commentary should be read in conjunction with the company's consolidated financial statements for the three and six months ended July 31, 2011 and July 31, 2010, as well as the company's consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations in the company's Form 10-K for the year ended January 31, 2011.

EXECUTIVE OVERVIEW

Raven, which began operations in 1956 as a manufacturer of high-altitude balloons, is a diversified provider of specialized products for the industrial, agricultural, energy, construction and military/aerospace markets.

The company is comprised of unique operating units, classified into four reportable segments: Applied Technology, Engineered Films, Aerostar and Electronic Systems. While each segment has distinct characteristics, the products and technologies are largely extensions of durable competitive advantages rooted in the original research balloon business.

Applied Technology produces precision agriculture products and information management tools to reduce costs and improve farm yields. Products include field computers, application controls, GPS-guidance and assisted-steering systems, automatic boom controls, yield monitoring and planter controls and an integrated information platform.

Engineered Films is a leading manufacturer and supplier of high-quality flexible films and sheeting for custom applications in energy, industrial, environmental, construction and agricultural markets throughout the United States and abroad. Products include pit liners used in the oil and gas drilling process, high performance in-wall and under concrete slab moisture and vapor retarders, weather resistive barriers used for construction, silage covers that reduce the amount of spoilage in cattle feed and textured reinforced geomembranes.

Aerostar designs and fabricates lighter-than-air solutions (i.e. aerostats, airships, and high-altitude research balloons) for customers such as NASA and the Department of Defense and manufactures parachutes and protective wear for the U.S. military.

Electronic Systems is a total solution provider of contract electronic manufacturing services to a select base of customers in the industrial controls and instrumentation, aerospace/aviation and communication industries.

#### Seasonality

The Applied Technology segment is predominately focused on the agricultural market and quarterly financial results have typically been impacted by the inherent seasonality of this market. Historically, Applied Technology's first quarter results are the strongest and the second quarter the weakest.

#### Vision and Strategy

The company's vision is to advance its leadership positions in niche markets through the development of innovative solutions to address the needs of customers and help solve global challenges in the areas of hunger, safety, peace and stability.

The company's primary strategy to achieve this vision is the maintenance of a diversified, but integrated portfolio of industrial manufacturing businesses. Diversification has enabled the company to consistently generate cash, achieve profitability and

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maintain financial strength by limiting the impact of market disruptions and facilitating growth in both strong and weak economic cycles. Additionally, the company continues to achieve increased geographic, product and market diversification.

The company's overall approach to creating value, which is employed consistently across the four unique operating units, is summarized as follows -

- Seek to expand in niche markets that have strong prospects for growth and above-average profit margins.

- Elevate customer service by leveraging innovation, speed and dedicated engineering support to solve the customer's problem.

- Reinvest cash generated from operations to fuel growth. Capital is allocated aggressively when the prospects are high for above-average, risk-adjusted returns on capital. When the company accumulates cash in excess of investment opportunities for above-average, risk-adjusted returns, it will be returned to shareholders in the form of special dividends or stock buy backs.

- Continue to increase the quarterly dividend annually.

#### Results of Operations

Consolidated financial highlights for the second quarter and first six months of fiscal 2012 and fiscal 2011 include the following:

(dollars in thousands, except per-share data)	Three Months Ended			Six Months Ended			
	July 31, 2011	July 31, 2010	% Change	July 31, 2011	July 31, 2010	% Change	
Net sales	\$90,344	\$73,174	23 %	\$191,885	\$158,204	21	%
Gross profit	28,130	20,389	38 %	61,066	47,560	28	%
Gross margins <sup>(a)</sup>	31.1 %	27.9 %		31.8 %	30.1 %		
Operating income	\$18,674	\$12,623	48 %	\$42,207	\$32,128	31	%
Operating margins	20.7 %	17.3 %		22.0 %	20.3 %		
Net income	\$12,461	\$8,353	49 %	\$28,177	\$21,298	32	%
Diluted earnings per share	\$0.68	\$0.46		\$1.55	\$1.18		
Operating cash flow				26,263	19,816	33	%
Cash dividends				6,509	5,771	13	%

<sup>(a)</sup> The company's gross and operating margins may not be comparable to industry peers due to the diversity of its operations and variability in the classification of expenses across industries in which the company operates.

The company achieved record second quarter sales and net income, improving 23% and 49%, respectively, from last year's second quarter records. Growth in sales and profitability was driven primarily by the Applied Technology Division, as favorable market conditions, international market expansion and improved operating leverage pushed sales and earnings to higher levels.

For the six-month period, sales increased 21% to \$191.9 million, from \$158.2 million one year earlier. First half net income of \$28.2 million, or \$1.55 per diluted share, was up 32% year-over-year. As with the quarter, Applied Technology led the sales and profit increases for the first half of the year.

The company reports its segment operating income exclusive of administrative and general expenses. Other income, interest expense and income taxes are not allocated to individual operating segments.

#### Applied Technology

Net sales of \$32.3 million in the second quarter of fiscal 2012 were up \$11.3 million (54%) year-over-year and operating income of \$12.1 million increased \$6.6 million, or 120%. For the six-month period, net sales of \$71.4 million grew \$17.5 million (32%) and operating income of \$27.2 million increased \$9.3 million, or 52%. The favorable year-over-year comparisons reflect strong sales growth across the majority of the division's product offerings, including application controls (i.e. control systems, flow meters, valves), field computers, guidance and

steering products and boom controls. Applied Technology benefited from healthy agricultural fundamentals, capitalizing on strong brand recognition, industry leading service and greater acceptance of precision agriculture as a means of controlling input costs. International sales growth outpaced domestic growth for the first six months of fiscal 2012 as compared with one year ago, increasing 61%. Profits improved for the three and six-month periods due to higher sales volume and positive operating leverage, although the growth was tempered by continued investments in R&D and business development.

### Engineered Films

For the second quarter, net sales of \$32.5 million grew \$6.3 million (24%) as compared with the second quarter of last year and established an all-time quarterly sales record for the division. Second quarter operating income of \$5.3 million declined 5% year-over-year despite higher sales. Fiscal 2012 first half net sales of \$62.6 million increased \$10.8 million (21%) and operating income of \$9.4 million was down slightly, decreasing 3%. For both periods, increased demand for pit liners was driven by intensified drilling for oil and natural gas. In addition to the higher energy market sales, deliveries of film to the geomembrane market, which are used primarily for environmental and water conservation containment liners, contributed to the sales growth for the quarter and first half. Lower year-over-year profitability for both the quarter and six-month periods related to margin contraction due to higher material and overhead costs relative to sales.

### Aerostar

Fiscal 2012 second quarter net sales of \$10.9 million grew \$1.7 million (18%), while operating income of \$2.2 million improved \$0.8 million, or 62%. Fiscal 2012 year-to-date net sales of \$26.0 million increased \$5.1 million (24%) and operating income of \$6.2 million increased \$2.7 million, or 78%. Sales and profit results benefited from increased sales volume of T-11 Army parachutes, as contract shipments were not at full delivery levels until the third quarter of last year. Higher parachute sales and the resulting profit, along with increased manufacturing efficiencies, drove gross margins up to 32% for the first half as compared to 23% one year earlier, but were tempered by higher investment spending levels.

### Electronic Systems

Second quarter net sales of \$16.5 million as compared with \$18.1 million one year earlier decreased 9%. Operating income of \$2.3 million was down \$0.5 million (18%) year-over-year. For the quarter, lower aviation electronics deliveries and unfavorable product mix negatively impacted results. Fiscal 2012 six-month net sales of \$36.0 million increased by \$1.7 million (5%), however, operating income of \$5.7 million fell \$0.2 million, or 4%. For the first half, increased intercompany sourcing to the Applied Technology Division was partially offset by weaker sales of avionics. Higher sales did not result in profit growth, as profit margins fell in response to a less favorable product mix.

## RESULTS OF OPERATIONS - SEGMENT ANALYSIS

### Applied Technology

Applied Technology provides precision agriculture products and information management tools to reduce costs and improve farm yields.

(dollars in thousands)	Three Months Ended				Six Months Ended			
	July 31, 2011	July 31, 2010	\$ Change	% Change	July 31, 2011	July 31, 2010	\$ Change	% Change
Net sales	\$32,269	\$20,966	\$11,303	54 %	\$71,394	\$53,891	\$17,503	32 %
Gross profit	16,011	8,932	7,079	79 %	34,942	24,888	10,054	40 %
Gross margins	49.6 %	42.6 %			48.9 %	46.2 %		
Operating income	12,118	5,518	6,600	120 %	27,192	17,921	9,271	52 %
Operating margins	37.6 %	26.3 %			38.1 %	33.3 %		

The following factors were the primary drivers of the three and six-month year-over-year growth in net sales and operating income:

Market conditions. Global market fundamentals were healthy as population and income growth in emerging economies have increased demand for food, while natural disasters and adverse weather conditions have restricted supplies. These factors have resulted in higher crop prices and wider acceptance of precision agriculture as a sound investment for maximizing yields and controlling input costs.

Sales volume and selling prices. The increase in net sales was driven by higher sales volume, as selling prices reflected only a modest increase year-over-year.

International sales. For the three-month period, international sales more than doubled from one year ago and represented 30% of total segment revenue. For the first six months, sales outside the U.S. accounted for 29% of revenue versus 24% for the first six months of fiscal 2011. International sales of \$20.5 million in the first six months of fiscal 2012 rose \$7.7 million (61%) year-over-year as improved farm fundamentals drove strong overall demand in Brazil, Australia and Eastern Europe.



Gross margins. Gross margins improved from 42.6% for the three months ended July 31, 2010 to 49.6% for three months ended July 31, 2011 due to favorable product mix and higher sales volume. Year-over-year comparative gross margins for the six-month periods also improved, further highlighting the effect of higher sales and operating leverage on profitability.

Operating expenses. Second quarter operating expenses decreased to 12.1% of net sales from 16.3% in the prior year's second quarter primarily as a result of a decrease in R&D expense to 5.4% of net sales compared to 7.5%. Six-month operating expenses were down from 12.9% of net sales in fiscal 2011 to 10.9% for the first half of fiscal 2012. Higher spending for R&D and business development were outpaced by the growth in net sales.

#### Engineered Films

Engineered Films produces high-quality flexible film for applications in energy, construction, agriculture, water and environmental safety.

(dollars in thousands)	Three Months Ended				Six Months Ended			
	July 31, 2011	July 31, 2010	\$ Change	% Change	July 31, 2011	July 31, 2010	\$ Change	% Change
Net sales	\$32,459	\$26,120	\$6,339	24 %	\$62,550	\$51,753	\$10,797	21 %
Gross profit	6,212	6,331	(119 )	(2 )%	11,451	11,331	120	1 %
Gross margins	19.1 %	24.2 %			18.3 %	21.9 %		
Operating income	5,284	5,543	(259 )	(5 )%	9,413	9,670	(257 )	(3 )%
Operating margins	16.3 %	21.2 %			15.0 %	18.7 %		

The following factors were the primary drivers of the quarter and first half year-over-year changes:

- Market conditions. Economic growth in emerging markets continued to support higher oil and natural gas prices, and in turn, increased related drilling activity and demand for pit liners in the energy market. The geomembrane market reported higher sales for the quarter and six-month periods, as environmental and water conservation projects have increased demand for the division's containment liners.

Sales volume and selling prices. Selling prices increased approximately 10% for the three and six-month periods, reflecting higher material costs as compared with one year ago. Sales of new products also tended to increase revenues per pound shipped. Sales volume, as measured by pounds shipped, increased roughly 7% for the six-month period. Revenue growth for the second quarter and year-to-date was predominately driven by pit liners sold into the energy market and to a lesser extent, increased demand for geomembrane liners and covers.

Gross margin decline. Despite an increase in sales, higher material and overhead costs relative to sales caused gross margins to contract year-over-year. For the three-month period, margins declined approximately five percentage points, while year-to-date margins fell roughly four points.

Operating expenses. Second quarter operating expenses of \$0.9 million increased 18% versus one year earlier; however, were relatively flat at 2.9% of net sales when compared to one year ago. Year-to-date operating expenses of \$2.0 million were up 22.7% year-over-year due to higher R&D spending and increased marketing and business development costs. As with the quarter, operating expenses kept pace with the sales increase. As a percentage of net sales, operating expenses were relatively flat versus last year at 3.3%.

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Aerostar

Aerostar provides solutions for scientific and military operations, research, surveillance and communications using specialized fabrics and films.

(dollars in thousands)	Three Months Ended				Six Months Ended			
	July 31, 2011	July 31, 2010	\$ Change	% Change	July 31, 2011	July 31, 2010	\$ Change	% Change
Net sales	\$10,861	\$9,195	\$1,666	18 %	\$26,000	\$20,888	\$5,112	24 %
Gross profit	3,220	1,998	1,222	61 %	8,220	4,818	3,402	71 %
Gross margins	29.6 %	21.7 %			31.6 %	23.1 %		
Operating income	2,184	1,345	839	62 %	6,246	3,509	2,737	78 %
Operating margins	20.1 %	14.6 %			24.0 %	16.8 %		

The following factors were the primary drivers of the year-over-year growth in net sales and operating income for the three and six-month periods:

**Sales volumes.** T-11 parachute deliveries drove the increase in net sales for the quarter and six-month periods. The first half of fiscal 2011 included the initial T-11 shipments. Deliveries did not ramp up to full production levels until the second half of last year and have continued through the first half of fiscal 2012.

**Gross margin improvement.** Manufacturing efficiencies in T-11 parachute production drove the year-over-year improvement in second quarter and year-to-date margins, as last year's margins were unfavorably impacted by T-11 parachute start-up costs.

**Operating expenses.** Second quarter operating expenses of \$1.0 million increased to 9.5% of net sales from 7.1% in the second quarter of fiscal 2011. First half operating expenses of \$2.0 million were 7.6% of net sales versus 6.3% one year earlier. Current year operating expenses primarily reflect increased investment in research and development to support next generation aerostat technology and the development of lighter but stronger materials, along with higher selling and business development expense to expand the tethered aerostat business.

Electronic Systems

Electronic Systems provides contract electronic manufacturing services, primarily for low volume/high mix industrial products.

(dollars in thousands)	Three Months Ended				Six Months Ended			
	July 31, 2011	July 31, 2010	\$ Change	% Change	July 31, 2011	July 31, 2010	\$ Change	% Change
Net sales	\$16,530	\$18,067	\$(1,537)	(9)%	\$36,007	\$34,355	\$1,652	5%
Gross profit	2,679	3,126	(447)	(14)%	6,433	6,570	(137)	(2)%
Gross margins	16.2 %	17.3 %			17.9 %	19.1 %		
Operating income	2,307	2,813	(506)	(18)%	5,719	5,937	(218)	(4)%
Operating margins	14.0 %	15.6 %			15.9 %	17.3 %		

The following factors were the primary drivers of the year-over-year changes in net sales and operating income for the second quarter and first half of fiscal 2012 :

**Sales volume.** Second quarter net sales decreased 9% year-over-year, reflecting lower avionics volume. This was partially offset by additional sourcing of assemblies to the Applied Technology Division. For the six months, net sales were up slightly, increasing 5% from one year earlier. For the first half, increased intercompany sourcing of electronic circuit boards to Applied Technology and higher sales of hand-held bed controls more than offset the decline in

avionics shipments.

Gross margins. Lower sales volume, accompanied by a less favorable product mix, resulted in decreased gross margins for the quarter as compared with last year's second quarter. For the six months, higher sales volume did not result in profit growth due to the negative impact of unfavorable product mix, as a result, gross margins fell from 19.1% to 17.9%.

Operating expenses. Second quarter and year-to-date operating expenses were relatively unchanged year-over-year.

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Corporate Expenses (administrative expenses; other income (expense), net; and income taxes)

(dollars in thousands)	Three Months Ended		Six Months Ended	
	July 31, 2011	July 31, 2010	July 31, 2011	July 31, 2010
Administrative expenses	\$3,227	\$2,598	\$6,383	\$4,862
Administrative expenses as a % of sales	3.6	% 3.6	% 3.3	% 3.1
Other income (expense), net	\$(76 )	\$(94 )	\$(89 )	\$(42 )
Effective tax rate	33.0	% 33.3	% 33.1	% 33.6

Although quarterly and year-to-date administrative expenses increased year-over-year (24% and 31%, respectively), they were relatively flat as a percentage of sales. Investments in additional finance, human resources and information technology personnel to support current and future growth strategies through a strengthened corporate infrastructure accounted for the increased spending.

“Other income (expense), net” consists mainly of interest income, foreign currency transaction gain and activity related to the company's equity investment in SST. The year-over-year variability for the year-to-date expense is primarily attributable to SST results.

As compared with one year ago, the effective tax rates for the second quarter and first half of fiscal 2012 were favorably affected by tax benefits associated with the U.S. research and development tax credit. The credit was not available at this time last year, but was renewed in December 2010.

### OUTLOOK

Management anticipates a record year of sales and earnings. Net income growth exceeding the company's long-term objectives of 12 - 15% is expected. Profit is forecasted to grow at a higher rate relative to sales as a result of positive operating leverage; however, investment spending for research and development, capacity, capabilities and human capital will temper the overall growth rate in the near-term. The upcoming third quarter is expected to show relatively flat earnings compared to one year earlier. The third quarter last year included over \$7 million of tethered aerostat deliveries and a \$415,000 pretax gain on the sale of an Engineered Films warehouse. Order levels do not currently support that level of aerostat sales and no gains on asset sales are anticipated. In addition, weakness in the economy could negatively impact demand in Engineered Films or Applied Technology.

#### Applied Technology

Management expects year-over-year third quarter sales growth, although the pace of growth is expected to slow from first-half levels. Strong global demand for agriculture commodities is expected to support higher crop prices and boost farm receipts and investment in farm equipment.

Management will continue to make significant investments in product development and global expansion and is committed to building on prior year investments in SST and Ranchview. Worldwide agriculture conditions are expected to remain healthy for this segment, with rising global demand for food, heightened environmental concerns and broadening recognition of Raven's suite of productivity tools as a cost-effective investment supporting management's outlook for annual profit growth to out pace top line growth.

#### Engineered Films

Management anticipates sales growth to be driven by increased capacity and capabilities and market conditions, including energy and geomembrane. Crude oil prices continue to drive oil and gas drilling activities and demand for pit liners. The impact of transient factors, such as civil unrest in oil-producing countries and speculation, on the price of crude oil is uncertain.

The addition of new extrusion equipment in the second half of fiscal 2012 is expected to increase annual capacity by 25-30%. This equipment will improve sales opportunities by adding both new capacity and capabilities to this division. However, the impact on the third quarter is not expected to be significant. Additional depreciation and new

product introduction costs will partially offset the positive impact of the higher pounds produced until new extrusion capacity is fully utilized. This ramp-up period has typically taken 2-3 years, depending on market conditions.

In addition, profit margins are highly dependent on the ratio of selling prices to input costs. The selling price of blown films is largely driven by competitive pricing pressure, capacity utilization and market dynamics, including supply and demand. Plastic resin, a derivative of natural gas and oil, is the primary component of extruded films. Management expects operating income growth to trail anticipated sales growth due to competitive pricing pressure and increased investment spending for research, capacity and capabilities.

#### Aerostar

Management expects third quarter sales to decline by at least 10% compared to the prior year due to lower tethered aerostat shipments. Tethered aerostat systems deployed in Afghanistan have promoted the safety of U.S. troops by successfully providing continuous wide-area surveillance of insurgents. Management expects future opportunities to provide cost-effective persistent surveillance for the military, although orders have varied significantly by quarter and follow-on orders are dependent on the government funding process. Management also sees opportunities for growth under existing government contracts for military parachutes and new contracts for protective wear. The engineering knowledge and manufacturing technology gained from these relationships along with expertise in sewing and sealing specialty fabrics will help solidify Aerostar's competitive advantage.

#### Electronic Systems

Management looks at Electronic Systems as a complementary business to its growth divisions: Engineered Films, Aerostar and especially Applied Technology. This business carries technical expertise that supports the efforts of its sister divisions and provides electronic manufacturing services to low-volume, high-mix customers that require high levels of service and engineering support. Management anticipates an additional customer in fiscal 2012, but believes this growth will be offset by lower avionics sales. The mid- to long-term growth strategy is predicated on the development of proprietary products, expansion of the customer base and continued in-sourcing of assemblies for Raven's other divisions. Electronic Systems Division results for the third quarter of fiscal 2012 are expected to be slightly lower than in fiscal 2011.

### LIQUIDITY AND CAPITAL RESOURCES

The company's liquidity and capital resources are strong. Management focuses on the current cash balance and operating cash flows in considering liquidity as operating cash flows have historically been the company's primary source of liquidity. Management expects that current cash combined with the generation of positive operating cash flows will be sufficient to fund the company's operating, investing and financing activities.

The company's cash needs are seasonal, with working capital demands strongest in the first quarter. Consequently, the discussion of trends in operating cash flows focuses on the primary drivers of year-over-year variability in working capital.

Cash, cash equivalents, and short-term investments totaled \$47.0 million at July 31, 2011, an \$8.4 million increase compared to cash, cash equivalents, and short-term investments at January 31, 2011 of \$38.6 million. The comparable balances one year earlier totaled \$53.6 million. Raven paid a \$22.5 million special dividend in September 2010.

#### Operating Activities

Operating cash flows result primarily from cash received from customers, which is offset primarily by cash payments for inventories, services, employee compensation and income taxes. Management evaluates working capital levels through the computation of days sales outstanding ("DSO") and inventory turnover. DSO is a measure of the company's efficiency in enforcing its credit policy. The inventory turnover ratio is a metric used to evaluate the effectiveness of inventory management, with further consideration given to balancing the disadvantages of excess inventory with the risk of delayed customer deliveries.

Cash provided by operating activities was \$26.3 million in the first half of fiscal 2012 versus \$19.8 million in the first six months of fiscal 2011. The increase in operating cash flows primarily reflects higher company earnings.

Inventory and accounts receivable consumed \$9.7 million of cash in the first six months of fiscal 2012 versus \$11.0 million one year ago. The company continues to focus on disciplined inventory management (trailing 12-month inventory turnover of 5.7X at July 31, 2011 versus 5.5X at July 31, 2010) and efficient cash collections (trailing

12-month DSO of 48 days at July 31, 2011 and 2010). Year-over-year variability in accrued liabilities consumed an additional \$3.6 million of cash in the first half of fiscal 2012 versus last year's comparable period. This resulted from the payout of fiscal 2011 profit sharing and incentive compensation accruals in the first quarter of fiscal 2012.

#### Investing Activities

Cash used in investing activities totaled \$10.5 million in the first half of fiscal 2012 versus \$3.6 million in the first half of fiscal 2011, reflecting a \$7.2 million increase in capital expenditures. Year-to-date capital spending consisted primarily of expenditures related to increased manufacturing capacity in Engineered Films and Aerostar's commitment to a higher level of product development investments for future growth, including facilities and equipment.

Management anticipates record capital spending in fiscal 2012, in the \$30 million range, as management sees opportunities to earn attractive returns on invested capital through organic investments. In addition, management will evaluate strategic acquisitions

that result in expanded capabilities and solidify competitive advantages.

#### Financing Activities

Dividends of \$6.5 million or \$0.36 per share were paid during the first six months of fiscal 2012 compared to \$5.8 million or \$0.32 per share one year ago. In the first quarter of fiscal 2012, the company increased the annual dividend (excluding special dividends) for the 25<sup>th</sup> consecutive year. Raven has now paid a dividend for 39 consecutive years.

#### OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

There have been no material changes since the fiscal year ended January 31, 2011.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of comprehensive income. This guidance gives an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as a part of the statement of changes in shareholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively, and for public companies is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The company is evaluating the presentation options.



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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

The exposure to market risks pertains mainly to changes in interest rates on cash and cash equivalents and short-term investments. The company has no debt. The company does not expect operating results or cash flows to be significantly affected by changes in interest rates. Additionally, the company does not enter into derivatives or other financial instruments for trading or speculative purposes. However, the company does utilize derivative financial instruments to manage the economic impact of fluctuation in foreign currency exchange rates on those transactions that are denominated in currency other than its functional currency, which is the U.S. dollar. The use of these financial instruments had no material effect on the company's financial condition, results of operations or cash flows. The company's subsidiaries that operate outside the United States use their local currency as the functional currency. The functional currency is translated into U.S. dollars for balance sheet accounts using the period-end exchange rates, and average exchange rates for the statement of income. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in accumulated other comprehensive income (loss) within shareholders' equity. Foreign currency transaction gains or losses are recognized in the period incurred and are included in "other income (expense), net" in the Consolidated Statements of Income. Foreign currency fluctuations had no material effect on the company's financial condition, results of operations or cash flows.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of July 31, 2011, the end of the period covered by this report, management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") evaluated the effectiveness of disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of such date. Based on that evaluation, the CEO and CFO have concluded that the company's disclosure controls and procedures were effective as of July 31, 2011.

**Changes in Internal Control over Financial Reporting**

There were no changes in the company's internal control over financial reporting that occurred during the quarter ended July 31, 2011 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this quarterly report on Form 10-Q are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future. Without limiting the foregoing, the words "anticipates," "believes," "expects," "intends," "may," "plans" and similar expressions are intended to identify forward-looking statements. The company intends that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act. Although management believes that the expectations reflected in forward-looking statements are based on reasonable assumptions, there is no assurance that these assumptions are correct or that these expectations will be achieved. Assumptions involve important risks and uncertainties that could significantly affect results in the future. These risks and uncertainties include, but are not limited to, those relating to weather conditions and commodity prices, which could affect sales and profitability in some of the company's primary markets, such as agriculture, construction, and oil and gas well drilling; or changes in competition, raw material availability, technology or relationships with the company's largest customers—any of which could adversely affect any of the company's product lines—as well as other risks described in the company's 10-K under Item 1A. This list is not exhaustive, and the company does not have an obligation to revise any forward-looking statements to reflect events or circumstances after the date these statements are made.

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RAVEN INDUSTRIES, INC.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings:

The company is involved as a defendant in lawsuits, claims or disputes arising in the normal course of business. The settlement of such claims cannot be determined at this time. Management believes that any liability resulting from these claims will be substantially mitigated by insurance coverage. Accordingly, management does not believe the ultimate outcome of these matters will be significant to its results of operations, financial position or cash flows.

Item 1A. Risk Factors: No material change.

Item 2. Changes in Securities: None

Item 3. Defaults upon Senior Securities: None

Item 4. Reserved

Item 5. Other Information:

At the company's annual meeting of shareholders on May 24, 2011, holders of a majority of the company's shares voted at the meeting expressed a preference to hold the advisory vote on executive compensation on an annual basis. Based on these results, the company's Board of Directors has determined to include a non-binding advisory vote on executive compensation at each Annual Meeting of Shareholders until the next required vote on the frequency of shareholder votes on executive compensation.

Item 6. Exhibits Filed:

31.1	Certification of CEO Pursuant to Section 302 of Sarbanes-Oxley Act.
31.2	Certification of CFO Pursuant to Section 302 of Sarbanes-Oxley Act.
32.1	Certification of CEO Pursuant to Section 906 of Sarbanes-Oxley Act.
32.2	Certification of CFO Pursuant to Section 906 of Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements 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.

RAVEN INDUSTRIES, INC.

/s/ Thomas Iacarella  
Thomas Iacarella  
Vice President and CFO, Secretary and Treasurer  
(Principal Financial and Accounting Officer)

Date: September 2, 2011