RAVEN INDUSTRIES INC
Form 10-Q
June 05, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2009

OR

o **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. þ Yes o 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

As of May 31, 2009 there were 18,019,796 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
RAVEN INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(in thousands except share data)	**April 30, 2009**	**January 31, 2009**	**April 30, 2008**
ASSETS			
Current Assets			
Cash and cash equivalents	$ 32,269	$ 16,267	$ 18,332
Short-term investments			3,300
Accounts receivable, net of allowances of $574, $613, and $342, respectively	36,290	40,278	50,015
Inventories:			
Materials	24,652	26,657	29,250
In process	3,475	3,258	3,661
Finished goods	4,753	6,062	4,315
Total inventories	32,880	35,977	37,226
Deferred income taxes	2,616	2,542	2,274
Prepaid expenses and other current assets	3,377	3,009	3,616
Total current assets	107,432	98,073	114,763
Property, plant and equipment	86,966	86,324	80,807
Accumulated depreciation	(51,579)	(50,444)	(46,194)
Property, plant and equipment, net	35,387	35,880	34,613
Goodwill	7,612	7,450	7,057
Amortizable intangible assets, net	1,467	1,471	1,652
Other assets, net	1,528	1,541	2,440
TOTAL ASSETS	**$ 153,426**	**$ 144,415**	**$ 160,525**
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities			
Accounts payable	$ 8,718	$ 9,433	$ 11,691
Accrued liabilities	10,999	13,281	11,047
Income taxes payable	4,772		5,647
Customer advances	524	608	340
Total current liabilities	25,013	23,322	28,725
Other liabilities	7,735	7,537	7,734

Total liabilities	32,748	30,859	36,459
Commitments and contingencies			
Shareholders equity:			
Common stock, $1 par value, authorized shares 100,000,000; issued 32,460,934; 32,460,934; 32,413,717, respectively	32,461	32,461	32,414
Paid in capital	4,725	4,531	3,635
Retained earnings	137,967	131,080	140,747
Accumulated other comprehensive income (loss)	(1,113)	(1,154)	(1,581)
	174,040	166,918	175,215
Less treasury stock, at cost, 14,448,683; 14,448,683; and 14,386,683 shares, respectively	53,362	53,362	51,149
Total shareholders equity	120,678	113,556	124,066
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 153,426**	**$ 144,415**	**$ 160,525**

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 April 30, 2009**	**April 30, 2008**
Net sales	$ 65,222	$ 75,166
Cost of goods sold	46,252	53,151
Gross profit	18,970	22,015
Selling, general and administrative expenses	4,857	5,374
Operating income	14,113	16,641
Interest income and other, net	(1)	(118)
Income before income taxes	14,114	16,759
Income taxes	4,883	5,877
Net income	$ 9,231	$ 10,882
Net income per common share:		
Basic	$ 0.51	$ 0.60
Diluted	$ 0.51	$ 0.60
Cash dividends paid per common share	$ 0.13	$ 0.13

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)	**Three Months Ended April 30, 2009**	**April 30, 2008**
OPERATING ACTIVITIES:		
Net income	$ 9,231	$ 10,882
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,742	1,820
Deferred income taxes	(71)	(63)
Share-based compensation expense	192	192
Change in operating assets and liabilities:		
Accounts receivable	4,026	(13,541)
Inventories	3,526	(702)
Prepaid expenses and other current assets	(977)	(992)
Operating liabilities	2,021	7,492
Other operating activities, net	(22)	35
Net cash provided by operating activities	19,668	5,123
INVESTING ACTIVITIES:		
Capital expenditures	(1,105)	(974)
Purchase of short-term investments		(2,100)
Sale of short-term investments		300
Other investing activities, net	(223)	45
Net cash used in investing activities	(1,328)	(2,729)
FINANCING ACTIVITIES:		
Dividends paid	(2,342)	(2,353)
Purchases of treasury stock		(2,966)
Other financing activities, net		(13)
Net cash used in financing activities	(2,342)	(5,332)
Effect of exchange rate changes on cash	4	(2)
Net increase (decrease) in cash and cash equivalents	16,002	(2,940)
Cash and cash equivalents:		
Beginning of period	16,267	21,272

End of period	**$ 32,269**	**$ 18,332**

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

RAVEN INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Basis of Presentation and Description of Business

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-month period ended April 30, 2009 are not necessarily indicative of the results that may be expected for the year ending January 31, 2010. The January 31, 2009 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, 2009.

The primary types of operating expenses are classified in the income statement as follows:

Cost of Good Sold	Selling, General, and Administrative Expenses
Direct material costs	Personnel costs
Material acquisition and handling costs	Professional service fees
Direct labor	Advertising
Factory overhead including depreciation	Promotions
Inventory obsolescence	Information technology equipment depreciation
Product warranties	Office supplies
Research and development	

The company s gross margins may not be comparable to industry peers due to variability in the classification of these expenses across the industries in which the company operates.

(2) 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, as their exercise prices were greater than the average market price of the company s common stock during those periods. For the three months ended April 30, 2009 and 2008, 382,975 and 226,950 options, respectively, were excluded from the diluted net income per-share calculation. Details of the computation are presented below:

	Three Months Ended	
	April 30, 2009	April 30, 2008
Numerator:		
Net income *(in thousands)*	$ 9,231	$ 10,882
Denominator:		
Weighted average common shares outstanding	18,012,251	18,093,008
Weighted average stock units outstanding	15,140	9,893

Denominator for basic calculation		18,027,391		18,102,901
Weighted average common shares outstanding		18,012,251		18,093,008
Weighted average stock units outstanding		15,140		9,893
Dilutive impact of stock options				51,002
Denominator for diluted calculation		18,027,391		18,153,903
Net income per share basic	$	0.51	$	0.60
Net income per share diluted	$	0.51	$	0.60

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(3) Segment Reporting

The company s reportable segments are defined by their common technologies, production processes and inventories. These segments are consistent with the company s management reporting structure and reflect the organization of the company into the three Raven divisions and the Aerostar subsidiary. Raven Canada and Raven GmbH are included in the Applied Technology Division. 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. Intersegment transactions are eliminated in a separate caption entitled intersegment eliminations to arrive at consolidated sales and operating income. First quarter intersegment sales were primarily from Electronic Systems to Applied Technology. The results for these segments follow:

	Three Months Ended	
(in thousands)	**April 30, 2009**	**April 30, 2008**
Net sales		
Applied Technology	$ 29,434	$ 34,846
Engineered Films	13,358	22,005
Electronic Systems	16,153	13,279
Aerostar	6,565	6,019
Intersegment eliminations	(288)	(983)
Consolidated net sales	$ 65,222	$ 75,166
Operating income		
Applied Technology	$ 9,610	$ 13,546
Engineered Films	2,715	3,864
Electronic Systems	2,495	640
Aerostar	1,158	806
Intersegment eliminations	28	(29)
Total reportable segment income	16,006	18,827
Administrative and general expenses	(1,893)	(2,186)
Consolidated operating income	$ 14,113	$ 16,641

(4) Financing Arrangements

Raven has an uncollateralized credit agreement providing a line of credit of $8.0 million with a maturity date of July 1, 2009, bearing interest at 1.00% under the prime rate. Letters of credit totaling $1.3 million have been issued under the line, primarily to support self-insured workers compensation bonding requirements. No borrowings were outstanding as of April 30, 2009, January 31, 2009 or April 30, 2008, and $6.7 million was available at April 30, 2009.

(5) Dividends

The company announced on May 21, 2009, that its board of directors approved a quarterly cash dividend of 14 cents per share, payable July 15, 2009 to shareholders of record on June 25, 2009.

(6) 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 and accumulated other comprehensive income (loss) follow:

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Comprehensive income

(in thousands)	Three Months Ended April 30, 2009	April 30, 2008
Net income	$ 9,231	$ 10,882
Other comprehensive income (loss):		
Foreign currency translation	20	(12)
Amortization of postretirement benefit plan actuarial losses, net of income tax of $11 and $20, respectively	21	37
Total other comprehensive income	41	25
Total comprehensive income	$ 9,272	$ 10,907

Accumulated other comprehensive income (loss)

(in thousands)	April 30, 2009	January 31, 2009	April 30, 2008
Foreign currency translation	$ (104)	$ (124)	$ 111
Post-retirement benefits	(1,009)	(1,030)	(1,692)
Total accumulated other comprehensive income (loss)	$ (1,113)	$ (1,154)	$ (1,581)

(7) Employee Retirement Benefits

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

(in thousands)	Three Months Ended April 30, 2009	April 30, 2008
Service cost	$ 14	$ 17
Interest cost	83	90
Amortization of actuarial losses	32	57
Net periodic benefit cost	$ 129	$ 164

(8) Product Warranty Costs

Accruals necessary for product warranties are estimated based upon historical warranty costs and average time elapsed between purchases and returns for each division. Any warranty issues that are unusual in nature are accrued individually. Changes in the carrying amount of accrued product warranty costs follow:

Three Months Ended
April 30,

(in thousands)	**April 30, 2009**	**2008**
Balance, beginning of period	$ 1,004	$ 684
Accrual for warranties	485	459
Settlements made (in cash or in kind)	(390)	(350)
Balance, end of period	$ 1,099	$ 793

(9) Recent Accounting Pronouncements

At the beginning of fiscal 2010 the company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 requires enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The adoption of SFAS No. 161 did not have a material impact on the company s consolidated results of operations, financial condition or cash flows.

At the beginning of fiscal 2010 the company adopted FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets, and (2) intangible assets acquired in both business combinations and asset acquisitions. Under FSP No. FAS 142-3, entities estimating the useful life of a recognized intangible asset must consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension. The adoption of FSP No. FAS 142-3 did not have a material impact on the company s consolidated results of operations, financial condition or cash flows.

New pronouncements issued but not effective until after April 30, 2009, are not expected to have a material impact on the company s consolidated results of operations, financial condition, or cash flows.

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 months ended April 30, 2009 and April 30, 2008, 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, 2009.

EXECUTIVE SUMMARY

Raven Industries, Inc. is an industrial manufacturer providing a variety of products to customers within the industrial, agricultural, construction and military/aerospace markets, primarily in North America. The company operates in four business segments: Applied Technology (formerly Flow Controls), Engineered Films, Electronic Systems and Aerostar.

Significant financial items related to the first quarter of fiscal 2010 include:

- Diluted earnings per share of $0.51 decreased $0.09 (15%) from $0.60 per share in the first quarter of fiscal 2009.

- Net sales of $65.2 million decreased $9.9 million (13%) compared to $75.2 million in the first quarter of fiscal 2009. The recession and related economic uncertainty lowered Engineered Films and Applied Technology sales volumes. Electronic Systems and Aerostar sales were not directly impacted.

- Gross margins of 29.1% decreased slightly from 29.3% in the first quarter of fiscal 2009 stemming from a five point contraction in Applied Technology gross margins partially offset by increased Engineered Films and Electronic Systems margins.

- Net income decreased 15% to $9.2 million versus $10.9 million in the first quarter of fiscal 2009.

- The company generated first quarter operating cash flow of $19.7 million versus $5.1 million in the year ago quarter. The increase was driven by improved inventory management and accelerated collections of accounts receivable.

- The company paid dividends of $2.3 million during the first quarter of fiscal 2010.

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.

Results of Operations (Q1 fiscal 2010 versus Q1 fiscal 2009)

Net sales decreased $9.9 million (13%) to $65.2 million from $75.2 million. The decrease was driven primarily by lower Applied Technology and Engineered Films sales partially offset by stronger Electronic Systems and Aerostar sales. Applied Technology sales decreased $5.4 million (16%) to $29.4 million as a result of a less robust agricultural market. Engineered Films sales decreased $8.6 million (39%) to $13.4 million versus $22.0 million due to decreased demand for pit liners and construction film reflecting depressed oil and gas drilling and construction activity. Additionally, downward pressure on Engineered Films selling prices contributed to the year-over-year revenue decline. Electronic Systems sales increased $2.9 million (22%) to $16.2 million from $13.3 million reflecting stronger sales of printed circuit board assemblies for the aviation industry and secure communication devices. Aerostar sales increased $546,000 (9%) to $6.6 million versus $6.0 million due to increased shipments of tethered aerostats and inflatable decoys.

Operating income decreased $2.5 million (15%) to $14.1 million from $16.6 million. Higher profits at Electronic Systems were offset by lower Applied Technology and Engineered Films results. Applied Technology operating income decreased $3.9 million (29%) to $9.6 million from $13.5 million due to lower sales volume and negative operating leverage stemming from the drop in revenue on a higher cost base versus a year ago. Engineered Films operating income decreased 30% to $2.7 million from $3.9 million reflecting the 39% drop in sales (roughly 27% volume and 12% price) partially offset by more favorable plastic resin costs, the primary component of plastic films. Electronic Systems operating income increased $1.9 million to $2.5 million from $640,000 in fiscal 2009 as a result of increased sales, positive operating leverage, and efficiency gains. Aerostar s operating income increased to $1.2 million from $806,000 reflecting increased efficiencies and positive operating leverage gained though higher sales volume.

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RESULTS OF OPERATIONS SEGMENT ANALYSIS *(Q1 fiscal 2010 versus Q1 fiscal 2009)*

Applied Technology

Applied Technology provides electronic and Global Positioning System (GPS) products designed to reduce operating costs and improve yields for the agriculture market.

Net sales of $29.4 million decreased $5.4 million (16%) and operating income of $9.6 million decreased $3.9 million (29%).

Several factors contributed to the relative change:

Worldwide agricultural conditions remained fairly strong as a result of good prices for corn, soybeans and other feed grains. However, grower and custom spray applicator purchasing decisions were deferred as a result of uncertainty regarding global economic conditions causing a decline in sales across substantially all of the segment s product categories. The volume decrease was partially offset by a modest selling price increase.

First quarter international sales of $5.8 million fell $900,000 (13%) year-over-year. Although foreign revenue decreased from last year it accounted for a larger share of Applied Technology sales, increasing from 19% of segment sales one year ago to 20%. While some markets experienced volatile conditions, revenues were enhanced by expanding sales efforts in regions not previously served. This caused the relative decline in international sales to be less than the drop in U.S. sales.

New product sales declined. In the first three months of last year, the division s Cruizer product was introduced. This simple and affordable guidance system targeted new entrants to the precision agricultural market and was well received in the marketplace.

Gross margins of 38.5% contracted from 43.6% as result of negative operating leverage stemming from decreased sales volume.

First quarter selling expense of $1.8 million was up from the prior year s first quarter, increasing $121,000 (7%) due mainly to higher personnel cost. As a percentage of sales, selling expense increased to 6.0% versus 4.7% due to higher expense on lower sales volume.

Engineered Films

Engineered Films produces rugged reinforced plastic sheeting for industrial, construction, geomembrane and agricultural applications.

Net sales of $13.4 million decreased $8.6 million (39%) and operating income of $2.7 million decreased $1.2 million (30%).

The following factors contributed to the comparative change:

Sales volume declined approximately 27% due to the freefall of business activity in the fourth quarter of fiscal 2009 as customers in the construction market adapted to a weakening economic outlook and the scarcity of credit. In addition, deliveries of pit liners to the energy exploration market declined from prior year levels. Drilling activity slowed due to lower oil prices and reductions in forecasted demand.

Selling prices declined by roughly 12% year-over-year driven by competitive pricing pressure.

