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RAVEN INDUSTRIES INC

Form 10-Q

November 21, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 October 31, 2017

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 Number: 001-07982

RAVEN INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

South Dakota

46-0246171

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

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

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(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

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer,"

"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 17, 2017 there were 35,755,646 shares of common stock, \$1 par value, of Raven Industries, Inc. outstanding. There were no other classes of stock outstanding.

**RAVEN INDUSTRIES, INC.
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PART I — FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****RAVEN INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)***(dollars and shares in thousands, except per-share data)*

	October 31, 2017	January 31, 2017	October 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	\$ 36,873	\$ 50,648	\$ 46,313
Accounts receivable, net	59,573	43,143	39,554
Inventories	53,481	42,336	42,813
Other current assets	3,910	2,689	2,747
Total current assets	153,837	138,816	131,427
Property, plant and equipment, net	105,651	106,324	108,948
Goodwill	46,752	40,649	40,703
Amortizable intangible assets, net	11,375	12,048	12,511
Other assets	2,926	3,672	3,746
TOTAL ASSETS	\$ 320,541	\$ 301,509	\$ 297,335
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 13,383	\$ 8,467	\$ 9,377
Accrued liabilities	21,645	18,055	14,708
Customer advances	908	1,860	1,154
Total current liabilities	35,936	28,382	25,239
Other liabilities	13,456	13,696	12,134
Commitments and contingencies	—	—	—
Shareholders' equity			
Common stock, \$1 par value, authorized shares 100,000; issued 67,088; 67,060; and 67,060, respectively	67,088	67,060	67,060
Paid-in capital	58,484	55,795	55,703
Retained earnings	249,034	230,649	230,957
Accumulated other comprehensive income (loss)	(3,058)	(3,676)	(3,361)
Treasury stock at cost, 31,332; 30,984; and 30,984 shares, respectively	(100,402)	(90,402)	(90,402)
Total Raven Industries, Inc. shareholders' equity	271,146	259,426	259,957
Noncontrolling interest	3	5	5
Total equity	271,149	259,431	259,962
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 320,541	\$ 301,509	\$ 297,335

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

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

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2017	2016	2017	2016
<i>(dollars in thousands, except per-share data)</i>				
Net sales	\$101,349	\$ 72,522	\$281,494	\$ 208,480
Cost of sales	68,016	52,683	189,692	149,609
Gross profit	33,333	19,839	91,802	58,871
Research and development expenses	4,083	4,151	12,319	12,475
Selling, general, and administrative expenses	11,421	8,212	31,476	24,174
Long-lived asset impairment loss	—	87	259	87
Operating income	17,829	7,389	47,748	22,135
Other income (expense), net	(34)	(273)	(327)	(579)
Income before income taxes	17,795	7,116	47,421	21,556
Income tax expense	5,798	1,375	14,842	5,802
Net income	11,997	5,741	32,579	15,754
Net income (loss) attributable to the noncontrolling interest	(1)	—	(2)	1
Net income attributable to Raven Industries, Inc.	\$11,998	\$ 5,741	\$32,581	\$ 15,753
Net income per common share:				
Basic	\$0.33	\$ 0.16	\$0.90	\$ 0.43
Diluted	\$0.33	\$ 0.16	\$0.89	\$ 0.43
Cash dividends paid per common share	\$0.13	\$ 0.13	\$0.39	\$ 0.39
Comprehensive income (loss):				
Net income	\$11,997	\$ 5,741	\$32,579	\$ 15,754
Other comprehensive income (loss):				
Foreign currency translation	(185)	(201)	637	146
Postretirement benefits, net of income tax benefit (expense) of \$4, \$2, \$11 and \$4, respectively	(6)	(2)	(19)	(6)
Other comprehensive income (loss), net of tax	(191)	(203)	618	140
Comprehensive income	11,806	5,538	33,197	15,894
Comprehensive income (loss) attributable to noncontrolling interest	(1)	—	(2)	1
Comprehensive income attributable to Raven Industries, Inc.	\$11,807	\$ 5,538	\$33,199	\$ 15,893

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

RAVEN INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

(dollars in thousands, except per-share amounts)	\$1 Par Common Stock	Paid-in Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Raven Industries, Inc. Equity	Non- controlling Interest	Total Equity
	Stock	Capital	Shares	Cost					Equity
Balance January 31, 2016	\$ 67,006	\$ 53,907	30,500	\$(82,700)	\$ 229,443	\$ (3,501)	\$ 264,155	\$ 74	\$ 264,229
Net income	—	—	—	—	15,753	—	15,753	1	15,754
Other comprehensive income (loss):									
Cumulative foreign currency translation adjustment	—	—	—	—	—	146	146	—	146
Postretirement benefits reclassified from accumulated other comprehensive income (loss) after tax benefit of \$4	—	—	—	—	—	(6)	(6)	—	(6)
Cash dividends (\$0.39 per share)	—	161	—	—	(14,239)	—	(14,078)	—	(14,078)
Dividends of less than wholly-owned subsidiary attributable to non-controlling interest	—	—	—	—	—	—	—	(70)	(70)
Shares issued on vesting of stock units, net of shares withheld for employee taxes	35	(291)	—	—	—	—	(256)	—	(256)
Director shares issued	19	(19)	—	—	—	—	—	—	—
Shares repurchased	—	—	484	(7,702)	—	—	(7,702)	—	(7,702)
Share-based compensation	—	2,291	—	—	—	—	2,291	—	2,291
Income tax impact related to share-based compensation	—	(346)	—	—	—	—	(346)	—	(346)
Balance October 31, 2016	\$ 67,060	\$ 55,703	30,984	\$(90,402)	\$ 230,957	\$ (3,361)	\$ 259,957	\$ 5	\$ 259,962
Balance January 31, 2017	\$ 67,060	\$ 55,795	30,984	\$(90,402)	\$ 230,649	\$ (3,676)	\$ 259,426	\$ 5	\$ 259,431
Net income	—	—	—	—	32,581	—	32,581	(2)	32,579
Other comprehensive income (loss):									
Cumulative foreign currency translation adjustment	—	—	—	—	—	637	637	—	637
Postretirement benefits reclassified from accumulated other comprehensive income (loss) after tax benefit of \$11	—	—	—	—	—	(19)	(19)	—	(19)
Cash dividends (\$0.39 per share)	—	164	—	—	(14,196)	—	(14,032)	—	(14,032)
Shares issued on stock options exercised, net of shares withheld for employee taxes	13	(170)	—	—	—	—	(157)	—	(157)
Shares issued on vesting of stock units, net of shares withheld for employee taxes	11	(162)	—	—	—	—	(151)	—	(151)
Director shares issued	4	(4)	—	—	—	—	—	—	—
Shares repurchased	—	—	348	(10,000)	—	—	(10,000)	—	(10,000)
Share-based compensation	—	2,861	—	—	—	—	2,861	—	2,861
Balance October 31, 2017	\$ 67,088	\$ 58,484	31,332	\$(100,402)	\$ 249,034	\$ (3,058)	\$ 271,146	\$ 3	\$ 271,149

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

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

	Nine Months Ended	
	October 30,	October 31,
	2017	2016
<i>(dollars in thousands)</i>		
OPERATING ACTIVITIES:		
Net income	\$32,579	\$ 15,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,985	11,526
Change in fair value of acquisition-related contingent consideration	198	(41)
Long-lived asset impairment loss	259	87
Loss from equity investment	247	223
Deferred income taxes	(1,035)	(290)
Share-based compensation expense	2,861	2,291
Other operating activities, net	868	8
Change in operating assets and liabilities:		
Accounts receivable	(8,160)	(1,620)
Inventories	(9,213)	3,048
Other assets	(897)	(135)
Operating liabilities	2,142	7,834
Net cash provided by operating activities	30,834	38,685
INVESTING ACTIVITIES:		
Capital expenditures	(7,003)	(3,901)
Payments related to business acquisitions	(12,700)	—
Proceeds from sale or maturity of investments	250	250
Purchases of investments	(255)	(750)
(Disbursements) proceeds from settlement of liabilities, sale of assets	(333)	1,145
Other investing activities	(36)	(498)
Net cash used in investing activities	(20,077)	(3,754)
FINANCING ACTIVITIES:		
Dividends paid	(14,032)	(14,148)
Payments for common shares repurchased	(10,000)	(7,702)
Payments of acquisition-related contingent liability	(364)	(318)
Restricted stock units vested and issued	(151)	(256)
Employee stock option exercises	(157)	—
Net cash used in financing activities	(24,704)	(22,424)
Effect of exchange rate changes on cash	172	24
Net increase (decrease) in cash and cash equivalents	(13,775)	12,531
Cash and cash equivalents at beginning of year	50,648	33,782
Cash and cash equivalents at end of period	\$36,873	\$ 46,313

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

(dollars in thousands, except per-share amounts)

RAVEN INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(dollars in thousands, except per-share amounts)

(1) BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

Raven Industries, Inc. (the Company or Raven) is a diversified technology company providing a variety of products to customers within the industrial, agricultural, geomembrane, construction, and aerospace/defense markets. The Company is comprised of three unique operating units, or divisions, classified into reportable segments: Applied Technology, Engineered Films, and Aerostar.

The accompanying interim unaudited consolidated financial statements, which includes the accounts of Raven and its wholly-owned or controlled subsidiaries, net of intercompany balances and transactions, has been prepared by the Company in accordance with generally accepted accounting principles in the United States (GAAP) 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, these financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present this financial information have been included. These financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

Financial results for the interim three- and nine-month periods ended October 31, 2017 are not necessarily indicative of the results that may be expected for the year ending January 31, 2018. The January 31, 2017 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required in an annual report on Form 10-K. Preparing financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Noncontrolling interests represent capital contributions, income and loss attributable to the owners of less than wholly-owned consolidated entities. The Company owns a 75% interest in an entity consolidated under the Aerostar business segment. Given the Company's majority ownership interest, the accounts of the business venture have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for the noncontrolling investor interest in the net assets and operations of the business venture.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017 other than described below in the *Accounting Standards Adopted* section.

Accounting Pronouncements

Accounting Standards Adopted

In the fiscal 2018 first quarter, the Company early adopted Accounting Standards Update (ASU) No. 2017-04 (issued by the Financial Accounting Standards Board (FASB) in January 2017), "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" (ASU 2017-04) on a prospective basis. This ASU removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the new guidance, a goodwill impairment will be measured as the amount by which a reporting unit's carrying value exceeds its fair value.

The amount of any impairment may not exceed the carrying amount of goodwill. The amendments should be applied on a prospective basis. As discussed in Note 7 *Goodwill, Long-lived Assets, and Other Intangibles*, management performed an assessment in the fiscal 2018 first, second and third quarters and determined no triggering events had occurred for any of its three reporting units; therefore, the early adoption of this guidance did not have any impact on the consolidated financial statements or the results of operations as of and for the three- or nine-month periods ended October 31, 2017.

In the fiscal 2018 first quarter when it became effective, the Company adopted FASB ASU 2016-09 (issued in March 2016), "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). ASU 2016-09 amends the accounting for employee share-based payment transactions to require recognition of the tax effects resulting from the settlement of stock-based awards as discrete income tax expense or benefit in the income statement in the reporting period in which they occur. This guidance also requires that all tax-related cash flows resulting from share-based awards be disclosed as operating cash flows in the statement of cash flows and that cash paid to taxing authorities on the behalf of employees for withheld shares be classified as a financing activity in the statement of cash flows. Finally, this ASU allows

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(dollars in thousands, except per-share amounts)

companies to make an accounting policy election to either estimate the number of awards that are expected to vest, consistent with current GAAP, or account for forfeitures when they occur. The Company accounts for forfeitures as they occur. The Company is prospectively recognizing excess tax benefits or deficits on vesting or settlement of awards, when they occur, as a discrete income tax benefit or expense instead of as additional paid-in capital as required under previous guidance. This change to the Company's accounting policies resulted in recognition of income tax expense of \$2 and \$571 for the three- and nine-month periods ended October 31, 2017. These tax-related cash flows are now classified within operating activities. The Company classifies tax payments made to taxing authorities on the employee's behalf for withheld shares as a financing activity on the statement of cash flows, as such the adoption of this guidance had no impact. Under the new guidance, excess tax benefits are no longer included in assumed proceeds under the treasury stock method of calculating earnings per share. The increase in incremental shares used in the weighted average diluted shares calculation was not material to the Company's diluted earnings per share calculation.

In the fiscal 2018 first quarter when it became effective, the Company adopted the FASB ASU No. 2015-11 (issued in July 2015), "Inventory (Topic 330) Simplifying the Measurement of Inventory" (ASU 2015-11) on a prospective basis. The amendments in ASU 2015-11 clarify that an entity should measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Substantial and unusual losses that result from subsequent measurement of inventory should be disclosed in the financial statements. Previously the Company reported its inventory at the lower of cost or market. Market was defined as replacement cost with a ceiling of net realizable value and a floor of net realizable value less a normal profit margin. The Company evaluates its inventory in all three reporting segments quarterly to determine if cost exceeds net realizable value and records a write-down, if necessary. The adoption of this guidance did not have any impact on the consolidated financial statements or the results of operations as of and for the three- and nine-month periods ended October 31, 2017.

New Accounting Standards Not Yet Adopted

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" (ASU 2017-09). The guidance amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Topic 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards as equity instruments or a liability instruments are the same immediately before and after the modification to the award. The guidance is effective for annual periods, including interim periods, in fiscal years beginning after December 15, 2017. Early adoption is permitted and the amendments should be applied prospectively to an award modified on or after the adoption date. The Company currently has no plans to modify any of its outstanding awards. The Company will consider early adopting this guidance if modifications to its share-based compensation arrangements are likely to occur. The Company does not expect the adoption of this guidance will have a significant impact on its consolidated financial statements, results of operations, and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Postretirement Benefit Cost" (ASU 2017-07). The guidance clarifies where the cost components of the net benefit cost should be reported in the income statement and it allows only the service cost to be capitalized. Currently the Company reports all of the components of the net benefit cost in "Operating income" in the Consolidated Statement of Income and Comprehensive Income. The net benefit cost for participants that are active employees is reported in the same manner as each participant's compensation cost is classified in the Consolidated Statement of Income and Comprehensive Income. The net benefit cost attributable to retired (inactive) participants is reported in "Selling, general, and administrative expenses" in the Consolidated Statement of Income and

Comprehensive Income. Under the new guidance only the service cost component of the net benefit cost will be classified the same as the participant's compensation cost. The other components of the net benefit cost are required to be reported separately as a non-operating income (expense). The guidance is effective for annual periods, including interim periods, in fiscal years beginning after December 15, 2017. Early adoption is permitted and the amendments should be applied retrospectively. The Company does not expect this guidance will have a significant impact on its consolidated financial statements, results of operations and disclosures since it primarily will only change how the net benefit cost is classified in the Company's Consolidated Statements of Income and Comprehensive Income.

In February 2016 the FASB issued ASU No. 2016-02, "Leases (Topic 842)" (ASU 2016-02). The primary difference between previous GAAP and ASU 2016-02 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease

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(dollars in thousands, except per-share amounts)

assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The Company is evaluating the impact the adoption of this guidance will have on its consolidated financial statements, results of operations, and disclosures.

In May 2014 the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09). ASU 2014-09 provides a comprehensive new recognition model that requires recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to receive in exchange for those goods or services. This guidance supersedes the revenue recognition requirements in FASB ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, companies will need to use more judgment and make more estimates than under the current guidance. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB approved a one-year deferral of the effective date (ASU 2015-14) and the standard is now effective for the Company for fiscal 2019 and interim periods therein. The guidance may be applied using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In addition, FASB has amended Topic 606 prior to it becoming effective. The effective date and transition requirements for these amendments to Topic 606 are the same as ASU 2014-09. The Company is in its final stages of evaluating the impact that the standard will have on revenue recognition. The Company has reviewed contracts for all material revenue streams across the Company's three divisions, held discussions with key stakeholders, and assessed potential impacts on the Company's consolidated financial statements, results of operations, disclosures, and internal controls over financial reporting. The Company currently recognizes a significant majority of its revenue across all three divisions at a point-in-time with some exceptions that are recognized over time. These exceptions primarily relate to certain revenue streams within the Aerostar Division and installation sales within the Engineered Films Division. Management expects that this will remain materially consistent upon adoption of the new standard, but has identified a few exceptions for which further evaluation is necessary, and for which the timing of revenue recognition could be impacted. Additionally, the Company expects to make additional disclosures related to the revenues arising from contracts with customers as required by the new standard. The Company will adopt this guidance in the first quarter of fiscal 2019 using the modified retrospective approach.

(3) NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average common shares and fully vested 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), stock units, and restricted stock units outstanding. Performance share awards are included in the diluted calculation based upon what would be issued if the end of the most recent reporting period was the end of the term of the award. Weighted average common and common equivalent shares outstanding are excluded from the diluted loss per share calculation if their inclusion would have an antidilutive effect.

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Certain outstanding options and restricted stock units were excluded from the diluted net income per-share calculations because their effect would have been anti-dilutive under the treasury stock method. The options and restricted stock units excluded from the diluted net income per-share share calculation were as follows:

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2017	2016	2017	2016
Anti-dilutive options and restricted stock units	338,244	653,513	385,157	922,041

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The computation of earnings per share is presented below:

	Three Months Ended		Nine Months Ended	
	October 31, 2017	October 31, 2016	October 31, 2017	October 31, 2016
Numerator:				
Net income attributable to Raven Industries, Inc.	\$11,998	\$ 5,741	\$32,581	\$ 15,753
Denominator:				
Weighted average common shares outstanding	35,829,886	36,076,259	36,002,026	36,164,468
Weighted average fully vested stock units outstanding	109,558	97,716	105,830	100,595
Denominator for basic calculation	35,939,436	36,173,975	36,107,856	36,265,063
Weighted average common shares outstanding	35,829,886	36,076,259	36,002,026	36,164,468
Weighted average fully vested stock units outstanding	109,558	97,716	105,830	100,595
Dilutive impact of stock options and restricted stock units	380,997	122,270	369,339	70,102
Denominator for diluted calculation	36,320,436	36,296,245	36,477,195	36,335,165
Net income per share basic	\$0.33	\$ 0.16	\$0.90	\$ 0.43
Net income per share diluted	\$0.33	\$ 0.16	\$0.89	\$ 0.43

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(dollars in thousands, except per-share amounts)

(4) SELECTED BALANCE SHEET INFORMATION

Following are the components of selected items from the Consolidated Balance Sheets:

	October 31, 2017	January 31, 2017	October 31, 2016
Accounts receivable, net:			
Trade accounts	\$ 60,621	\$ 43,834	\$ 40,257
Allowance for doubtful accounts	(1,048)	(691)	(703)
	\$ 59,573	\$ 43,143	\$ 39,554
Inventories:			
Finished goods	\$ 7,063	\$ 5,438	\$ 5,686
In process	1,035	2,288	2,325
Materials	45,383	34,610	34,802
	\$ 53,481	\$ 42,336	\$ 42,813
Other current assets:			
Insurance policy benefit	\$ 593	\$ 802	\$ 776
Income tax receivable	269	604	228
Receivable from sale of business	17	28	71
Prepaid expenses and other	3,031	1,255	1,672
	\$ 3,910	\$ 2,689	\$ 2,747
Property, plant and equipment, net:			
Land	\$ 3,234	\$ 3,054	\$ 3,054
Buildings and improvements	80,009	77,817	78,674
Machinery and equipment	147,723	142,471	142,946
Accumulated depreciation	(125,315)	(117,018)	(115,726)
	\$ 105,651	\$ 106,324	\$ 108,948
Other assets:			
Equity method investments	\$ 1,884	\$ 2,371	\$ 2,346
Deferred income taxes	18	18	65
Other	1,024	1,283	1,335
	\$ 2,926	\$ 3,672	\$ 3,746
Accrued liabilities:			
Salaries and related	\$ 6,464	\$ 6,286	\$ 3,931
Benefits	4,128	3,960	3,720
Insurance obligations	3,106	2,400	2,022
Warranties	1,217	1,547	1,852
Income taxes	1,668	498	332
Other taxes	1,446	1,540	1,230
Acquisition-related contingent consideration	815	445	396
Other	2,801	1,379	1,225
	\$ 21,645	\$ 18,055	\$ 14,708
Other liabilities:			
Postretirement benefits	\$ 8,110	\$ 8,054	\$ 7,714
Acquisition-related contingent consideration	2,016	1,397	1,385
Deferred income taxes	393	1,421	257
Uncertain tax positions	2,584	2,610	2,778
Other	353	214	—

\$ 13,456 \$ 13,696 \$ 12,134

(5) ASSETS HELD FOR SALE

The Company continually analyzes its product and service offerings to ensure we serve market segments with attractive near- and long-term growth prospects that are consistent with our core capabilities. Through this continued evaluation the Company's Aerostar segment finalized a plan ("the Plan") to actively market the sale of its client private and radar product lines, which it has determined constitutes a business. During the second quarter of fiscal 2018 the Company determined that it was probable that these product lines would be sold within one year. The Company has identified specific assets and liabilities likely to be sold, including an allocation of goodwill based on the relative fair value of the business to be sold. Currently, the Company estimates

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(dollars in thousands, except per-share amounts)

the fair value of the net assets held for sale is in excess of their net book value. As such there is no impact to the Consolidated Statement of Income for the three- or nine-month periods ended October 31, 2017.

Under the Plan, Aerostar will remain focused on serving the aerospace/defense market with its stratospheric balloon product and service offerings.

Amounts classified as held for sale are as follows:

	October 31, 2017
Assets held for sale	
Inventories	\$ 3,000
Other current assets	79
Total current assets held for sale	3,079
Property, plant and equipment, net	227
Goodwill	102
Amortizable intangible assets, net	358
Other assets	17
Total assets held for sale	\$ 3,783
Liabilities held for sale	
Current liabilities	\$ 392
Other long-term liabilities	127
Total liabilities held for sale	\$ 519

(6) ACQUISITIONS OF AND INVESTMENTS IN BUSINESSES AND TECHNOLOGIES

Colorado Lining International, Inc.

On September 1, 2017, the Company completed the acquisition of substantially all of the assets ("the acquisition") of Colorado Lining International, Inc., a Colorado corporation, headquartered in Parker, CO ("CLI"). The acquisition will immediately align under the Company's Engineered Films Division. The acquisition enhances the Company's geomembrane market position through extended service and product offerings with the addition of new design-build and installation service components, and will advance Engineered Films' business model into a vertically-integrated, full-service solutions provider for the geomembrane market. The acquisition constitutes a business and as such was accounted for as a business combination.

The purchase price was approximately \$15,088. This includes potential earn-out payments with an estimated fair value of \$1,256 which are contingent upon achieving certain revenues and operational synergies. The acquisition includes a working capital adjustment to be settled within ninety days after acquisition.

In the initial acquisition accounting, the fair value of the business acquired was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed is reflected as goodwill. Goodwill recorded as part of the purchase price allocation was \$5,941, all of which is tax deductible. Identifiable intangible assets acquired as part of the acquisition were \$610, including definite-lived intangibles, such as customer relationships and order backlog. The estimated fair value of the assets acquired and liabilities assumed are preliminary and may be adjusted as the Company obtains additional information, primarily related to adjustments for the true up of acquired net working capital in accordance with the asset purchase agreement. If there are adjustments made for these items, the fair value of intangible assets and goodwill could be impacted. Thus, the provisional measurements of fair value are subject to change.

Ag-Eagle Aerial Systems, Inc.

In February 2016, the Applied Technology Division acquired an interest of approximately 5% in AgEagle Aerial Systems, Inc. (AgEagle). AgEagle is a privately held company that is a provider of unmanned aerial systems (UAS) used for agricultural applications. Contemporaneously with the execution of this agreement, AgEagle and the Company entered into a distribution agreement whereby the Company was appointed as the exclusive distributor of the existing AgEagle system as it pertains to the agriculture market. The Company's equity ownership interest is considered a variable interest and it accounts for this investment under the equity method of accounting. The Company is not the primary beneficiary as the Company does not have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the

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(dollars in thousands, except per-share amounts)

right to receive benefits of the VIE that could potentially be significant to the entity. The purchase price was allocated between the equity ownership interest and an intangible asset for the exclusive distribution agreement. In April 2017, the Company determined that the investment in AgEagle, was fully impaired, further described in Note 7 *Goodwill, Long-lived Assets and Other Intangibles*, due to lower than expected cash flows. The Company has no commitments or guarantees related to this equity method investment.

Acquisition-related Contingent Consideration

The Company has contingent liabilities related to the recent acquisition of CLI, as well as the prior acquisitions of SBG Innovatie BV and its affiliate, Navtronics BVBA (collectively, SBG) in May 2014 and Vista Research, Inc. (Vista) in January 2012. The fair value of such contingent consideration is estimated as of the acquisition date, and subsequently at the end of each reporting period, using forecasted cash flows. Projecting future cash flows requires the Company to make significant estimates and assumptions regarding future events, conditions, or revenues being achieved under the subject contingent agreement as well as the appropriate discount rate. Such valuation techniques include one or more significant inputs that are not observable (Level 3 fair value measures).

Changes in the fair value of the liability for acquisition-related contingent consideration are as follows:

	Three Months		Nine Months	
	Ended		Ended	
	October	October	October	October
	31,	31,	31,	31,
	2017	2016	2017	2016
Beginning balance	\$1,567	\$1,901	\$1,741	\$2,059
Fair value of contingent consideration acquired	1,256	—	1,256	—
Change in fair value of the liability	52	(165)	198	(41)
Contingent consideration earn-out paid	(44)	(36)	(364)	(318)
Ending balance	\$2,831	\$1,700	\$2,831	\$1,700

Classification of liability in the Consolidated balance sheet

Accrued Liabilities	\$815	\$315
Other Liabilities, long-term	2,016	1,385
Balance at October 31, 2017	\$2,831	\$1,700

In the recent CLI acquisition, the Company entered into a contingent earn-out agreement, not to exceed \$2,000. The earn-out is paid annually for three years after the purchase date, contingent upon achieving certain revenues and operational synergies. To date, the Company has made no payments on this potential earn-out liability.

In connection with the acquisition of SBG, Raven is committed to making additional earn-out payments, not to exceed \$2,500 calculated and paid quarterly for ten years after the purchase date contingent upon achieving certain revenues. To date, the Company has paid a total of \$847 of this potential earn-out liability.

Related to the acquisition of Vista in 2012, the Company is committed to making annual payments based upon earn-out percentages on specific revenue streams for seven years after the purchase date, not to exceed \$15,000. To date, the Company has paid a total of \$1,572 of this potential earn-out liability.

(7) GOODWILL, LONG-LIVED ASSETS, AND OTHER CHARGES

Goodwill

Fiscal 2018

Management assesses goodwill for impairment annually during the fourth quarter and between annual tests whenever a triggering event indicates there may be an impairment. Impairment tests of goodwill are done at the reporting unit level. Management performed an assessment in the fiscal 2018 third quarter and determined that no triggering events had occurred for any of the Company's reporting units. There were no goodwill impairment losses reported in the three- and nine-month periods ended October 31, 2017.

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(dollars in thousands, except per-share amounts)

Fiscal 2017

In the fiscal 2017 third quarter the Company determined that a triggering event occurred for its Aerostar reporting unit, which had \$789 of goodwill as of October 31, 2016. The triggering event was caused by lowering the financial expectations for net sales and operating income of the reporting unit and certain asset groups due to delays and uncertainties regarding the reporting unit's pursuit of certain opportunities, including aerostat orders, certain classified stratospheric balloon pursuits, and radar pursuits. Aerostar was still actively pursuing these opportunities and some were in active negotiations, but the timing of certain aerostat and classified stratospheric balloon opportunities are being delayed more than previously expected and the likelihood of radar sales is lower due to the Company's decision to no longer actively pursue certain radar product opportunities.

A Step 1 impairment analysis was completed using fair value techniques as of October 31, 2016. In determining the estimated fair value of the Aerostar reporting unit, the Company was required to estimate a number of factors, including projected revenue growth rates, projected operating results, terminal growth rates, economic conditions, anticipated future cash flows, and the discount rate. On the basis of these estimates, the October 31, 2016 analysis indicated that the estimated fair value of the Aerostar reporting unit exceeded the reporting unit carrying value by approximately \$9,000, or approximately 30.0%. There were no goodwill impairment losses reported in the three- and nine-month periods ended October 31, 2016.

The changes in the carrying amount of goodwill by reporting unit were as follows:

	Applied Technology	Engineered Films	Aerostar	Total
Balance at January 31, 2017	\$ 12,342	\$ 27,518	\$ 789	\$40,649
Additions due to business combinations	—	5,941	—	5,941
Divestiture of business	—	—	(52)	(52)
Foreign currency translation adjustment	214	—	—	214
Balance at October 31, 2017	\$ 12,556	\$ 33,459	\$ 737	\$46,752
Balance at January 31, 2016	\$ 12,365	\$ 27,518	\$ 789	\$40,672
Foreign currency translation adjustment	31	—	—	31
Balance at October 31, 2016	\$ 12,396	\$ 27,518	\$ 789	\$40,703

Long-lived Assets and Other Intangibles

Fiscal 2018

The Company assesses the recoverability of long-lived assets, including definite-lived intangibles, equity method investments, and property plant and equipment if events or changes in circumstances indicate that an asset might be impaired. For long-lived and intangible assets, the Company performs impairment reviews by asset groups. When performing long-lived asset testing, the fair values of assets are determined based on valuation techniques using the best available information. Such valuations are derived from valuation techniques in which one or more significant inputs are not observable (Level 3 fair value measures). An impairment loss is recognized when the carrying amount of an asset is above the estimated undiscounted cash flows used in determining the fair value of the asset.

During first quarter of fiscal 2018, the Company determined that the investment in AgEagle, further described in Note 6 *Acquisitions of and Investments in Businesses and Technologies*, was impaired due to lower than expected cash flows. This impairment was determined to be other-than-temporary and an accelerated equity method investment loss of \$72 was reported in "Other (expense), net" in the Consolidated Statements of Income and Comprehensive Income for the nine-month period ended October 31, 2017. The Company also determined the customer relationship

intangible asset related to the Ag Eagle exclusive distribution agreement was fully impaired. The total impairment loss reported related to this intangible asset was \$259 and was reported in "Long-lived asset impairment loss" in the Consolidated Statements of Income and Comprehensive Income for the nine-month period ended October 31, 2017. There were no long-lived asset impairments or accelerated equity method investment losses reported in the three-month period ended October 31, 2017.

Fiscal 2017

The Company evaluated the triggering events described in the goodwill impairment analysis and determined there were also triggering events with respect to the assets associated with the aerostat and stratospheric programs (Lighter than Air) and Radar asset groups in the Aerostar reporting unit in the third quarter, which resulted in an asset impairment test.

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Using the sum of the undiscounted cash flows associated with each of the two asset groups, a Step 1 test was performed for each asset group. The undiscounted cash flows for the Lighter than Air asset group exceeded the carrying value of the long-lived assets by approximately \$110,000, or 800%, and no Step 2 test was deemed to be necessary based on the recoverability of the long-lived assets. For the Radar asset group, however, the undiscounted cash flows did not exceed the carrying value of the long-lived assets and the Company performed a Step 2 impairment analysis for the long-lived assets.

In the Step 2 impairment analysis, the fair value determined was allocated to the assets and liabilities of the Radar asset group. The resulting estimated fair value of the Radar asset group long-lived assets was \$175 compared to the carrying value of \$262 for the asset group. The shortfall of \$87 was recorded in the fiscal 2017 third quarter as an impairment charge to operating income reported as "Long-lived asset impairment loss" in the Consolidated Statements of Income and Comprehensive Income. The total impairment loss related to property, plant, and equipment and patents was \$62 and \$25, respectively.

The following table provides the gross carrying amount and related accumulated amortization of definite-lived intangible assets:

	October 31, 2017			January 31, 2017			October 31, 2016		
	Accumulated			Accumulated			Accumulated		
	Amount	amortization	Net	Amount	amortization	Net	Amount	amortization	Net
Existing technology	\$7,218	\$ (6,854	) \$364	\$7,136	\$ (6,553	) \$583	\$7,157	\$ (6,490	) \$667
Customer relationships	13,220	(4,503	) 8,717	12,987	(3,680	) 9,307	13,000	(3,421	) 9,579
Patents and other intangibles	4,708	(2,414	) 2,294	4,378	(2,220	) 2,158	4,427	(2,162	) 2,265
Total	\$25,146	\$ (13,771	) \$11,375	\$24,501	\$ (12,453	) \$12,048	\$24,584	\$ (12,073	) \$12,511

Inventory write-downs

During the fiscal 2017 third quarter, the Company wrote-down radar inventory, purchased primarily during fiscal 2016, due to the Company's decision in the fiscal 2017 third quarter to no longer actively pursue certain radar opportunities. The decision to write-down this inventory is consistent with the triggering event identified during the fiscal 2017 third quarter relating to the Aerostar reporting unit and the radar product and radar services (Radar) asset group. This radar specific inventory write-down increased "Cost of sales" by \$2,278 for the three- and nine-month periods ended October 31, 2016. There were no material inventory write-downs in the three- and nine-month periods ended October 31, 2017.

(8) EMPLOYEE POSTRETIREMENT BENEFITS

The Company provides postretirement medical and other benefits to certain current and past senior executive officers and senior managers. These plan obligations are unfunded. The components of the net periodic benefit cost for postretirement benefits are as follows:

	Three Months		Nine Months	
	Ended		Ended	
	October 31,	October 31,	October 31,	October 31,
	2017	2016	2017	2016
Service cost	\$ 21	\$ 20	\$ 64	\$ 60
Interest cost	83	83	247	249
Amortization of actuarial losses	30	36	90	110
Amortization of unrecognized gains in prior service cost	(40	) (40	) (120	) (120
Net periodic benefit cost	\$ 94	\$ 99	\$ 281	\$ 299

Postretirement benefit cost components are reclassified in their entirety from accumulated other comprehensive loss to net periodic benefit cost. Net periodic benefit costs are reported in net income as “Cost of sales” or “Selling, general, and administrative expenses” in a manner consistent with the classification of direct labor and personnel costs of the eligible employees.

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(dollars in thousands, except per-share amounts)

(9) WARRANTIES

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		Nine Months Ended	
	October 31, 2017	October 31, 2016	October 31, 2017	October 31, 2016
Beginning balance	\$2,265	\$ 2,076	\$1,547	\$ 1,835
Change in provision	(274)	202	1,504	1,288
Settlements made	(774)	(426)	(1,834)	(1,271)
Ending balance	\$1,217	\$ 1,852	\$1,217	\$ 1,852

(10) FINANCING ARRANGEMENTS

The Company entered into a credit facility on April 15, 2015 with JPMorgan Chase Bank, N.A., Toronto Branch as Canadian Administrative Agent, JPMorgan Chase Bank, National Association, as administrative agent, and each lender from time to time party thereto (the Credit Agreement). The Credit Agreement provides for a syndicated senior revolving credit facility up to \$125,000 with a maturity date of April 15, 2020.

Simultaneous with execution of the Credit Agreement, Raven, and its subsidiaries entered into a guaranty agreement in favor of JPMorgan Chase Bank National Association in its capacity as administrator under the Credit Agreement for the benefit of JPMorgan Chase Bank N.A., Toronto Branch and the lenders and their affiliates under the Credit Agreement.

Unamortized debt issuance costs associated with this Credit Agreement were \$270, \$352 and \$379 at October 31, 2017, January 31, 2017, and October 31, 2016, respectively and are included in "Other assets" in the Consolidated Balance Sheets. Loans or borrowings defined under the Credit Agreement bear interest and fees at varying rates and terms defined in the Credit Agreement based on the type of borrowing as defined. The Credit Agreement includes annual administrative and unborrowed capacity fees. The Credit Agreement also contains customary affirmative and negative covenants, including those relating to financial reporting and notification, limits on levels of indebtedness and liens, investments, mergers and acquisitions, affiliate transactions, sales of assets, restrictive agreements, and change in control as defined in the Credit Agreement. The Company requested and received the necessary covenant waivers relating to its late filing of financial information in fiscal 2017. Financial covenants include an interest coverage ratio and funded indebtedness to earnings before interest, taxes, depreciation, and amortization as defined in the Credit Agreement. The loan proceeds may be utilized by Raven for strategic business purposes and for working capital needs.

Letters of credit (LOCs) totaling \$1,103 were outstanding at October 31, 2017. Letters of Credit totaling \$514 were outstanding at January 31, 2017, and October 31, 2016. Any draws required under the LOCs would be settled with available cash or borrowings under the Credit Agreement.

There were no borrowings under the Credit Agreement for any of the fiscal periods covered by this Quarterly Report on Form 10-Q. Availability under the Credit Agreement for borrowings as of October 31, 2017 was \$123,947.

(11) COMMITMENTS AND CONTINGENCIES

The Company is involved as a party in lawsuits, claims, regulatory inquiries, or disputes arising in the normal course of its business, the potential costs and liability of which cannot be determined at this time. Among these matters is a patent infringement lawsuit filed in federal district court in Kansas, in which Capstan Ag Systems, Inc. has made certain infringement claims against the Company and one of its customers, CNH Industrial America LLC, related to the Applied Technology Division's Hawkeye® Nozzle Control System. Management does not believe the ultimate outcomes of its legal proceedings are likely to be significant to its results of operations, financial position, or cash flows. Additionally, because of the present status of the lawsuit, management cannot determine the potential impact, if any, of the patent infringement lawsuit described above.

The Company has insurance policies that provide coverage to various degrees for potential liabilities arising from legal proceedings.

In addition to commitments disclosed elsewhere in the Notes to the unaudited Consolidated Financial Statements, the Company has other unconditional purchase obligations that arise in the normal course of business operations. The majority of these obligations are related to the purchase of raw material inventory for the Applied Technology and Engineered Films divisions.

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(dollars in thousands, except per-share amounts)

(12) INCOME TAXES

The Company's effective tax rate varies from the federal statutory rate primarily due to state and local taxes, research and development tax credit, tax benefits on qualified production activities, and tax-exempt insurance premiums. The Company's effective tax rates for the nine-month periods ended October 31, 2017 and 2016 were 31.3% and 26.9%, respectively. The increase in the effective tax rate is primarily due to higher pre-tax income in the current year and recognition of discrete tax expense related to the Company's adoption of ASU 2016-09 in the fiscal 2018 as further discussed in Note 2 *Summary of Significant Accounting Policies*. This ASU requires that the tax effects resulting from the settlement of stock-based awards be recognized as a discrete income tax expense or benefit in the income statement in the reporting period in which they occur.

(13) DIVIDENDS AND TREASURY STOCK

Dividends paid to Raven shareholders for the three- and nine-month periods ended October 31, 2017 were \$4,648 and \$14,032, or 13.0 cents and 39.0 cents per share, respectively. Dividends paid to Raven shareholders for the three- and nine-month periods ended October 31, 2016 were \$4,690 and \$14,078, or 13.0 cents and 39.0 cents per share, respectively. There were no declared and unpaid shareholder dividends at October 31, 2017 or 2016.

Effective March 21, 2016 the Board of Directors (Board) authorized an extension and increase of the authorized \$40,000 stock buyback program in place at that time. An additional \$10,000 was authorized for share repurchases once the \$40,000 authorization limit is reached.

October 31, 2017. 484,252 shares, or \$7,702, in the nine-month period ended October 31, 2016. None of these shares were repurchased in the three-month period ended October 31, 2016. There were no share repurchases unpaid at October 31, 2017 or October 31, 2016.

October 31, 2017 . This authorization remains in place until such time as the authorized spending limit is reached or such authorization is revoked by the Board.

(14) SHARE-BASED COMPENSATION

The Company reserves shares for issuance pursuant to the Amended and Restated 2010 Stock Incentive Plan effective March 23, 2012, administered by the Personnel and Compensation Committee of the Board of Directors. Two types of awards, stock options and restricted stock units, were granted during the nine months ended October 31, 2017 and October 31, 2016.

Stock Option Awards

The Company granted 85,800 non-qualified stock options during the nine-month period ended October 31, 2017. The Company granted 274,200 non-qualified stock options during the nine-month period ended October 31, 2016. None of these options were granted in the three-month periods ended October 31, 2017 and October 31, 2016, respectively. Options are granted with exercise prices based upon the closing market price of the Company's common stock on the day prior to the date of grant. The stock options vest over a four-year period and expire after five years. Options contain retirement and change-in-control provisions, as well as termination without cause provisions for certain executive officers, which may accelerate the vesting period. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Company uses historical data to estimate option exercises and employee terminations within this valuation model.

The weighted average assumptions used for the Black-Scholes option pricing model by grant year are as follows:

	Nine Months Ended			
	October 31,		October 31, 2016	
	2017			
Risk-free interest rate	1.68	%	1.05	%
Expected dividend yield	1.78	%	3.33	%
Expected volatility factor	33.87	%	32.61	%
Expected option term (in years)	4.25		4.00	
Weighted average grant date fair value	\$7.35		\$3.05	

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(dollars in thousands, except per-share amounts)

Restricted Stock Unit Awards (RSUs)

The Company granted 4,593 and 60,413 time-vested RSUs to employees in the three- and nine-month periods ended October 31, 2017, respectively. The Company granted 4,577 and 70,947 time-vested RSUs to employees in the three- and nine-month periods ended October 31, 2016, respectively. The grant date fair value of a time-vested RSU is measured based upon the closing market price of the Company's common stock on the day prior to the date of grant. The weighted average grant date fair value per share of the time-vested RSUs granted in the periods ended October 31, 2017 and 2016, respectively, was \$29.25 and \$15.94. Time-vested RSUs will vest if, at the end of the three-year period, the employee remains employed by the Company. RSUs contain retirement and change-in-control provisions, as well as termination without cause provisions for certain executive officers, which may accelerate the vesting period. Dividends are cumulatively earned on the time-vested RSUs over the vesting period.

The Company also granted performance-based RSUs in the nine-month periods ended October 31, 2017 and 2016, respectively. The exact number of performance shares to be issued will vary from 0% to 150% of the target award, depending on the Company's actual performance over the three-year period in comparison to the target award. The target award for the fiscal 2017 and 2016 grants are based on return on equity (ROE), which is defined as net income divided by the average of beginning and ending shareholders' equity. The performance-based RSUs will vest if, at the end of the three-year performance period, the Company has achieved certain performance goals and the employee remains employed by the Company. RSUs contain retirement and change-in-control provisions, as well as termination without cause provisions for certain executive officers, which may accelerate the vesting period. Dividends are cumulatively earned on performance-based RSUs over the vesting period. The number of RSUs that will vest is determined by an estimated ROE target over the three-year performance period. The estimated ROE performance factors used to estimate the number of restricted stock units expected to vest are evaluated at least quarterly. The number of restricted stock units issued at the vesting date will be based on actual results.

The fair value of the performance-based restricted stock units is based upon the closing market price of the Company's common stock on the day prior to the grant date. The number of performance-based RSUs granted is based on 100% of the target award. During the nine-month periods ended October 31, 2017 and 2016, the Company granted 22,745 and 72,950 performance-based RSUs, respectively. None of these awards were granted in the three-month periods ended October 31, 2017 and 2016. The weighted average grant date fair value per share of these performance-based RSUs granted in the periods ended October 31, 2017 and 2016, respectively, was \$29.20 and \$15.61.

(15) SEGMENT REPORTING

The Company's reportable segments are defined by their product lines which have been grouped in these segments based on technology, manufacturing processes, and end-use application. Raven's reportable segments are Applied Technology, Engineered Films, and Aerostar. The Company measures the performance of its segments based on their operating income excluding general and administrative expenses. Other expense and income taxes are not allocated to individual operating segments, and assets not identifiable to an individual segment are included as corporate assets. Separate financial information is available and regularly evaluated by the Company's chief operating decision-maker (CODM), the President and Chief Executive Officer, in making resource allocation decisions for the Company's reportable segments. Segment information is reported consistent with the Company's management reporting structure.

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Business segment net sales and operating income results are as follows:

	Three Months Ended		Nine Months Ended	
	October 31,	October 31,	October 31,	October 31,
	2017	2016	2017	2016
Net sales				
Applied Technology	\$25,319	\$ 25,203	\$94,233	\$ 79,327
Engineered Films	65,108	38,551	157,691	104,307
Aerostar	11,103	9,003	30,078	25,313
Intersegment eliminations ^(a)	(181)	(235)	(508)	(467)
Consolidated net sales	\$101,349	\$ 72,522	\$281,494	\$ 208,480
Operating income (loss) ^(b)				
Applied Technology	\$5,357	\$ 6,415	\$25,447	\$ 20,280
Engineered Films	17,115	7,129	35,386	17,666
Aerostar ^(c)	1,359			