

RAVEN INDUSTRIES INC
Form 10-K
March 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended January 31, 2012

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

Commission file number: 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 E. 6th Street, P.O. Box 5107, Sioux Falls, SD	57117- 5107
(Address of principal executive offices)	(zip code)
Registrant's telephone number including area code (605) 336-2750	

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

Title of Each Class:	Name of Each Exchange on which Registered
Common Stock, \$1 par value	The NASDAQ Stock Market

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 twelve months, and (2) has been subject to such filing requirements for the past ninety days. Yes No

Indicate by checkmark 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 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 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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(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

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The aggregate market value of the registrant's common stock held by non-affiliates at July 31, 2011 was approximately \$934,229,237. The aggregate market value was computed by reference to the closing price as reported on the NASDAQ Global Select Market, \$52.83, on July 29, 2011, which was as of the last business day of the registrant's most recently completed second fiscal quarter. The number of shares outstanding on March 21, 2012 was 18,120,066.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Shareholders, to be held May 22, 2012, is incorporated by reference into Part III to the extent described therein.

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PART I

ITEM 1. BUSINESS

Raven Industries, Inc. was incorporated in February 1956 under the laws of the State of South Dakota and began operations later that same year. Raven is an industrial manufacturer providing a variety of products. The company markets its products around the world and has its principal operations in the United States of America. Raven began operations as a manufacturer of high-altitude research balloons before diversifying into the industrial, agricultural, energy, construction and military/aerospace markets. The company employs approximately 1,400 people and is headquartered at 205 E. Sixth Street, Sioux Falls, SD 57104 - telephone (605) 336-2750. The company's Internet address is <http://www.ravenind.com> and its common stock trades on the NASDAQ Global Select Market under the symbol RAVN. The company has adopted a Code of Conduct applicable to all officers, directors, and employees, which is available on the website. Information on the company's website is not part of this filing.

All reports (including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K) and proxy and information statements filed with the Securities and Exchange Commission (SEC) are available through a link from the company's website to the SEC website. All such information is available as soon as reasonably practicable after it has been electronically filed. Filings can also be obtained free of charge by contacting the company, the SEC's Public Reference Room at 100 F Street N.E., Washington, DC 20549, through the SEC's website at <http://www.sec.gov>, or by calling the SEC at 1-800-SEC-0330.

The company has four business segments: Applied Technology Division, Engineered Films Division, Aerostar Division and Electronic Systems Division. Many of the past and present product lines are an extension of technology and production methods developed in the original balloon business. Product lines have been grouped in these segments based on common technologies, production methods and raw materials; however, more than one business segment may serve each of the product markets identified above.

Business segment financial information is found on the following pages:

<u>14</u>	"Business Segments"
<u>17</u>	"Results of Operations – Segment Analysis"
<u>46</u>	"Note 13. Business Segments and Major Customer Information"

BUSINESS SEGMENTS

Applied Technology

Applied Technology designs, manufactures, sells, and services innovative precision agriculture products and information management tools that help growers reduce costs and improve farm yields around the world. The Applied Technology product families include field computers, application controls, GPS-guidance and assisted-steering systems, automatic boom controls, yield monitoring planter controls and an integrated RTK and information platform called Slingshot™. Recent investments in Site-Specific Technology Development Group, Inc. (SST), a software company, and the continued build out of the Slingshot API platform are positioning Applied Technology to be able to provide the information platform of choice that improves grower decision-making and business efficiencies for our agriculture retail partners.

Applied Technology sells their precision agriculture control products to both original equipment manufacturers (OEMs) and through after market distribution, in the United States and in most major agriculture areas around the world. The division has personnel and distribution representatives located in the U.S. and key geographic areas throughout the world, including Canada, Europe, the former Soviet Republics, South Africa, South America, Australia, and China. The company's competitive advantage in this segment is designing and selling an easy to use,

reliable, and value added products that are supported by an industry leading service and support team.

Engineered Films

This segment produces rugged reinforced plastic sheeting for industrial, energy, construction, geomembrane and agricultural applications.

The company's sales force sells plastic sheeting to independent third-party distributors in each of the various markets it serves. The company extrudes a significant portion of the film converted for its commercial products and believes it is one of the largest

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sheeting converters in the United States. Engineered Films believes its ability to both extrude and convert films allows it to provide a more customized solution to customer needs. A number of suppliers of sheeting compete with Raven on both price and product availability. Engineered Films is the company's most capital-intensive business segment, requiring regular investments in new extrusion capacity along with printers and conversion equipment. This segment's capital expenditures were \$10.9 million in fiscal 2012, \$8.5 million in fiscal 2011 and \$1.5 million in fiscal 2010.

Aerostar

Aerostar sells high-altitude research balloons and tethered aerostats for government and commercial research. It produces military parachutes, uniforms and protective wear for U.S. government agencies and as a subcontractor. It also manufactures other sewn and sealed products on a contract basis. Sales are made in response to competitive bid requests. High-altitude research balloons are sold directly to government agencies (usually funded by the National Aeronautics and Space Administration) or commercial users. Aerostar is the only balloon supplier for high-altitude research in the United States.

During fiscal 2012, Aerostar expanded its business through a business venture and acquisition. The business venture, Aerostar Integrated Systems, is 75% owned by Aerostar and pursues potential product and support services contracts for agencies and instrumentalities of the United States Government. The acquisition in January 2012 of Vista Research, Inc., a leading provider of surveillance systems that enhance the effectiveness of radar using sophisticated algorithms, will immediately allow Aerostar to enhance its tethered aerostat security solutions. Longer-term, the company is positioned to meet growing global demand for lower-cost detection and tracking systems used by government and law enforcement agencies.

Electronic Systems

The company has focused this segment's capabilities in electronics manufacturing services (EMS) for commercial customers with a focus on high-mix, low-volume production. Assemblies manufactured by the Electronic Systems segment include avionics, secure communication, environmental controls and other products where high quality is critical.

EMS sales are made in response to competitive bid requests by customers. The level and nature of competition varies with the type of product, but the company frequently competes with a number of EMS manufacturers on any given bid request. The markets in which the company participates are highly competitive, with customers having many suppliers from which to choose.

MAJOR CUSTOMER INFORMATION

Two customers accounted for 10% or more of consolidated sales in fiscal 2012 compared to one customer in fiscal 2011 and 2010. Fiscal 2012 sales to WT Plastics Limited, a customer in the Engineered Films Division, accounted for 11% of consolidated sales. Sales in fiscal 2012, 2011 and 2010 to Goodrich Corporation, a customer of the Electronic Systems segment, accounted for 10%, 13% and 16%, respectively, of consolidated sales. While Electronic Systems expects revenue from this customer continue to decline, the company does not anticipate any sudden disruptions to this relationship.

SEASONAL WORKING CAPITAL REQUIREMENTS

Some seasonal demand exists in Applied Technology's agricultural market. Applied Technology builds product in the fall for winter and spring delivery. Certain sales to agricultural customers offer spring payment terms for fall and early winter shipments. The resulting fluctuations in inventory and accounts receivable have required, and may require, seasonal short-term financing.

FINANCIAL INSTRUMENTS

The principal financial instruments that the company maintains are cash, cash equivalents, short-term investments, accounts receivable, accounts payable, and acquisition related contingent payments. The company manages the interest rate, credit and market risks associated with these accounts through periodic reviews of the carrying value of assets and liabilities and establishment of appropriate allowances in connection with company policies. The company does not use off-balance sheet financing, except to enter into operating leases.

The company uses derivative financial instruments to manage foreign currency risk. The use of these financial instruments has had no material effect on consolidated results of operations, financial condition or cash flows.

RAW MATERIALS

The company obtains a wide variety of materials from several vendors. Principal materials include numerous electronic components for the Electronic Systems and Applied Technology segments, various plastic resins for the Engineered Films segment and fabrics for the AeroStar segment. The Engineered Films segment has experienced volatile resin prices over the past three years. Price

increases could not always be passed on to customers due to weak demand and a competitive pricing environment. The Electronic Systems segment experiences variability in lead times for components as business cycles impact demand. However, predicting future material shortages and the related potential impact on Raven is not possible.

PATENTS

The company owns a number of patents. However, Raven does not believe that its business, as a whole, is materially dependent on any one patent or related group of patents. It believes the successful manufacture and sale of its products generally depend more upon its technical expertise, speed to market and manufacturing skills.

RESEARCH AND DEVELOPMENT

The business segments conduct ongoing research and development efforts. Most of the company's research and development expenditures are directed toward new products in the Applied Technology, Engineered Films and Aerostar segments. Total company research and development costs are presented on the Consolidated Statements of Income and Comprehensive Income.

ENVIRONMENTAL MATTERS

Except as described below, the company believes that, in all material respects, it is in compliance with applicable federal, state and local environmental laws and regulations. Expenditures relating to compliance for operating facilities incurred in the past have not significantly affected the company's capital expenditures, earnings or competitive position.

In connection with the sale of substantially all of the assets of the company's Glasstite, Inc. subsidiary in fiscal 2000, the company has agreed to assume responsibility for the investigation and remediation of any pre-October 29, 1999 environmental contamination at the company's former Glasstite pickup-truck topper facility in Dunnell, Minnesota, as required by the Minnesota Pollution Control Agency (MPCA) or the United States Environmental Protection Agency (EPA).

The company and the purchasers of the company's Glasstite subsidiary conducted environmental assessments of the properties. Although these assessments continue to be evaluated by the MPCA on the basis of the data available, there is no reason to believe that any activities that might be required as a result of the findings of the assessments will have a material effect on the company's results of operations, financial position or cash flows. The company had \$55 thousand accrued at January 31, 2012, representing its best estimate of probable costs to be incurred related to these matters.

BACKLOG

As of February 1, 2012, the company's order backlog totaled \$66.6 million. Backlog amounts as of February 1, 2011 and 2010 were \$76.0 million and \$74.7 million, respectively. Because the length of time between order and shipment varies considerably by business segment and customers can change delivery schedules or potentially cancel orders, the company does not believe that backlog, as of any particular date, is necessarily indicative of actual net sales for any future period.

EMPLOYEES

As of January 31, 2012, the company had 1,405 employees, 1,382 in an active status. Following is a summary of active employees by segment: Electronic Systems - 262; Applied Technology - 403; Engineered Films - 267; Aerostar

- 373; Administration - 77. Management believes its employee relations are satisfactory.

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EXECUTIVE OFFICERS

NAME, AGE AND POSITION

Daniel A. Rykhus, 47
President and Chief Executive Officer

BIOGRAPHICAL DATA

Mr. Rykhus became the company's President and Chief Executive Officer in 2010. He joined Raven in 1990 as Director of World Class Manufacturing, was General Manager of the Applied Technology Division from 1998 through 2009, and served as Executive Vice President from 2004 through 2010.

Thomas Iacarella, 58
Vice President and Chief Financial Officer

Mr. Iacarella joined Raven in 1991 as Corporate Controller and has been the company's Chief Financial Officer, Secretary and Treasurer since 1998. Prior to joining the company, he held positions with Tonka Corporation and the accounting firm now known as Ernst & Young.

David R. Bair, 55
Division Vice President and General Manager
-
Electronic Systems Division

Mr. Bair joined Raven in 1999 as Division Vice President and General Manager of the Electronic Systems Division.

Anthony D. Schmidt, 40
Division Vice President and General Manager
-
Engineered Films Division

Mr. Schmidt was named Division Vice President and General Manager of the Engineered Films Division on February 1 2012. He joined Raven in 1995 in the Applied Technology Division performing various leadership roles within manufacturing and engineering. He transitioned to Engineered Films Division in September 2011 as Manufacturing Manager.

Barbara K. Ohme, 64

Ms. Ohme joined Raven in 1987 as Employment Manager and has been the company's Vice President of Administration since 2004.