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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 July 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**

(State or other jurisdiction of incorporation or organization)

**46-0246171**

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

**(605) 336-2750**

(Registrant's telephone number including area code)

**Not Applicable**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 August 18, 2017 there were 36,103,017 shares of common stock, \$1 par value, of Raven Industries, Inc. outstanding. There were no other classes of stock outstanding.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RAVEN INDUSTRIES, INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

<i>(dollars and shares in thousands, except per-share data)</i>	July 31, 2017	January 31, 2017	July 31, 2016
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 55,197	\$ 50,648	\$ 40,123
Accounts receivable, net	46,398	43,143	38,645
Inventories	50,844	42,336	45,502
Other current assets	3,670	2,689	4,958
Total current assets	156,109	138,816	129,228
Property, plant and equipment, net	105,723	106,324	110,706
Goodwill	40,841	40,649	40,752
Amortizable intangible assets, net	11,228	12,048	12,888
Other assets	3,295	3,672	3,783
<b>TOTAL ASSETS</b>	<b>\$ 317,196</b>	<b>\$ 301,509</b>	<b>\$ 297,357</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 12,597	\$ 8,467	\$ 10,076
Accrued liabilities	18,724	18,055	14,085
Customer advances	456	1,860	913
Total current liabilities	31,777	28,382	25,074
Other liabilities	12,348	13,696	13,827
Commitments and contingencies	—	—	—
Shareholders' equity			
Common stock, \$1 par value, authorized shares 100,000; issued 67,087; 67,060; and 67,060, respectively	67,087	67,060	67,060
Paid-in capital	57,510	55,795	54,962
Retained earnings	241,739	230,649	229,959
Accumulated other comprehensive income (loss)	(2,867)	(3,676)	(3,158)
Treasury stock at cost, 30,984; 30,984; and 30,984 shares, respectively	(90,402)	(90,402)	(90,402)
Total Raven Industries, Inc. shareholders' equity	273,067	259,426	258,421
Noncontrolling interest	4	5	35
Total equity	273,071	259,431	258,456
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 317,196</b>	<b>\$ 301,509</b>	<b>\$ 297,357</b>

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		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
<i>(dollars in thousands, except per-share data)</i>				
Net sales	\$ 86,610	\$ 67,598	\$ 180,145	\$ 135,958
Cost of sales	60,097	48,683	121,676	96,926
Gross profit	26,513	18,915	58,469	39,032
Research and development expenses	4,256	3,915	8,236	8,324
Selling, general, and administrative expenses	10,557	8,304	20,055	15,962
Long-lived asset impairment loss	—	—	259	—
Operating income	11,700	6,696	29,919	14,746
Other income (expense), net	(63)	(209)	(293)	(306)
Income before income taxes	11,637	6,487	29,626	14,440
Income tax expense	3,403	1,993	9,044	4,427
Net income	8,234	4,494	20,582	10,013
Net income (loss) attributable to the noncontrolling interest	(1)	(1)	(1)	1
Net income attributable to Raven Industries, Inc.	\$ 8,235	\$ 4,495	\$ 20,583	\$ 10,012
Net income per common share:				
— Basic	\$ 0.23	\$ 0.12	\$ 0.57	\$ 0.28
— Diluted	\$ 0.23	\$ 0.12	\$ 0.56	\$ 0.28
Cash dividends paid per common share	\$ 0.13	\$ 0.13	\$ 0.26	\$ 0.26
Comprehensive income (loss):				
Net income	\$ 8,234	\$ 4,494	\$ 20,582	\$ 10,013
Other comprehensive income (loss):				
Foreign currency translation	810	(265)	822	347
Postretirement benefits, net of income tax benefit (expense) of \$3, \$1, \$7 and \$2, respectively	(7)	(2)	(13)	(4)
Other comprehensive income (loss), net of tax	803	(267)	809	343
Comprehensive income	9,037	4,227	21,391	10,356
Comprehensive income (loss) attributable to noncontrolling interest	(1)	(1)	(1)	1
Comprehensive income attributable to Raven Industries, Inc.	\$ 9,038	\$ 4,228	\$ 21,392	\$ 10,355

*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
			Shares	Cost					
Balance January 31, 2016	\$ 67,006	\$ 53,907	30,500	\$ (82,700)	\$ 229,443	\$ (3,501)	\$ 264,155	\$ 74	\$ 264,229
Net income	—	—	—	—	10,012	—	10,012	1	10,013
Other comprehensive income (loss):									
Cumulative foreign currency translation adjustment	—	—	—	—	—	347	347	—	347
Postretirement benefits reclassified from accumulated other comprehensive income (loss) after tax benefit of \$2	—	—	—	—	—	(4)	(4)	—	(4)
Cash dividends (\$0.26 per share)	—	108	—	—	(9,496)	—	(9,388)	—	(9,388)
Dividends of less than wholly-owned subsidiary attributable to non-controlling interest	—	—	—	—	—	—	—	(40)	(40)
Shares issued on vesting of stock units, net of shares withheld for employee taxes	35	(291)	—	—	—	—	(256)	—	(256)
Shares repurchased	—	—	484	(7,702)	—	—	(7,702)	—	(7,702)
Director shares issued	19	(19)	—	—	—	—	—	—	—
Share-based compensation	—	1,574	—	—	—	—	1,574	—	1,574
Income tax impact related to share-based compensation	—	(317)	—	—	—	—	(317)	—	(317)
<b>Balance July 31, 2016</b>	<b>\$ 67,060</b>	<b>\$ 54,962</b>	<b>30,984</b>	<b>\$ (90,402)</b>	<b>\$ 229,959</b>	<b>\$ (3,158)</b>	<b>\$ 258,421</b>	<b>\$ 35</b>	<b>\$ 258,456</b>
Balance January 31, 2017	\$ 67,060	\$ 55,795	30,984	\$ (90,402)	\$ 230,649	\$ (3,676)	\$ 259,426	\$ 5	\$ 259,431
Net income	—	—	—	—	20,583	—	20,583	(1)	20,582
Other comprehensive income (loss):									
Cumulative foreign currency translation adjustment	—	—	—	—	—	822	822	—	822
Postretirement benefits reclassified from accumulated other comprehensive income (loss) after tax benefit of \$7	—	—	—	—	—	(13)	(13)	—	(13)
Cash dividends (\$0.26 per share)	—	109	—	—	(9,493)	—	(9,384)	—	(9,384)
Shares issued on stock options exercised, net of shares withheld for employee taxes	12	(160)	—	—	—	—	(148)	—	(148)
Shares issued on vesting of stock units, net of shares withheld for employee taxes	11	(162)	—	—	—	—	(151)	—	(151)
Director shares issued	4	(4)	—	—	—	—	—	—	—
Share-based compensation	—	1,932	—	—	—	—	1,932	—	1,932
<b>Balance July 31, 2017</b>	<b>\$ 67,087</b>	<b>\$ 57,510</b>	<b>30,984</b>	<b>\$ (90,402)</b>	<b>\$ 241,739</b>	<b>\$ (2,867)</b>	<b>\$ 273,067</b>	<b>\$ 4</b>	<b>\$ 273,071</b>

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

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

	<b>Six Months Ended</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>
<i>(dollars in thousands)</i>		
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 20,582	\$ 10,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,184	7,633
Change in fair value of acquisition-related contingent consideration	145	124
Long-lived asset impairment loss	259	—
Loss from equity investment	154	82
Deferred income taxes	(942)	1,057
Share-based compensation expense	1,932	1,574
Other operating activities, net	174	(184)
Change in operating assets and liabilities:		
Accounts receivable	(3,279)	(505)
Inventories	(8,466)	391
Other assets	(1,257)	(871)
Operating liabilities	3,375	6,244
<b>Net cash provided by operating activities</b>	<b>19,861</b>	<b>25,558</b>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(5,223)	(2,168)
Proceeds from sale or maturity of investments	250	250
Purchases of investments	(255)	(500)
(Disbursements) proceeds from settlement of liabilities, sale of assets	(344)	1,117
Other investing activities	(17)	(339)
<b>Net cash used in investing activities</b>	<b>(5,589)</b>	<b>(1,640)</b>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(9,384)	(9,428)
Payments for common shares repurchased	—	(7,702)
Payments of acquisition-related contingent liability	(320)	(282)
Restricted stock units vested and issued	(151)	(256)
Employee stock option exercises	(148)	—
<b>Net cash used in financing activities</b>	<b>(10,003)</b>	<b>(17,668)</b>
Effect of exchange rate changes on cash	280	91
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,549</b>	<b>6,341</b>
Cash and cash equivalents at beginning of year	50,648	33,782
Cash and cash equivalents at end of period	<b>\$ 55,197</b>	<b>\$ 40,123</b>

*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 six-month periods ended July 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 6 *Goodwill, Long-lived Assets, and Other Intangibles*, management performed an assessment in the fiscal 2018 first and second 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 six-month periods ended July 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

(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 \$90 and \$569 for the three- and six-month periods ended July 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 six-month period ended July 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

(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. ASU 2014-09 may be adopted as of the original effective date, which for the Company is fiscal 2018. 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. With the assistance of a third-party consultant, the Company is currently evaluating the impact this standard will have on revenue recognition by reviewing a representative sample of contracts for all material revenue streams across the Company's three divisions, holding discussions with key stakeholders, and assessing potential impacts on the Company's consolidated financial statements, results of operations, disclosures, and internal controls over financial reporting. 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.

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		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Anti-dilutive options and restricted stock units	209,400	924,204	409,136	1,102,952

(dollars in thousands, except per-share amounts)

The computation of earnings per share is presented below:

	Three Months Ended		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
<b>Numerator:</b>				
Net income attributable to Raven Industries, Inc.	\$ 8,235	\$ 4,495	\$ 20,583	\$ 10,012
<b>Denominator:</b>				
Weighted average common shares outstanding	36,096,048	36,097,228	36,088,095	36,208,573
Weighted average fully vested stock units outstanding	109,146	110,083	103,966	102,035
Denominator for basic calculation	<u>36,205,194</u>	<u>36,207,311</u>	<u>36,192,061</u>	<u>36,310,608</u>
Weighted average common shares outstanding	36,096,048	36,097,228	36,088,095	36,208,573
Weighted average fully vested stock units outstanding	109,146	110,083	103,966	102,035
Dilutive impact of stock options and restricted stock units	348,795	43,001	322,661	51,547
Denominator for diluted calculation	<u>36,553,989</u>	<u>36,250,312</u>	<u>36,514,722</u>	<u>36,362,155</u>
Net income per share - basic	\$ 0.23	\$ 0.12	\$ 0.57	\$ 0.28
Net income per share - diluted	\$ 0.23	\$ 0.12	\$ 0.56	\$ 0.28

(dollars in thousands, except per-share amounts)

#### (4) SELECTED BALANCE SHEET INFORMATION

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

	July 31, 2017	January 31, 2017	July 31, 2016
Accounts receivable, net:			
Trade accounts	\$ 47,350	\$ 43,834	\$ 39,203
Allowance for doubtful accounts	(952)	(691)	(558)
	<u>\$ 46,398</u>	<u>\$ 43,143</u>	<u>\$ 38,645</u>
Inventories:			
Finished goods	\$ 5,878	\$ 5,438	\$ 4,784
In process	1,510	2,288	1,929
Materials	43,456	34,610	38,789
	<u>\$ 50,844</u>	<u>\$ 42,336</u>	<u>\$ 45,502</u>
Other current assets:			
Insurance policy benefit	\$ 734	\$ 802	\$ 762
Income tax receivable	409	604	1,652
Receivable from sale of business	35	28	103
Prepaid expenses and other	2,492	1,255	2,441
	<u>\$ 3,670</u>	<u>\$ 2,689</u>	<u>\$ 4,958</u>
Property, plant and equipment, net:			
Land	\$ 3,234	\$ 3,054	\$ 3,054
Buildings and improvements	79,648	77,817	78,310
Machinery and equipment	145,516	142,471	142,185
Accumulated depreciation	(122,675)	(117,018)	(112,843)
	<u>\$ 105,723</u>	<u>\$ 106,324</u>	<u>\$ 110,706</u>
Other assets:			
Equity method investments	\$ 2,057	\$ 2,371	\$ 2,611
Deferred income taxes	16	18	38
Other	1,222	1,283	1,134
	<u>\$ 3,295</u>	<u>\$ 3,672</u>	<u>\$ 3,783</u>
Accrued liabilities:			
Salaries and related	\$ 5,138	\$ 6,286	\$ 3,628
Benefits	3,868	3,960	3,632
Insurance obligations	2,492	2,400	1,975
Warranties	2,265	1,547	2,076
Income taxes	1,287	498	213
Other taxes	1,503	1,540	1,357
Acquisition-related contingent consideration	478	445	381
Other	1,693	1,379	823
	<u>\$ 18,724</u>	<u>\$ 18,055</u>	<u>\$ 14,085</u>
Other liabilities:			
Postretirement benefits	\$ 8,085	\$ 8,054	\$ 7,706
Acquisition-related contingent consideration	1,182	1,397	1,565
Deferred income taxes	488	1,421	1,557
Uncertain tax positions	2,593	2,610	2,999
Other	—	214	—
	<u>\$ 12,348</u>	<u>\$ 13,696</u>	<u>\$ 13,827</u>

#### (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



(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 six-month period ended July 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 were as follows:

	<b>July 31, 2017</b>
<b>Assets held for sale</b>	
Inventories	\$ 3,212
Other current assets	18
Total current assets held for sale	3,230
Property, plant and equipment, net	238
Goodwill	102
Amortizable intangible assets, net	387
Other assets	17
Total assets held for sale	<u>\$ 3,974</u>
<b>Liabilities held for sale</b>	
Current liabilities	\$ 292
Other long-term liabilities	125
Total liabilities held for sale	<u>\$ 417</u>

## **(6) ACQUISITIONS OF AND INVESTMENTS IN BUSINESSES AND TECHNOLOGIES**

### 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 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 prior year 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).

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. At July 31, 2017, the fair value of this contingent consideration was \$1,285, of which \$228 was classified as "Accrued liabilities" and \$1,057 was classified as "Other liabilities" in the Consolidated Balance Sheet. At January 31, 2017, the fair value of this contingent consideration was \$1,409, of which \$247 was classified as "Accrued liabilities" and \$1,162 was classified as "Other liabilities". At July 31, 2016, the fair value of this contingent consideration was \$1,397, of which \$228 was classified as "Accrued liabilities" and \$1,169 as "Other liabilities." The Company paid \$160 and \$220 in earn-out payments in the three- and six-month periods ended July 31,

(dollars in thousands, except per-share amounts)

2017, respectively. The Company paid \$143 and \$203 in earn-out payments in the three- and six-month periods ended July 31, 2016, respectively. To date, the Company has paid a total of \$803 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. At July 31, 2017, the fair value of this contingent consideration was \$282, of which \$157 was classified in "Accrued liabilities" and \$125 as "Other liabilities" in the Consolidated Balance Sheet. At January 31, 2017, the fair value of this contingent consideration was \$332, of which \$98 was classified in "Accrued liabilities" and \$234 as "Other liabilities." At July 31, 2016 the fair value of this contingent consideration was \$504, of which \$108 was classified as "Accrued liabilities" and \$396 as "Other liabilities." The Company paid \$100 and \$79 in earn-out payments in the six-month periods ended July 31, 2017 and 2016, respectively. The Company made no payments in the three-month periods ended July 31, 2017 or 2016. To date, the Company has paid a total of \$1,572 of this potential earn-out liability.

## (7) GOODWILL, LONG-LIVED ASSETS, AND OTHER INTANGIBLES

### Goodwill

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 fiscal 2018 second 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 six-month periods ended July 31, 2017.

During the first quarter of fiscal 2017 which ended April 30, 2016, management implemented managerial and financial operations and reporting changes within Vista and Aerostar to further integrate Vista into the Aerostar Division. Integration actions included leadership re-alignment, including selling and business development functions, re-deployment of employees across the division, and consolidation of administrative functions, among other actions. Based on the changes made, the Company consolidated the two separate reporting units within the Aerostar Division that were in existence at that time, into one reporting unit for purposes of goodwill impairment assessment. As such, as of April 30, 2016, the Company had three reporting units: Engineered Films Division, Applied Technology Division, and Aerostar Division. The Company reviewed the quantitative and qualitative factors associated with the change in reporting units and determined there were no indicators of impairment at the time of the reporting unit change. There were no goodwill impairment losses reported in the three- and six-month periods ended July 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
Divestiture of business	—	—	(52)	(52)
Foreign currency translation adjustment	244	—	—	244
Balance at July 31, 2017	\$ 12,586	\$ 27,518	\$ 737	\$ 40,841
Balance at January 31, 2016	\$ 12,365	\$ 27,518	\$ 789	\$ 40,672
Foreign currency translation adjustment	80	—	—	80
Balance at July 31, 2016	\$ 12,445	\$ 27,518	\$ 789	\$ 40,752

### Long-lived Assets and Other Intangibles

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),

(dollars in thousands, except per-share amounts)

net" in the Consolidated Statements of Income and Comprehensive Income for the six-month period ended July 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 six-month period ended July 31, 2017. There were no long-lived asset impairments or accelerated equity method investment losses reported in the three-month period ended July 31, 2017 or the three- and six-month periods ended July 31, 2016, respectively.

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

	July 31, 2017			January 31, 2017			July 31, 2016		
	Amount	Accumulated amortization	Net	Amount	Accumulated amortization	Net	Amount	Accumulated amortization	Net
Existing technology	\$ 7,230	\$ (6,775)	\$ 455	\$ 7,136	\$ (6,553)	\$ 583	\$ 7,175	\$ (6,423)	\$ 752
Customer relationships	12,787	(4,206)	8,581	12,987	(3,680)	9,307	13,012	(3,160)	9,852
Patents and other intangibles	4,530	(2,338)	2,192	4,378	(2,220)	2,158	4,352	(2,068)	2,284
Total	\$ 24,547	\$ (13,319)	\$ 11,228	\$ 24,501	\$ (12,453)	\$ 12,048	\$ 24,539	\$ (11,651)	\$ 12,888

#### (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 Ended		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Service cost	\$ 21	\$ 20	\$ 43	\$ 40
Interest cost	82	83	164	166
Amortization of actuarial losses	30	37	60	74
Amortization of unrecognized gains in prior service cost	(40)	(40)	(80)	(80)
Net periodic benefit cost	\$ 93	\$ 100	\$ 187	\$ 200

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.

#### (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		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Beginning balance	\$ 2,405	\$ 2,316	\$ 1,547	\$ 1,835
Accrual for warranties	401	262	1,778	1,086
Settlements made	(541)	(502)	(1,060)	(845)
Ending balance	\$ 2,265	\$ 2,076	\$ 2,265	\$ 2,076

#### (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.

(dollars in thousands, except per-share amounts)

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 \$297, \$352 and \$407 at July 31, 2017, January 31, 2017, and July 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 \$514 issued under the Credit Agreement or the Company's previous line of credit with Wells Fargo were outstanding at July 31, 2017, January 31, 2017, and July 31, 2016. These LOCs primarily support self-insured workers' compensation bonding. 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 July 31, 2017 was \$124,536.

### **(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.

### **(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 three- and six-month periods ended July 31, 2017 were 29.2% and 30.5%, respectively. The decrease in the effective tax rate in the second quarter of fiscal 2018 compared to the year-to-date fiscal 2018 effective tax rate is primarily due to the recognition of discrete tax expense related to the Company's adoption of ASU 2016-09 in the fiscal 2018 first quarter 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. The Company's effective tax rates for the three- and six-month periods ended July 31, 2016 were 30.7% and 30.7%, respectively. The decrease in the effective tax rate in the three- and six-month periods ended July 31, 2017 compared to July 31, 2016 is primarily due to a higher estimate of the research and development tax credit in the current year compared to the prior year.

### **(13) DIVIDENDS AND TREASURY STOCK**

Dividends paid to Raven shareholders for the three- and six-month periods ended July 31, 2017 were \$4,693 and \$9,384, or 13.0 cents and 26.0 cents per share, respectively. Dividends paid to Raven shareholders for the three- and six-month periods ended

(dollars in thousands, except per-share amounts)

July 31, 2016 were \$4,687 and \$9,388, or 13.0 cents and 26.0 cents per share, respectively. There were no declared and unpaid shareholder dividends at July 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.

The Company did not repurchase any shares in the three- and six-month periods ended July 31, 2017. The Company repurchased 102,187 and 484,252 shares in the three- and six-month periods ended July 31, 2016, respectively. These purchases totaled \$2,000 and \$7,702, respectively. All such share repurchases were paid at July 31, 2016. The remaining dollar value authorized for share repurchases at July 31, 2017 is \$12,959. 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 six months ended July 31, 2017 and July 31, 2016.

##### Stock Option Awards

The Company granted 85,800 non-qualified stock options during the six-month period ended July 31, 2017. The Company granted 274,200 non-qualified stock options during the six-month period ended July 31, 2016. None of these options were granted in the three-month periods ended July 31, 2017 and July 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:

	Six Months Ended	
	July 31, 2017	July 31, 2016
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

##### Restricted Stock Unit Awards (RSUs)

The Company granted 2,495 and 55,820 time-vested RSUs to employees in the three- and six-month periods ended July 31, 2017, respectively. The Company granted 66,370 time-vested RSUs to employees in the six-month period ended July 31, 2016. None of these awards were granted in the three-month period July 31, 2016. 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 July 31, 2017 and 2016, respectively, was \$29.33 and \$15.61. 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 six-month periods ended July 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-

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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 six-month periods ended July 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 July 31, 2017 and 2016. The weighted average grant date fair value per share of these performance-based RSUs granted in the periods ended July 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.

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

	Three Months Ended		Six Months Ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Net sales				
Applied Technology	\$ 28,424	\$ 22,668	\$ 68,914	\$ 54,124
Engineered Films	49,028	36,656	92,583	65,756
Aerostar	9,369	8,415	18,975	16,310
Intersegment eliminations <sup>(a)</sup>	(211)	(141)	(327)	(232)
Consolidated net sales	<u>\$ 86,610</u>	<u>\$ 67,598</u>	<u>\$ 180,145</u>	<u>\$ 135,958</u>
Operating income (loss) <sup>(b)</sup>				
Applied Technology	\$ 6,637	\$ 5,172	\$ 20,090	\$ 13,865
Engineered Films	9,551	6,659	18,271	10,537
Aerostar	1,388	(251)	2,806	(429)
Intersegment eliminations	11	—	9	(5)
Total reportable segment income	<u>17,587</u>	<u>11,580</u>	<u>41,176</u>	<u>23,968</u>
General and administrative expenses <sup>(c)</sup>	<u>(5,887)</u>	<u>(4,884)</u>	<u>(11,257)</u>	<u>(9,222)</u>
Consolidated operating income	<u>\$ 11,700</u>	<u>\$ 6,696</u>	<u>\$ 29,919</u>	<u>\$ 14,746</u>

<sup>(a)</sup> Intersegment sales for both fiscal 2018 and 2017 were primarily sales from Engineered Films to Aerostar.

<sup>(b)</sup> At the segment level, operating income (loss) does not include an allocation of general and administrative expenses.

<sup>(c)</sup> At the segment level, operating income (loss) does not include an allocation of general and administrative expenses and, as a result, "General and administrative expenses" are reported as a deduction from "Total reportable segment income" to reconcile to "Operating income" reported in the Consolidated Statements of Income and Comprehensive Income.

## (16) SUBSEQUENT EVENTS

The Company has evaluated events up to the filing date of this Quarterly Report on Form 10-Q and concluded that no subsequent events have occurred that would require recognition or disclosure in the Notes to the Consolidated Financial Statements other than the following.

(dollars in thousands, except per-share amounts)

On August 22, 2017 the Company entered into an asset purchase agreement (the "Agreement") with Colorado Lining International, Inc., a Colorado corporation, headquartered in Parker, CO ("CLI"). The cash transaction is expected to close in September 2017 with Raven paying approximately \$14,000 and the potential for up to \$2,000 in additional earn-out payments over the next three years. The acquisition will align under the Company's Engineered Films segment. Under the terms of the Agreement, Raven will acquire substantially all of the assets of CLI. By adding new design-build and installation service components to Engineered Films' geomembrane product offering, this acquisition will advance Engineered Films' business model into a vertically-integrated, full-service solutions provider in the geomembrane market.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following commentary on the operating results, liquidity, capital resources, and financial condition of Raven Industries, Inc. (the Company or Raven) should be read in conjunction with the unaudited Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report on Form 10-Q (Form 10-Q) and the Company's Annual Report on Form 10-K for the year ended January 31, 2017.

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is organized as follows:

- Executive Summary
- Results of Operations - Segment Analysis
- Outlook
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies and Estimates
- Accounting Pronouncements

### **EXECUTIVE SUMMARY**

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

Management uses a number of metrics to assess the Company's performance:

- Consolidated net sales, gross margin, operating income, operating margin, net income, and diluted earnings per share
- Cash flow from operations and shareholder returns
- Segment net sales, gross profit, gross margin, operating income, and operating margin. At the segment level, operating income does not include an allocation of general and administrative expenses.

#### ***Vision and Strategy***

At Raven, our purpose is to solve great challenges. Great challenges require great solutions. Raven's three unique operating units share resources, ideas, and a passion to create technology that helps the world grow more food, produce more energy, protect the environment, and live safely.

The Raven business model is our platform for success. Our business model is defensible, sustainable, and gives us a consistent approach in the pursuit of quality financial results. This overall approach to creating value, which is employed across the three business segments, is summarized as follows:

- Intentionally serve a set of diversified market segments with attractive near- and long-term growth prospects;
- Consistently manage a pipeline of growth initiatives within our market segments;
- Aggressively compete on quality, service, innovation, and peak performance;
- Hold ourselves accountable for continuous improvement;
- Value our balance sheet as a source of strength and stability with which to pursue strategic acquisitions; and
- Make corporate responsibility a top priority.

The following discussion highlights the consolidated operating results for the three- and six-month periods ended July 31, 2017 and 2016. Segment operating results are more fully explained in the Results of Operations - Segment Analysis section.

	Three Months Ended			Six Months Ended		
	July 31, 2017	July 31, 2016	% Change	July 31, 2017	July 31, 2016	% Change
<i>(dollars in thousands, except per-share data)</i>						
Net sales	\$ 86,610	\$ 67,598	28.1 %	\$ 180,145	\$ 135,958	32.5 %
Gross profit	26,513	18,915	40.2 %	58,469	39,032	49.8 %
Gross margin <sup>(a)</sup>	30.6%	28.0%		32.5%	28.7%	
Operating income (loss)	\$ 11,700	\$ 6,696	74.7 %	\$ 29,919	\$ 14,746	102.9 %
Operating margin <sup>(a)</sup>	13.5%	9.9%		16.6%	10.8%	
Net income (loss) attributable to Raven Industries, Inc.	\$ 8,235	\$ 4,495	83.2 %	\$ 20,583	\$ 10,012	105.6 %
Diluted earnings per share	\$ 0.23	\$ 0.12		\$ 0.56	\$ 0.28	
Operating cash flow	\$ 12,159	\$ 14,454	(15.9)%	\$ 19,861	\$ 25,558	(22.3)%
Capital expenditures	\$ (2,433)	\$ (1,377)	76.7 %	\$ (5,223)	\$ (2,168)	140.9 %
Cash dividends	\$ (4,693)	\$ (4,727)	(0.7)%	\$ (9,384)	\$ (9,428)	(0.5)%
Common share repurchases	\$ —	\$ (2,000)	(100.0)%	\$ —	\$ (7,702)	(100.0)%

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

For the fiscal 2018 second quarter, net sales were \$86.6 million, up \$19.0 million, or 28.1%, from \$67.6 million in last year's second quarter. The Company's operating income for the second quarter of fiscal 2018 was \$11.7 million, up \$5.0 million, or 74.7%, compared to the second quarter of fiscal 2017. The increase in operating income was principally due to improved operating leverage on higher sales volume. Net income for the second quarter of fiscal 2018 was \$8.2 million, or \$0.23 per diluted share, compared to net income of \$4.5 million, or \$0.12 per diluted share, in last year's second quarter.

For the six-month period, net sales were \$180.1 million compared to \$136.0 million, up 32.5% from one year earlier. The Company's operating income was \$29.9 million, up 102.9% from the prior year period. The increase in operating income was principally due to improved operating leverage on higher sales volume. Net income for the first six months of fiscal 2018 was \$20.6 million, or \$0.56 per diluted share, compared to net income of \$10.0 million, or \$0.28 per diluted share, for the first six months of fiscal 2017. The year-to-date increase in earnings per share was driven by improved performance in all three of the Company's reporting segments, with each making significant contributions to the growth.

Net sales for Applied Technology in the second quarter of fiscal 2018 were \$28.4 million, up 25.4% compared to fiscal 2017 second quarter net sales of \$22.7 million. Sales in the original equipment manufacturer (OEM) channel and the aftermarket channel were up 44.9% and 8.9%, respectively, for the fiscal 2018 second quarter. Geographically, domestic sales were up 25.1% year-over-year while international sales increased 26.3% year-over-year. Operating income was \$6.6 million, up 28.3% compared to \$5.2 million in the second quarter of fiscal 2017. The increase in operating income was primarily driven by improved operating leverage on higher sales volume.

Applied Technology's net sales for the first six months of fiscal 2018 were \$68.9 million, up 27.3% compared to the first six months of fiscal 2017. For the six months ended July 31, 2017, sales in the OEM channel were up 56.9% while sales in the aftermarket channel were up 8.0%. Geographically, domestic sales were up 38.6% year-over-year and international sales were up 3.5% year-over-year. Operating income for the six-month year-to-date period was \$20.1 million, up 44.9% compared to the six-month year-to-date period of fiscal 2017. The increase in operating income was primarily driven by improved operating leverage on higher sales volume.

Engineered Films' fiscal 2018 second quarter net sales were \$49.0 million, an increase of \$12.3 million, or 33.8%, compared to fiscal 2017 second quarter net sales of \$36.7 million. Volume, measured in pounds sold, increased 35.0% while average selling price decreased 1.0%. The increase in net sales was driven by higher sales into the geomembrane, industrial, and agricultural markets. Operating income for the second quarter of fiscal 2018 increased 43.4% to \$9.6 million as compared to \$6.7 million for the prior year second quarter. This increase in operating income was driven primarily by higher sales volume, improved capacity utilization, and continued spending discipline.

For the six-month period of fiscal 2018, Engineered Films' net sales were \$92.6 million, an increase of \$26.8 million, or 40.8%, compared to the six-month period of fiscal 2017. The increase in sales was principally driven by higher sales into the geomembrane and industrial markets, up 142.3% and 59.7%, respectively. Operating income for the first six months of fiscal 2018 increased

73.4% to \$18.3 million as compared to \$10.5 million in the prior year comparative period. The year-over-year increase in operating income was driven principally by higher sales volume, improved capacity utilization, and continued spending discipline.

Net sales for Aerostar in the second quarter of fiscal 2018 were \$9.4 million, an increase of \$1.0 million, or 11.3%, compared to fiscal 2017 second quarter net sales of \$8.4 million. The increase in net sales was primarily driven by growth in the stratospheric balloon platform, and higher radar product and service revenues. Operating income in the second quarter of fiscal 2018 was \$1.4 million compared to an operating loss of (\$0.3) million in the second quarter of last year. Reductions in operating expenses while maintaining a focused approach to strategic research and development spending contributed to the improved financial performance.

Aerostar net sales for the first six months of fiscal 2018 were \$19.0 million, an increase of \$2.7 million, or 16.3%, compared to the first six months of fiscal 2017. Operating income for the six-month year-to-date period of fiscal 2018 was \$2.8 million compared to operating loss of (\$0.4) million in the prior year comparative period. The increase in operating income was primarily driven by higher sales and reductions to operating expenses while maintaining a more focused approach to research and development spending.

## RESULTS OF OPERATIONS - SEGMENT ANALYSIS

### Applied Technology

Applied Technology designs, manufactures, sells, and services innovative precision agriculture products and information management tools that help growers reduce costs, more precisely control inputs, and improve crop yields for the global agriculture market. Applied Technology's operations include operations of SBG Innovatie BV and its affiliate, Navtronics BVBA (collectively, SBG), based in the Netherlands.

(dollars in thousands)	Three Months Ended				Six Months Ended			
	July 31, 2017	July 31, 2016	\$ Change	% Change	July 31, 2017	July 31, 2016	\$ Change	% Change
Net sales	\$ 28,424	\$ 22,668	\$ 5,756	25.4%	\$ 68,914	\$ 54,124	\$ 14,790	27.3%
Gross profit	12,242	9,128	3,114	34.1%	30,764	22,275	8,489	38.1%
Gross margin	43.1%	40.3%			44.6%	41.2%		
Operating expenses	\$ 5,605	\$ 3,956	\$ 1,649	41.7%	\$ 10,674	\$ 8,410	\$ 2,264	26.9%
Operating expenses as % of sales	19.7%	17.5%			15.5%	15.5%		
Long-lived asset impairment loss	\$ —	\$ —			\$ 259	\$ —		
Operating income (loss) <sup>(1)</sup>	\$ 6,637	\$ 5,172	\$ 1,465	28.3%	\$ 20,090	\$ 13,865	\$ 6,225	44.9%
Operating margin	23.3%	22.8%			29.2%	25.6%		

<sup>(1)</sup> At the segment level, operating income does not include an allocation of general and administrative expenses.

The following factors were the primary drivers of the three- and six-month year-over-year changes:

- *Market conditions.* While conditions in the agriculture end-market remain subdued, but stable, compared to the prior year, Applied Technology's marketplace strategy has capitalized on new product introductions through the first half of fiscal 2018. While the aftermarket sales channel demand remains challenging, growth in the OEM sales channel has been strong. The Company does not model comparative market share position for its divisions but believes that Applied Technology's sales growth in the three- and six month periods was primarily the result of market share gains rather than overall growth of the market. Successful new product introductions and expanded relationships with OEM partners are driving improved sales and market share gains versus the prior year.
- *Sales volume.* Second quarter fiscal 2018 net sales increased 25.4% to \$28.4 million compared to \$22.7 million in the second quarter of the prior year. Sales in the OEM and aftermarket channels were up 44.9% and 8.9%, respectively. Year-to-date sales increased 27.3% to \$68.9 million compared to \$54.1 million in the prior year. For the six-month period ended July 31, 2017, sales in the OEM channel were up 56.9% and sales in the aftermarket channel were up 8.0% compared to the six-month period ended July 31, 2016. The increases in net sales in the three- and six-month periods were primarily driven by volume as pricing had minimal impact.
- *International sales.* For the three-month period, international sales totaled \$7.7 million, up 26.3% from \$6.1 million in the prior year comparative period. Higher sales volume in Latin America, Australia, and Europe were the primary drivers of this increase. International sales represented 27.0% of segment revenue compared to 26.8% of segment revenue in the prior year comparative period. Year-to-date, international sales totaled \$17.9 million, an increase of \$0.6 million from a year ago. Year-to-date international sales represented 26.0% of segment sales compared to 32.0% in the prior year comparative period. Higher sales in Europe, and Latin America were the main drivers of the increase in the six-month

period. The sales increases in Europe reflect commercial synergies realized by the acquisition of SBG in fiscal 2015 as Applied Technology products are increasingly sold into this market.

- *Gross margin.* Gross margin increased to 43.1% for the three months ended July 31, 2017 from 40.3% in the prior year comparative period. Fiscal 2018 first-half gross margin increased to 44.6% from 41.2% in the fiscal 2017 comparative period. Both periods benefited from higher sales volume and improved operating leverage.
- *Operating expenses.* Fiscal 2018 second quarter operating expense as a percentage of net sales was 19.7%, up from 17.5% in the prior year second quarter. This increase is due in part to higher investment in research and development activities to sustain long-term growth through new product introductions. Year-to-date operating expense as a percentage of net sales was 15.5%, consistent with the prior year comparative period.
- *Long-lived asset impairment loss.* As described in Note 7 *Goodwill, Long-lived Assets, and Other Intangibles* of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q, during the first quarter of fiscal 2018 the Company determined that the intangible asset related to the investment in AgEagle was fully impaired due to the decrease in expected future cash flows. No impairments were recognized in the three-month period ended July 31, 2017 or the three- or six-month periods ended July 31, 2016.

### Engineered Films

Engineered Films manufactures high performance plastic films and sheeting for geomembrane, agricultural, construction, and industrial applications. Engineered Films' ability to develop value-added innovative products is expanded by its fabrication and conversion capabilities.

	Three Months Ended				Six Months Ended			
	July 31, 2017	July 31, 2016	\$ Change	% Change	July 31, 2017	July 31, 2016	\$ Change	% Change
<i>(dollars in thousands)</i>								
Net sales	\$ 49,028	\$ 36,656	\$ 12,372	33.8%	\$ 92,583	\$ 65,756	\$ 26,827	40.8%
Gross profit	11,526	8,239	3,287	39.9%	22,273	13,623	8,650	63.5%
Gross margin	23.5%	22.5%			24.1%	20.7%		
Operating expenses	\$ 1,975	\$ 1,580	\$ 395	25.0%	\$ 4,002	\$ 3,086	\$ 916	29.7%
Operating expenses as % of sales	4.0%	4.3%			4.3%	4.7%		
Operating income (loss) <sup>(1)</sup>	\$ 9,551	\$ 6,659	\$ 2,892	43.4%	\$ 18,271	\$ 10,537	\$ 7,734	73.4%
Operating margin	19.5%	18.2%			19.7%	16.0%		

<sup>(1)</sup> At the segment level, operating income does not include an allocation of general and administrative expenses.

The following factors were the primary drivers of the three- and six-month year-over-year changes:

- *Market conditions.* End-market conditions in the geomembrane market, which constituted approximately 31 percent of the division's sales in the second quarter of fiscal 2018, have continued to improve from the market-bottom conditions reached last year. At the end of the second quarter of fiscal 2018, U.S. land-based rig counts have increased approximately 110% versus the second quarter of fiscal 2017. For the three- and six-month periods ended July 31, 2017, sales into the geomembrane market were up approximately 100% and 140% year-over-year, respectively. In April 2017, the Company expanded its fabrication capabilities of geomembrane liner materials in south Texas by purchasing a new facility in Pleasanton, Texas and increased fabrication at the Company's location in Midland, Texas by adding production team members to service the increased demand in the geomembrane market. The Company does not model comparative market share position for its divisions, but based on the growth in the first half of fiscal 2018, the Company believes Engineered Films achieved sales growth due to improved end-market demand conditions and increased market share.
- *Sales volume and selling prices.* Second quarter net sales were up \$12.3 million, or 33.8%, to \$49.0 million compared to prior year second quarter net sales of \$36.7 million. First half fiscal 2018 net sales were up \$26.8 million, or 40.8%, to \$92.6 million compared to \$65.8 million in the first half of fiscal 2017. With the exception of sales to the construction market for the three-month period, net sales were up year-over-year in all of the markets served for the three- and six- month periods. The improvement was driven primarily by higher geomembrane market sales which increased \$7.7 million and \$17.0 million in the three- and six-month periods, respectively. Sales into the industrial market were up approximately 60% in the second quarter and first half of fiscal 2018.
- *Gross margin.* For the three- and six-month periods, gross margin was 23.5% and 24.1%, respectively. The gross margin for the three- and six-month periods ended July 31, 2016 was 22.5% and 20.7%, respectively. The improvement in gross margin was primarily due to higher sales volume and the resulting improvement in capacity utilization, but also benefited from continued spending discipline.
- *Operating expenses.* Second quarter operating expenses were up \$0.4 million or 25.0% compared to the prior year second quarter. As a percentage of net sales, operating expense was 4.0% in the current year three-month period as compared to 4.3% in the prior year comparative period. Year-to-date operating expenses were 4.3% as a percentage of net sales as

compared to 4.7% in the prior year comparative period. The increase in sales volume in the three- and six-month periods more than offset the additional costs to support sales growth and drove operating expenses as percentage of sales down 0.3 and 0.4 percentage points year-over-year, respectively.

#### **Aerostar**

Aerostar serves the aerospace/defense and situational awareness markets. Aerostar designs and manufactures proprietary products including high-altitude (stratospheric) balloon systems, tethered aerostats, and radar processing systems. These products can be integrated with additional third-party sensors to provide research, communications, and situational awareness capabilities to governmental and commercial customers. Aerostar pursues product and support services contracts with agencies and instrumentalities of the U.S. government.

<i>(dollars in thousands)</i>	<b>Three Months Ended</b>				<b>Six Months Ended</b>			
	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>\$ Change</b>	<b>% Change</b>
Net sales	\$ 9,369	\$ 8,415	\$ 954	11.3 %	\$ 18,975	\$ 16,310	\$ 2,665	16.3 %
Gross profit	2,734	1,548	1,186	76.6 %	5,423	3,139	2,284	72.8 %
Gross margin	29.2%	18.4 %			28.6%	19.2 %		
Operating expenses	\$ 1,346	\$ 1,799	\$ (453)	(25.2)%	\$ 2,617	\$ 3,568	\$ (951)	(26.7)%
Operating expenses as % of sales	14.4%	21.4 %			13.8%	21.9 %		
Operating income (loss) <sup>(1)</sup>	\$ 1,388	\$ (251)	\$ 1,639	(653.0)%	\$ 2,806	\$ (429)	\$ 3,235	(754.1)%
Operating margin	14.8%	(3.0)%			14.8%	(2.6)%		

<sup>(1)</sup> At the segment level, operating income does not include an allocation of general and administrative expenses.

The following factors were the primary drivers of the three- and six-month year-over-year changes:

- *Market conditions.* Some of Aerostar's markets are subject to significant variability due to government spending and the timing of awards. Such conditions result in delays and uncertainties in certain opportunities important to the division's growth strategy. Despite these uncertainties, Aerostar is pioneering new markets with leading-edge applications of its stratospheric balloon platform. While it is particularly challenging to measure market share information for the Aerostar division and the Company does not model comparative market share position for any of its divisions, the Company believes that Aerostar's sales growth in the three- and six-month periods was primarily the result of market share gains rather than overall growth of the market.
- *Sales volume.* Net sales increased 11.3% from \$8.4 million for the three months ended July 31, 2016 to \$9.4 million for the three months ended July 31, 2017. Year-to-date sales were \$19.0 million, up \$2.7 million year-over-year, or 16.3%. The increase in both periods was driven principally by growth in the stratospheric balloon platform, and higher radar product and service revenues.
- *Gross margin.* For the three-month period, gross margin increased from 18.4% to 29.2%. Gross margin increased from 19.2% to 28.6% in the six-month period. The increase in gross margin for both periods was primarily driven by higher sales volume and the implementation of cost reductions as compared to the previous year.
- *Operating expenses.* Second quarter fiscal 2018 operating expense was \$1.3 million, or 14.4% of net sales, a decrease from 21.4% of net sales in the second quarter of fiscal 2017. Year-to-date operating expense as a percentage of net sales was 13.8%, down from 21.9% in the prior year. This decrease in both periods is primarily driven by adjustments in operating expenses while focusing on strategic research and development spending.

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

<i>(dollars in thousands)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
Administrative expenses	\$ 5,887	\$ 4,884	\$ 11,257	\$ 9,222
Administrative expenses as a % of sales	6.8%	7.2%	6.2%	6.8%
Other income (expense), net	\$ (63)	\$ (209)	\$ (293)	\$ (306)
Effective tax rate	29.2%	30.7%	30.5%	30.7%

Administrative spending for the three- and six-month periods of fiscal 2018 was up \$1.0 million and \$2.1 million, respectively, compared to fiscal 2017. The increase for three- and six-month periods is primarily due to higher employee compensation, director compensation, and due diligence related expenses as the Company continues to pursue strategic acquisitions.

Other (expense), net consists primarily of activity related to the Company's equity method investments, interest income and expense, and foreign currency transaction gains or losses.

The Company's effective tax rate for the three-month period ended July 31, 2017 was 29.2% compared to 30.7% in the prior year. The Company's effective tax rate for the six-month period ended July 31, 2017 was 30.5% compared to 30.7% in the prior year. The decrease in the effective tax rates for the three- and six-month periods were primarily due to a higher estimate of the research and development tax credit in the current year compared to the prior year.

Other items causing the Company's effective tax rate to differ from the statutory tax rate are more fully described in Note 12 *Income Taxes* of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q.

## OUTLOOK

For Applied Technology, end-market conditions remain subdued, but stable, versus the prior year. The division's continued focus on new products and expanding OEM relationships is successfully driving additional market share gains and enabling the division to outperform the market and increase profitability. Year-over-year comparisons are getting more challenging and will continue to do so through the remainder of the year.

For Engineered Films, the geomembrane market demand has continued to accelerate from market-bottom conditions in the prior year. Prior capital investments to serve the Industrial and Geomembrane markets are expected to continue to drive growth. Additionally, the recently announced acquisition of Colorado Lining International, Inc. should contribute incrementally to the growth in revenue; however, due to acquisition costs and purchase accounting adjustments, the acquisition is not expected to have a material impact to division profit in fiscal 2018. Improved volume, together with cost controls, are expected to result in improved profitability for the division. Year-over-year comparisons are getting more challenging and will continue to do so through the remainder of the year as the division has anniversaried the beginning of the geomembrane market rebound.

For Aerostar, the division is expecting improved volume in the stratospheric balloon platform, driven by increased demand from Google for Project Loon and stratospheric balloon contracts with new customers. Success in growing sales in the stratospheric balloon platform combined with continued cost discipline, are important to delivering sustained division profitability.

Management believes the Company is on track to deliver meaningful growth in revenues and operating profit in fiscal year 2018 and continues to invest in research and development activities to continue to drive new product momentum for the intermediate and long term.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect significant liquidity and a strong capital base. Management focuses on the current cash balance and operating cash flows in considering liquidity, as operating cash flows have historically been the Company's primary source of liquidity. Management expects that current cash, combined with the generation of positive operating cash flows, will be sufficient to fund the Company's normal operating, investing, and financing activities beyond the next twelve months.

The Company's cash balances and cash flows were as follows:

<i>(dollars in thousands)</i>	<b>July 31, 2017</b>	<b>January 31, 2017</b>	<b>July 31, 2016</b>
Cash and cash equivalents	\$ 55,197	\$ 50,648	\$ 40,123

<i>(dollars in thousands)</i>	<b>Six Months Ended</b>	
	<b>July 31, 2017</b>	<b>July 31, 2016</b>
Cash provided by operating activities	\$ 19,861	\$ 25,558
Cash used in investing activities	(5,589)	(1,640)
Cash used in financing activities	(10,003)	(17,668)
Effect of exchange rate changes on cash and cash equivalents	280	91
Net increase in cash and cash equivalents	<u>\$ 4,549</u>	<u>\$ 6,341</u>

Cash and cash equivalents totaled \$55.2 million at July 31, 2017, an increase of \$4.6 million from \$50.6 million at January 31, 2017. The comparable balance one year earlier was \$40.1 million. The increase from fiscal 2017 year-end was primarily driven by increase in net income partially offset by net working capital to support the significant increase in net sales.

No shares were repurchased by the Company under the authorized \$50.0 million share buyback plan in the first half of fiscal 2018. The Company repurchased approximately 0.5 million shares at an average price of \$15.91 for a total of \$7.7 million in the first half of the prior fiscal year.

#### **Operating Activities**

Operating cash flows result primarily from cash received from customers, which is offset by cash payments for inventories, services, employee compensation, and income taxes. Strong cash flow from operating activities was sustained year-over-year. Cash provided by operating activities was \$19.9 million for the first six months of fiscal 2018 compared with \$25.6 million in the first six months of fiscal 2017. The decrease in operating cash flows year-over-year was primarily due to the increase in net working capital demands which were partially offset by the increase in net income.

The Company's cash needs have minimal seasonal trends. As a result, the discussion of trends in operating cash flows focuses on the primary drivers of year-over-year variability in net working capital. Net working capital and net working capital percentage are ratios used by management as a guide in measuring the efficient use of cash resources to support business activities and growth. The Company's net working capital for the comparative periods was as follows:

<i>(dollars in thousands)</i>	<b>July 31, 2017</b>	<b>July 31, 2016</b>
Accounts receivable, net	\$ 46,398	\$ 38,645
Plus: Inventories	50,844	45,502
Less: Accounts payable	12,597	10,076
Net working capital <sup>(a)</sup>	<u>\$ 84,645</u>	<u>\$ 74,071</u>
Annualized net sales <sup>(b)</sup>	\$ 346,440	\$ 270,392
Net working capital percentage <sup>(c)</sup>	24.4%	27.4%

<sup>(a)</sup> Net working capital is defined as accounts receivable (net) plus inventories less accounts payable.

<sup>(b)</sup> Annualized net sales is defined as the most recent quarter net sales times four for each of the fiscal periods, respectively.

<sup>(c)</sup> Net working capital percentage is defined as Net working capital divided by Annualized net sales for each of the fiscal periods, respectively.

The net working capital percentage decreased from 27.4% at July 31, 2016 to 24.4% at July 31, 2017. The decrease was driven by an increase in accounts payable balances as well as managing inventory and receivables proactively with the substantial increase in sales versus the prior year. To manage levels of inventory during periods of significant change in sales volume, the Company assembled teams within each operating division to manage efficient inventory levels. Similar emphasis was placed on managing accounts payable and to a lesser extent, accounts receivable.

Inventory increased \$5.3 million, or 11.7%, year-over-year from \$45.5 million at July 31, 2016 to \$50.8 million at July 31, 2017. In comparison, net sales increased \$19.0 million, or 28.1%, year-over-year in the second quarter. The increase in inventory was primarily driven by growth in net sales and backlog in the Applied Technology and Engineered Films divisions, offset somewhat by actions to reduce inventory in all three divisions.

Accounts receivable increased \$7.8 million, or 20.1%, year-over-year to \$46.4 million at July 31, 2017 from \$38.6 million at July 31, 2016. In comparison, net sales increased \$19.0 million, or 28.1%, year-over-year in the second quarter. The increase in accounts receivable was due primarily to increased sales volume, offset somewhat by improved management of customer terms.

Accounts payable increased \$2.5 million, or 25.0%, year-over-year from \$10.1 million at July 31, 2016 to \$12.6 million at July 31, 2017. In comparison, net sales increased \$19.0 million, or 28.1%, year-over-year in the second quarter. This increase in accounts payable was due to improved timing of payments to suppliers, as well as additional purchases of raw materials to support the increase in sales year-over-year.

#### ***Investing Activities***

Cash used for investing activities for the first six months of fiscal 2018 were up \$3.9 million compared with the first six months of fiscal 2017. The primary driver of increase in current year cash outflows was higher capital expenditures. Fiscal 2018 capital expenditures included \$1.7 million for the Pleasanton, Texas facility purchased by Engineered Films in the first quarter. In addition the comparative period in fiscal year 2017 included \$1.1 million cash inflows from the sale of assets while there were no significant cash inflows from the sale of assets in the current year.

Management anticipates fiscal 2018 capital spending to be between \$10 to \$12 million. The Company continues to maintain a disciplined approach to capital spending. Maintaining Engineered Films' capacity and Applied Technology's capital spending to advance product development are expected to continue. In addition, management will evaluate strategic acquisitions that result in expanded capabilities and improved competitive advantages.

Fiscal 2017 cash outflows related to investments was \$0.5 million compared to \$0.3 million in the first six months of fiscal 2018.

#### ***Financing Activities***

Cash used for financing activities for the first six months of fiscal 2018 were down \$7.7 million compared with the first six months of fiscal 2017. The primary driver for the decrease year-over-year was that no shares were repurchased by the Company in the first half of fiscal 2018. The Company repurchased approximately 0.5 million shares at an average price of \$15.91 for a total of \$7.7 million in the first half of fiscal 2017.

Dividends per share were flat at 26.0 cents per share. Total cash outflows for dividends was \$9.4 million in the six-month periods ended July 31, 2017 and 2016, respectively.

During the six months ended July 31, 2017 and July 31, 2016, the Company made payments of \$0.3 million and \$0.3 million, respectively, on acquisition-related contingent liabilities.

No borrowing or repayment occurred on the Credit Agreement during the first six months of fiscal 2018 or fiscal 2017.

Financing cash outflows in the first six months of fiscal 2018 and 2017 included employee taxes paid in relation to net settlement of restricted stock units that vested during the first quarter.

#### ***Other Liquidity and Capital Resources***

The Company entered into a credit agreement dated April 15, 2015. This agreement (Credit Agreement), more fully described in Note 10 *Financing Arrangements* of this Form 10-Q, provides for a syndicated senior revolving credit facility up to \$125 million with a maturity date of April 15, 2020. There were no borrowings under the Credit Agreement for any of the fiscal periods covered by this Form 10-Q. Availability under the Credit Agreement for borrowings as of July 31, 2017 was \$124.5 million.

The Credit Agreement 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 the prior fiscal year. 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 Company is in compliance with all financial covenants set forth in the Credit Agreement.

Letters of credit (LOCs) totaling \$0.5 million issued under the Credit Agreement and a previous line of credit with Wells Fargo were outstanding at July 31, 2017 and July 31, 2016. These LOCs primarily support self-insured workers' compensation bonding.

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

There have been no material changes in the Company's known off-balance sheet debt and other unrecorded obligations since the fiscal year ended January 31, 2017.

## CRITICAL ACCOUNTING ESTIMATES

Critical accounting policies are those that require the application of judgment when valuing assets and liabilities on the Company's balance sheet. There have been no material changes to the Company's critical accounting policies as described in the Company's Annual Report on Form 10-K for the year ended January 31, 2017.

### *Long-lived and Intangible Assets and Goodwill*

#### Long-lived and Intangible Assets

The Company assesses the recoverability of long-lived assets, including definite-lived intangibles, equity method investments, and property plant and equipment, using fair value measurement techniques 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. 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 the 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* of the Notes to the unaudited Consolidated Financial Statements included in Item 1 of this form 10-Q, was impaired due to lower than expected cash flows and continued operating losses. 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 six-month period ended July 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 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 six-month period ended July 31, 2017. There were no long-lived asset impairments or accelerated equity method investment losses reported in the three-month period ended July 31, 2017 or the three- and six-month periods ended July 31, 2016.

#### Goodwill

The Company recognizes goodwill as the excess cost of an acquired business over the net amount assigned to assets acquired and liabilities assumed. Management assesses goodwill for impairment annually during the fourth quarter and between annual tests whenever a triggering event indicates there may be an impairment. The Company performs impairment reviews of goodwill by reporting unit. At the end of fiscal 2016, the Company determined it had four reporting units: Engineered Films Division; Applied Technology Division; and two separate reporting units in the Aerostar Division, one of which was Vista and one of which was all other Aerostar operations.

During the first quarter of fiscal 2017, management implemented managerial and financial reporting changes within Vista and Aerostar to further integrate Vista into the Aerostar Division. Integration actions included leadership re-alignment, including selling and business development functions, re-deployment of employees across the division, and consolidation of administrative functions, among other actions. Based on the changes made, the Company consolidated the two separate reporting units within the Aerostar Division into one reporting unit for the purposes of goodwill impairment review. As such as of July 31, 2017 and 2016, the Company has three reporting units: Engineered Films Division, Applied Technology Division, and Aerostar Division. The Company determined there was not a change in the long-lived asset groups as a result of the reporting unit changes.

When performing goodwill impairment testing, the fair values of reporting units are determined based on valuation techniques using the best available information, primarily discounted cash flow projections. Such valuations are derived from valuation techniques in which one or more significant inputs are not observable (Level 3 fair value measures). Based on the Company's review, management concluded there were no triggering events for the Company's reporting units during the three- and six-month periods ended July 31, 2017 and 2016, respectively, and no impairments to goodwill were recorded.

## ACCOUNTING PRONOUNCEMENTS

See Note 2 *Summary of Significant Accounting Policies* of the Notes to the Consolidated Financial Statements included in Item 1 of this Form 10-Q for a summary of recent accounting pronouncements.

## FORWARD-LOOKING STATEMENTS

*Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future, not past or historical events. Without limiting the foregoing,*

*the words "anticipates," "believes," "expects," "intends," "may," "plans," "should," "estimate," "predict," "project," "would," "will," "potential," and similar expressions are intended to identify forward-looking statements. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. The Company intends that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act.*

*Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions when made, there is no assurance that such assumptions are correct or that these expectations will be achieved. Assumptions involve important risks and uncertainties that could significantly affect results in the future. These risks and uncertainties include, but are not limited to, those relating to weather conditions and commodity prices, which could affect sales and profitability in some of the Company's primary markets, such as agriculture and construction and oil and gas drilling; or changes in competition, raw material availability, technology or relationships with the Company's largest customers, risks and uncertainties relating to development of new technologies to satisfy customer requirements, possible development of competitive technologies, risks of litigation, ability to scale production of new products without negatively impacting quality and cost, risks of operating in foreign markets, risks relating to acquisitions, including risks of integration or unanticipated liabilities or contingencies, and ability to finance investment and net working capital needs for new development projects, any of which could adversely impact any of the Company's product lines, as well as other risks described in Item 1A., Risk Factors, of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017. The foregoing list is not exhaustive and the Company disclaims any obligation to subsequently revise any forward-looking statements to reflect events or circumstances after the date of such statements. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.*

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The exposure to market risks pertains mainly to changes in interest rates on cash and cash equivalents and short-term investments. The Company has no long-term debt outstanding as of July 31, 2017. The Company does not expect operating results or cash flows to be significantly affected by changes in interest rates.

The Company's subsidiaries that operate outside the United States use their local currency as the functional currency. The functional currency is translated into U.S. dollars for balance sheet accounts using the period-end exchange rates, and average exchange rates for the statement of income. Cash and cash equivalents held in foreign currency (primarily Euros and Canadian dollars) totaled \$4.3 million and \$2.5 million at July 31, 2017 and July 31, 2016, respectively. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in "Accumulated other comprehensive income (loss)" within shareholders' equity. Foreign currency transaction gains or losses are recognized in the period incurred and are included in "Other income (expense), net" in the Consolidated Statements of Income and Comprehensive Income. Foreign currency fluctuations had no material effect on the Company's financial condition, results of operations, or cash flows.

The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. However, the Company does utilize derivative financial instruments to manage the economic impact of fluctuation in foreign currency exchange rates on those transactions that are denominated in currency other than its functional currency, which is the U.S. dollar. Such transactions are principally Canadian dollar-denominated transactions. The use of these financial instruments had no material effect on the Company's financial condition, results of operations, or cash flows.

### ITEM 4. CONTROLS AND PROCEDURES

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, under the supervision of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2017. Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on their evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of July 31, 2017 due to the material weaknesses in internal control over financial reporting which existed at that date, as described below.

Notwithstanding the existence of the material weaknesses described below, management has concluded that the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, our consolidated financial position, results of operations and cash flows for the periods presented herein in conformity with accounting principles generally accepted in the United States of America.

#### **Material Weaknesses**

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The Company has identified the following control deficiencies which existed since October 31, 2016 which constitute material weaknesses and resulted in ineffective disclosure controls and procedures:

- The Company's controls relating to the response to the risks of material misstatement were not effectively designed. This material weakness contributed to the following additional material weaknesses.
- The Company's controls over the accounting for goodwill and long-lived assets, including finite-lived intangible assets, were not effectively designed and maintained, specifically, the controls related to the identification of the proper unit of account as well as the development and review of assumptions used in interim and annual impairment tests. This control deficiency resulted in the restatement of the Company's financial statements for the three- and nine-month periods ended October 31, 2015, the fiscal year ended January 31, 2016, and the three-month period ended April 30, 2016.
- The Company's controls related to the accounting for income taxes were not effectively designed and maintained, specifically the controls to assess that the income tax provision and related tax assets and liabilities are complete and accurate. This control deficiency resulted in adjustments to the income tax provision and related tax asset and liability accounts and related disclosures for the three- and nine-month periods ended October 31, 2015, the fiscal year ended January 31, 2016, and the three-month period ended April 30, 2016.
- The Company's controls over the existence of inventories were not effectively designed and maintained. Specifically, the controls to monitor that inventory subject to the cycle count program was counted at the frequency levels and accuracy rates required under the Company's policy, and the controls to verify the existence of inventory held at third-party locations were not effectively designed and maintained.
- The Company's controls over the completeness and accuracy of spreadsheets and system-generated reports used in internal control over financial reporting were not effectively designed and maintained.

Additionally, these control deficiencies could result in additional misstatements of account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.

#### **Management's Remediation Initiatives**

The Company is actively engaged in the planning for, and implementation of, remediation efforts to address the underlying causes of the control deficiencies that gave rise to the material weaknesses. These remediation efforts are intended to address the identified material weaknesses and to enhance our overall financial control environment.

With the oversight of the Company's Audit Committee, management is taking steps intended to address the underlying causes of the material weaknesses identified above, primarily through the following remediation activities achieved during the first and second quarters of fiscal 2018:

- Controls relating to the response to the risks of material misstatement
  - During the second quarter of fiscal 2018, we have redesigned and enhanced our controls and procedures around timely and appropriately identification, assessment, and response to risks of material misstatement. This included formalizing and redefining the risk categorization and risk rating methodology to appropriately assess and monitor identified risks on a quarterly basis.
- Controls over accounting for goodwill and long-lived assets, including finite-lived intangible assets
  - During the first quarter of fiscal 2018, management completed the following remediation efforts around the design deficiency:
    - We have redesigned our specific procedures and controls associated with the identification of the proper unit of account.
    - We have developed an enhanced risk assessment evaluation for the reporting unit for which a goodwill impairment analysis is being conducted.

- We have redesigned our controls associated with the development of a more precise revenue forecast for use in interim and annual impairment tests. For Aerostar, this specifically includes more precise contract-based revenue assumptions.
  - We have redesigned our controls associated with all significant assumptions, model and data used in management's estimates relevant to assessing the valuation of goodwill and long-lived assets, including finite-lived intangible assets.
  - Internal Audit has completed a design walkthrough of redesigned controls.
- Controls over completeness and accuracy of accounting for income taxes
  - During the first quarter of fiscal 2018, management completed the following remediation efforts around the design deficiency:
    - We have redesigned specific processes and controls to augment the review of significant or unusual transactions by finance leadership to ensure that the relevant tax accounting implications are identified and considered.
    - Our Director of Taxation has re-evaluated and enhanced our tax models and implemented multiple reconciliations to ensure the Company's tax provision is properly reconciled and rolled-forward.
    - Internal Audit has completed a design walkthrough of redesigned controls.
- Controls over the existence of inventories, specifically controls to monitor that inventory subject to the cycle count program was counted at the frequency levels and accuracy rates required under the Company's policy, and the controls to verify existence of inventory held at third-party locations
  - During the first quarter of fiscal 2018, we have completed the transfer of the vast majority of inventory held at third-party locations to Company-owned facilities.
  - During the first quarter of fiscal 2018, we have redesigned and enhanced our controls over the completeness and accuracy of underlying information to monitor count dates for each item by location. This annual test was performed during the first quarter to ensure that each item was counted the appropriate number of times in accordance with the cycle count policy.
  - During the second quarter of fiscal 2018, we have redesigned and enhanced our controls over the completeness and accuracy of underlying information to calculate and monitor the historical cycle count accuracy results. We have also formalized procedures to establish specific accountability for investigation and analysis of identified variances.
- Controls over the completeness and accuracy of spreadsheets and system-generated reports used in internal control over financial reporting
  - During the second quarter of fiscal 2018, we have redesigned and enhanced our controls for the identification and assessment of the completeness and accuracy of spreadsheets and system-generated reports used in internal control over financial reporting.
  - During the second quarter of fiscal 2018, we have developed governance policy and procedures that will be used consistently by the organization to appropriately identify, assess, and manage risks related to the data integrity of spreadsheets and system-generated reports in internal control over financial reporting.

Although we have implemented several remediation actions, we are still in the process of implementing certain actions and validating the impact of such actions. Additionally, for newly implemented control activities a certain number of instances needs to be completed in order to validate operating effectiveness. The number of instances needed is determined based on the frequency that the control operates. These remediation actions are subject to ongoing review by management, as well as oversight by the Audit Committee of our Board of Directors. We plan to complete this remediation process as diligently as possible, and we estimate that several of the material weaknesses will be remediated in the third and fourth quarters of fiscal 2018. However, uncertainties exist as to when such remediation may occur, and our initiatives may not prove successful in remediating the material weaknesses. Management may decide to enhance other existing controls and/or implement additional controls as part of the implementation progresses. It will take time to determine whether the additional controls we are implementing will be sufficient and functioning as designed to accomplish their intended purpose; accordingly, these material weaknesses may continue for a period of time. While the Audit Committee of our Board of Directors and Executive management are closely monitoring this implementation, until the remediation efforts discussed herein, including any additional remediation efforts that management identifies as necessary, are complete, tested, and determined to be effective, we will not conclude that the material weaknesses have been remediated. In addition, we may need to incur incremental costs associated with this remediation, primarily due to the engagement of external accounting and tax experts to validate and support remediation activities and the implementation and validation of improved accounting and financial reporting procedures.

We are committed to improving our internal control over financial reporting and processes and intend to proactively review and improve our financial reporting controls and procedures incorporating best practices and leveraging external resources to facilitate periodic evaluations of our internal control over financial reporting. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address control deficiencies or modify certain of the remediation measures.

***Changes in Internal Control over Financial Reporting***

As described above under "Management's Remediation Initiatives," there were changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three- and six-month period ended July 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**RAVEN INDUSTRIES, INC.**

**PART II — OTHER INFORMATION**

Item 1. Legal Proceedings:

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.

Item 1A. Risk Factors:

The Company's business is subject to a number of risks, including those identified in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended January 31, 2017, that could have a material effect on our business, results of operations, financial condition and/or liquidity and that could cause our operating results to vary significantly from fiscal period to fiscal period. The risks described in the Annual Report on Form 10-K are not exhaustive. Additional risks we currently deem to be immaterial or are unknown to us at this time also could materially effect our business, results of operations, financial condition, and/or liquidity.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds:

On November 3, 2014 the Company's Board of Directors (Board) authorized a \$40,000,000 stock buyback program. Effective March 21, 2016 the Board authorized an extension and increase of this stock buyback program. An additional \$10,000,000 was authorized for share repurchases once the \$40,000,000 authorization limit is reached. This authorization remains in place until such time as the authorized spending limit is reached or is revoked by the Board.

The Company made no purchases (recorded on trade date basis) of its own equity securities during the three- and six-month period ended July 31, 2017. The remaining dollar value authorized for share repurchases at July 31, 2017 is \$12,959,341.

Item 3. Defaults Upon Senior Securities: None

Item 4. Mine Safety Disclosures: None

Item 5. Other Information: None

Item 6. Exhibits:

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">10.1</a>	Amended and Restated Change in Control Agreement between Raven Industries, Inc. and Lee A. Magnuson dated as of June 12, 2017 and filed herewith as Exhibit 10.1.
<a href="#">10.2</a>	Form of Exhibit A to Amended and Restated Change in Control Agreement between Raven Industries, Inc. and Lee A. Magnuson dated as of June 12, 2017 and filed herewith as Exhibit 10.2.
<a href="#">31.1</a>	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2</a>	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.1</a>	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.2</a>	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**RAVEN INDUSTRIES, INC.**

/s/ Steven E. Brazones

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Steven E. Brazones  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Date: August 24, 2017

**AMENDED AND RESTATED  
CHANGE IN CONTROL AGREEMENT**

THIS AGREEMENT is made as of **June 12, 2017**, between RAVEN INDUSTRIES, INC., a South Dakota corporation (the "Company"); and **Lee A. Magnuson** ("Executive").

**BACKGROUND AND CERTAIN DEFINITIONS**

- A. Executive and the Company entered into a written Change in Control Agreement dated as of June 12, 2017.
- B. The Board of Directors of the Company (the "Board") recognizes that Executive's contribution to the growth and success of the Company and its subsidiaries has been or will be substantial.
- C. The Board has determined that it is appropriate and in the best interests of the Company and its stockholders to reinforce and encourage the continued attention and dedication of members of the Company's management, including Executive, to their assigned duties.
- D. This Agreement sets forth the severance compensation which the Company agrees it will pay to Executive if Executive's employment with the Company or a Subsidiary of the Company, as defined in Section 5(a), terminates under one of the circumstances described herein following a Change in Control (as defined in Section 1 below).
- E. The severance compensation provisions of this Agreement are intended to comply with or be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations issued under Code Section 409A (the "409A Regulations"), and other guidance issued under Code Section 409A, to prevent premature income taxes and a 20% penalty from applying to any severance compensation benefits earned by Executive under this Agreement.

NOW THEREFORE, in consideration of the mutual covenants and conditions herein contained and in further consideration of services performed and to be performed by Executive for the Company, the parties hereto agree as follows:

- 1. **Certain Definitions**. For purposes of this Agreement, the following terms have meanings indicated:
  - (a) "Cause" shall mean any of the following circumstances:
    - (i) Executive has committed willful misconduct that materially injures or causes a material loss to the Company and a material benefit to Executive or third parties, as for example, by embezzlement, appropriation of corporate opportunity, conversion of tangible or intangible corporate property or the making of agreements with third parties in which Executive or anyone related to or associated with Executive has a direct or indirect interest; or

(ii) The reasonable good faith determination by the Company that Executive has materially violated paragraph 7 (Confidentiality) or 8 (Non-Competition) of the Employment Agreement for Senior Management between Executive and the Company or **paragraph 3 (Confidentiality) or 9 (Non-Competition) of the Raven Employment Agreement for Exempt Team Members** (if applicable); which violation, if it is capable of cure by Executive, has continued for at least 10 days after the Company gives Executive a written notice describing such violation.

(b) "Change in Control" shall mean:

(i) The acquisition (other than from the Company directly) by any person, entity or "group", within the meaning of Section 13(d) or 14(d) of the '34 Act, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the '34 Act) of 25% or more of the then outstanding shares of the Company's common stock; or

(ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, *provided*, that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, under Rule 14a-12(c) of Regulation 14A promulgated under the '34 Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the shareholders of the Company of (A) a reorganization, merger or consolidation, in each case, with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power of the reorganized, merged or consolidated company's then outstanding voting securities entitled to vote generally in the election of directors of the reorganized, merged or consolidated company, or (B) a liquidation or dissolution of the Company or (C) the sale of all or substantially all of the assets of the Company. If Executive is employed by a Subsidiary, a sale of the assets, stock or business of the Subsidiary will not, in and of itself, be considered a "Change in Control" with respect to the Company.

(c) **Constructive Termination.**

(i) "Constructive Termination" shall mean Executive's voluntary Termination of Employment by reason of:

(A) a material, adverse change of Executive's responsibilities, authority, status, position, offices, titles, or duties; *provided*, that (1) the fact that the Company is a subsidiary of an acquirer or a division of an acquirer, or (2) a change in Executive's employment from a Subsidiary to the Company or another Subsidiary shall in either event not, in and of itself, be considered a material change to the Employee's responsibilities, authority, status, position, offices, titles or duties, and any appropriate change in title related to such events shall not, in and of itself, be considered a material change to Executive's responsibilities, authority, status, position, offices, titles or duties;

(B) a material adverse change in Executive's annual compensation or benefits;

(C) a requirement to relocate in excess of fifty (50) miles from Executive's then current place of employment without Executive's consent; or

(D) the material breach by the Company of any provision of this Agreement or failure to fulfill any other material contractual duties owed to Executive.

For the purposes of this definition, Executive's responsibilities, authority, status, position, offices, titles and duties are to be determined as of the day immediately before a Change in Control.

(ii) Notwithstanding the provisions of paragraph (i) above, no voluntary Termination of Employment by Executive will constitute a Constructive Termination unless Executive shall have provided written notice to the Company within 90 days after an occurrence described in paragraphs 1.(c)(i)(A) - 1.(c)(i)(D) above. The notice will (A) describe Executive's intention to voluntarily terminate Executive's employment; (B) state a Date of Termination that is least 30 days after Executive's delivery of the notice, and (C) set forth in reasonable detail the conduct that Executive believes to be the basis for the Constructive Termination; and such Constructive Termination will take effect if the Company thereafter fails to correct such conduct (or commence action to correct such conduct and diligently pursue such correction to completion) within 30 days following the Company's receipt of such notice.

**(d)** "Date of Termination" shall mean:

(i) if Executive voluntarily terminates employment with the Company, the later of (A) a Date of Termination (if any) stated in Executive's Notice of Termination, or (B) the date on which Executive delivers the Notice of Termination to the Company; or

(ii) if Executive's employment is terminated by the Company, the date on which the Company delivers a Notice of Termination to Executive.

(e) "Notice of Termination" shall mean a written notice which shall indicate those specific Termination of Employment provisions in this Agreement that are being relied upon. Any Termination of Employment by the Company or Executive shall be communicated by a Notice of Termination.

(f) "Termination of Employment" means, solely for purposes of this Agreement, Executive's "separation from service" from the Company, for any reason, voluntary or involuntary, other than Executive's death; *provided*, that this definition shall be interpreted to comply with the 409A Regulations, including without limitation the provisions that define an employer by reference to certain affiliated employers.

(g) '34 Act. "'34 Act" shall mean the Securities Exchange Act of 1934, as amended.

2. **Term.** This Agreement shall commence on the date first above written and shall continue in effect until January 31, 2018. Commencing on January 31, 2018, and each January 31, thereafter, the term of this Agreement shall automatically be extended for one additional year to January 31, and each January 31, thereafter, unless at least sixty (60) days immediately preceding such January 31, the Company shall have given Executive written notice that the Company does not wish to extend this Agreement; *provided*, that any such notice shall not constitute a Termination of Employment, and this Agreement shall continue in effect beyond the term provided herein if a Change in Control shall have occurred during such term or if any obligation of the Company hereunder remains unpaid as of such time.

3. **Severance Compensation upon a Change in Control and Termination of Employment.** If (a) a Change in Control of the Company shall have occurred while Executive is an employee of the Company, and (b) within two (2) years after the date of such Change in Control, there occurs: (i) except in the case of Executive's death, Executive's Termination of Employment by the Company without Cause (which "Cause" for the sake of clarity shall not include termination occasioned by ill-advised good faith judgment or negligence in connection with the Company's business), or (ii) Executive's Constructive Termination, then:

(a) The Company shall pay Executive any earned and accrued but unpaid installment of base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and all other unpaid amounts to which Executive is entitled as of the Date of Termination under any compensation plan or program of the Company, including, without limitation, all accrued vacation time; such payments to be made in a lump sum on or before the fifth day following the Date of Termination;

(b) In lieu of any further salary payments to Executive for periods subsequent to the Date of Termination, the Company shall pay to Executive an amount equal to the product of (A) the sum of (i) Executive's annual base salary in effect as of the Date of Termination and (ii) 60% of the maximum target or goal amount under the Management Incentive Plan for the year in which such Date of Termination occurs and (B) the number 1.0, such payment to be made in a lump sum on or before the 45<sup>th</sup> calendar day following the Date of Termination; *provided*, that no such payment will be made unless Executive has executed and delivered to the Company the release and covenant described in Section 3(d) below, and any period during which Executive may revoke

or rescind such release and covenant has expired before that 45<sup>th</sup> day; and *provided further*, that if, as of the Date of Termination: (x) any payment due under this Section 3 is reasonably deemed by the Company to be "deferred compensation" (as defined in the 409A Regulations), (y) any portion of the payment due under this Section 3(b) would exceed the sum of the applicable limited separation pay exclusions as determined pursuant to the 409A Regulations, and (z) Executive is treated as a specified employee (as defined in the 409A Regulations), then payment of such excess amount shall be delayed until the six-month anniversary of the Date of Termination (or the date of Executive's death, if earlier). If Executive continues to perform any services (as an employee or otherwise) for the Company or a Subsidiary of the Company, as defined in Section 5(a), after the Date of Termination, such six-month period shall be measured from the date of Executive's "separation from service" as defined pursuant to the 409A Regulations;

(c) If a Change in Control of the Company shall have occurred while Executive is an employee of the Company and, within two (2) years after the date of such Change in Control Executive shall die while still an employee of the Company, the amount specified in Section 3(a) shall be paid by the Company to Executive's estate; and such deceased Executive's spouse and eligible dependents shall be entitled to all of the benefits specified in the Company's Senior Executive officer or Senior Management Benefits Policy (as applicable to Executive) as if such deceased Executive had delivered a Notice of Termination to the Company immediately prior to such death;

(d) The Company's obligations to provide the payments and benefits in this Section 3 are conditioned on Executive signing a general release of legal claims and covenant not to sue, in the form attached as Exhibit A to this Agreement, with such changes as may be reasonably required to reflect changes in applicable law or circumstances subsequent to the date first above written; and the Company shall deliver such release and covenant to Executive within 10 calendar days after the earlier of (i) the Date of Termination or (ii) the Company's receipt of a Notice of Termination asserting a Constructive Termination;

(e) The Company shall deduct, from any payment made under this Agreement, any Federal or state taxes required by law to be withheld from such payment.

4. **No Obligation to Mitigate Damages; No Effect on Other Contractual Rights.**

(a) Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the Date of Termination.

(b) The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Executive's existing rights, including post-retirement benefits or any other rights which would accrue solely as a result of the passage of time, under any benefit plan, employment agreement or other contract, Company policy, plan or arrangement.

5. **Successor to the Company; Subsidiaries.**

(a) The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to Executive, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 5 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. If at any time during the term of this Agreement Executive is employed by any corporation a majority of the voting securities of which is then owned by the Company (a "Subsidiary"), (1) "Company" as used in this Agreement shall in addition include such Subsidiary, (2) the Company agrees that it shall pay or shall cause such Subsidiary to pay any amounts owed to Executive pursuant to Section 3 hereof and (3) any transfer of Executive's employment between the Subsidiary and the Company or another Subsidiary shall not be deemed a Termination of Employment.

(b) This Agreement shall inure to the benefit of and be enforceable by Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive should die while any amounts are still payable to Executive hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee or, if there be no such designee, to Executive's estate.

6. **Notice.** For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or three days after mailing by United States registered mail, return receipt requested, postage prepaid, as follows:

If to the Company:

Raven Industries, Inc.  
205 East 6th Street  
P.O. Box 5107  
Sioux Falls, South Dakota 57117  
Attention: President

If to Executive:

(Address currently on file with the Company)

or such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. **Miscellaneous.** No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Executive and such officer of the Company as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provision or conditions at the same or at any prior or subsequent time. This Agreement shall be governed by and construed in accordance with the laws of the State of South Dakota.

8. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties and supersedes the Prior Agreement and all other prior agreements and understandings between the parties with respect to benefits payable upon a change in control of the Company; *provided*, that this Agreement shall not affect or reduce any benefit to which Executive shall be otherwise entitled under the Company's 2010 Stock Incentive Plan, Raven Employment Agreement for Exempt Team Members with the Company dated June 12, 2017, or any other plan, agreement or policy of or with the Company. No modification, termination or attempted waiver of this Agreement shall be valid unless in writing and signed by the party against whom the same is sought to be enforced.

9. **Validity.** The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. **Fees and Expenses.** The Company shall pay all fees and expenses (including attorney's fees) which Executive may incur as a result of the Company's contesting the validity, enforceability or Executive's interpretation of, or determinations under, this Agreement, regardless of whether the Company or Executive is successful in such contest.

12. **Company's Right to Terminate Executive's Employment.** Notwithstanding anything contained in this Agreement to the contrary, the Company may terminate Executive's employment at any time, for any reason or no reason, and no provision contained herein shall affect the Company's ability to terminate Executive's employment at any time, with or without cause. Nothing in this Agreement shall in any way require the Company to provide any of the benefits specified in this Agreement prior to a Change in Control, nor shall this Agreement be construed in any way to establish any policies or other benefits for Executive or any other employee of the Company whose employment with the Company is terminated prior to a Change in Control.

*[Signature Page Follows]*

*[Signature Page to Amended and Restated Change In Control Agreement]*

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Agreement as of the date and year first above written.

ATTEST:

By: /s/ Karen M. Iversen

RAVEN INDUSTRIES, INC.

By: /s/ Daniel A. Rykhus

**Daniel A. Rykhus**  
**President & CEO**

ATTEST:

By: /s/ Karen M. Iversen

EXECUTIVE:

By: /s/ Lee A. Magnuson

**Lee A. Magnuson**  
**General Counsel & Vice President**

**FORM OF  
EXHIBIT A  
TO AMENDED AND RESTATED  
CHANGE IN CONTROL AGREEMENT**

**SEPARATION AGREEMENT AND GENERAL RELEASE**

**Definitions.** All the words used in this Separation Agreement and General Release (“Agreement”) have their plain meaning in ordinary English. Specific terms used in this Agreement have the following meanings:

1. Words such as “I” and “me” include both me and anyone who has or obtains any legal rights or claims against “Raven” (defined below) and the “Company” (defined below), and each of them, through me. My name is \_\_\_\_\_.
2. “Raven” means Raven Industries, Inc..
3. The “Company” means Raven, and Raven’s past and present parent, subsidiaries and affiliated entities, and all and each of the past and present Board of Directors, officials, managers, members, governors, agents, officers, directors, employees, shareholders, attorneys, committees, insurers, indemnitors, investors, successors and assigns of any and all of the foregoing entities.

**Background.**

1. My employment with Raven ended on \_\_\_\_\_ (the “Separation Date”). I agree not to sign this Agreement prior to the end of my work day on the Separation Date.
2. I have been paid all of my accrued and unused paid time off and all other wages, salary, and monies due and owing to me through the Separation Date.
3. The purpose of this Agreement is to fully and finally release the Company from all of “My Claims” (as defined below) through my signing of this Agreement.
4. In exchange for “My Promises” (defined below), Raven has promised to do the following for me (all and each are “Raven’s Promises”) as long as I sign this Agreement and do not exercise my rights to revoke or rescind as set forth below.
5. I acknowledge and agree that I received this Agreement on the Separation Date and understand that I have 21 days from the Separation Date to decide whether to sign this Agreement. If I do not sign this Agreement within that timeframe, the offer contained within this Agreement will expire.
6. I acknowledge and agree that I will not sign this Agreement prior to the end of work day on the Separation Date or this Agreement will be null and void.

7. This Agreement is being entered into pursuant to that certain Amended and Restated Change in Control Agreement between Raven and me dated \_\_\_\_\_ (the "CIC Agreement").

**Raven's Promises.**

1. **Severance Pay.** Raven agrees to pay me the amounts and benefits specified in the CIC Agreement at the times specified therein, less any deductions Raven is required to make or believes in good faith it is required to make from that amount.

**My Claims.** The claims I am releasing below (all and each are "My Claims") include all of my rights to any relief of any kind from the Company through the date on which I sign this Agreement, to the fullest extent permitted by law, including but not limited to:

1. All claims I have now, whether or not I know about or suspect the claims;
2. All claims for attorney's fees, costs, and disbursements;
3. All rights and claims under the Age Discrimination in Employment Act ("ADEA"), Older Workers Benefit Protection Act ("OWBPA"), the South Dakota Human Relations Act ("SDHRA"), Americans with Disabilities Act ("ADA"), Title VII of the Civil Rights Act of 1964 ("Title VII"), Family and Medical Leave Act ("FMLA"), and any other federal, state, local law, rule, or regulation regarding discrimination and retaliation;
4. All claims arising out of my employment and my separation from employment with Raven including, but not limited to, breach of contract, wrongful termination, illegal termination, termination in violation of public policy, breach of an implied contract, breach of covenant of good faith and fair dealing, defamation, promissory estoppel, violation of state or federal leave laws, equal pay laws, invasion of privacy, fraud, retaliation, and intentional or negligent infliction of emotional distress;
5. All claims for any other alleged unlawful employment practices arising out of or relating to my employment or my separation from employment; and
6. All claims for any other form of pay, compensation or remuneration that is not provided in this Agreement.

**My Promises.**

1. In exchange for Raven's Promises (described above), I hereby fully and finally release to the maximum extent permitted by law all of "My Claims" (described above) against the Company, including for example rights and claims under the ADA, SDHRA, OWBPA, ADEA, FMLA, and Title VII. I will not bring any lawsuits against the Company except if necessary to enforce the provisions of this Agreement. The money and benefits that I will receive as set forth in this Agreement as Raven's Promises are full and fair payment for the release of My Claims. The Company does not owe me anything in addition to what I will receive under this Agreement. The money and benefits that I am receiving under this Agreement as Raven's Promises have a value that is greater than anything else to which I am entitled.

Specifically excluded from my waiver and release of claims are claims or disputes that: (1) by law cannot be released in a private agreement (such as workers' compensation claims); (2) arise after the effective date of this Agreement; or (3) relate to the obligations of the parties under this Agreement.

2. In exchange for Raven's Promises, I promise to successfully transition my work responsibilities. I will provide Raven with a list of any documents and return the work computers or other devices that require password(s) necessary to access such devices or documents. I will cooperate with Raven and use my best efforts to be available, on a reasonable basis, to answer questions that may arise to achieve a smooth transition after the Separation Date. I also agree to be available to and cooperate with Raven and its counsel in connection with any investigation, administrative proceeding or litigation relating to any matter, occurring during my employment, in which I was involved or of which I have knowledge. I understand and agree that such cooperation includes, but is not limited to, making myself available to Raven and/or its counsel upon reasonable notice for: interviews and factual investigations; appearing to give testimony without requiring service of a subpoena or other legal process; volunteering to Raven or its counsel pertinent information; and turning over all relevant documents which are or may come into my possession.

### **Additional Agreements and Understandings.**

1. **Non-Admission.** Except for the Company's obligations under the CIC Agreement, the Company does not admit that it is responsible or legally obligated to me, and in fact, the Company denies that it is responsible or legally obligated to me. I acknowledge that Raven's Promises described in this Agreement is sufficient consideration to support enforcement of this Agreement.

2. **Benefit Plans.** My and Raven's rights and obligations in any benefit plan in which I participated during my employment are governed by the applicable plan documents. Further, I am not releasing any rights I may have to be indemnified by Raven for acts or omissions as an employee, officer and/or director of Raven pursuant to any insurance policy, statute, or corporate change or bylaw provision by entering into this Agreement.

3. **Filing.** This Agreement does not prohibit me from filing an administrative complaint, or an administrative charge of discrimination with, or cooperating or participating in an investigation or proceeding conducted by, the Equal Employment Opportunity Commission or other federal or state regulatory or law enforcement agency. If I filed or file such a charge or complaint, the payment and benefits described in this Agreement are in complete satisfaction of any and all claims in connection with such charge or complaint, and I am not entitled to any other monetary relief with respect to the claims released in this Agreement.

4. **Property.** I have delivered to Raven any and all of its records and property in my possession or under my control, including without limitation manuals, books, passwords, blank forms, documents, letters, memoranda, notes, notebooks, passwords, reports, printouts, computer disks, flash drives or other digital storage media, source codes, data, tables or calculations and all copies thereof, documents that in whole or in part contain any trade secrets or confidential, proprietary or other secret information of Raven and all copies thereof. I have returned to Raven all equipment, laptop computers, iPads, iPhones, other cellular phones, BlackBerry devices, credit cards, security cards and keys, badges, and files and any other

property belonging to Raven, including all copies of same, that were in my possession or control. I no longer possess or have within my control any of the aforementioned Raven property, information or belongings. I have not downloaded, diverted, or transferred in any manner any files or other data that are the property of Raven.

5. **Non-Disparagement.** I will not intentionally disparage the Company, its products, services, systems, and other matters pertaining to its business. The prohibitions of this paragraph do not apply to my legally protected communications or communications with the Equal Employment Opportunity Commission, the National Labor Relations Board, or any other federal or state government agency.

6. **Confidentiality.** The terms and conditions of this Agreement are strictly confidential. I will not discuss or reveal the existence or the terms of this Agreement to any persons, entities, or organizations except as follows: (a) as required by law or court order; (b) by me to my immediate family; or (c) to my attorney, financial planner and accountant. I must ensure that any person or entity described in subsections (b) and (c), to whom such disclosures are made must, as a condition of such disclosure, agree to keep the terms of this Agreement strictly confidential. This confidentiality provision does not prohibit me from providing this Agreement to the Equal Employment Opportunity Commission, the National Labor Relations Board, or other federal, state or local regulatory agencies.

7. **Remuneration.** I acknowledge and agree that I am not owed any remuneration or benefits from the Company other than the consideration identified within this Agreement including but not limited to wages, commissions, benefits, bonuses, vacation pay, sick pay, paid time off, stock, or any other incentives.

8. **Tax Indemnification.** I acknowledge that I have not relied on any tax advice provided by the Company and that, if necessary, I am responsible for properly reporting the payment and benefits received pursuant to this Agreement and paying any applicable taxes.

**Rights to Counsel, Consider, Revoke, and Rescind.**

1. I have been advised to consult with an attorney prior to executing the Agreement. Raven recommends that I consult with an attorney prior to signing this Agreement. I can freely choose to seek legal advice before signing this Agreement.

2. I have twenty-one (21) days to consider this Agreement, including my waiver of rights and claims of age discrimination and retaliation under the ADEA and OWBPA, beginning the date on which I received this Agreement. If I signed this Agreement, then for a period of seven (7) days following the day on which I signed it, I will be entitled to revoke this Agreement, and this Agreement will not become effective or enforceable until after the revocation period has expired. My waiver of claims in this Agreement does not include any claims that may arise after the date that I sign this Agreement.

3. To revoke my waiver(s), I must put the revocation in writing and deliver it to Raven by hand via \_\_\_\_\_ or mail it within the 7-day period. If I deliver the revocation by mail, it must be postmarked within seven (7) calendar days after the date on which I signed this Agreement; addressed to Raven, c/o \_\_\_\_\_ and sent by certified mail, return receipt requested.

If I exercise my rights to revoke my waivers as provided above, this Agreement will be null and void. My employment will still end on the Separation Date, and I will not receive Raven's Promises in this Agreement.

**Agreement Freely Entered Into.**

I represent that I have voluntarily, and free from duress or undue coercion, made My Promises in this Agreement.

**Severability.**

If any provision of this Agreement is unenforceable under applicable law, the validity or enforceability of the remaining provisions will not be affected. To the extent any provision of this Agreement is judicially determined to be unenforceable, a court of competent jurisdiction may reform any such provision to make it enforceable. The provisions of this Agreement will, where possible, be interpreted to sustain their legality and enforceability.

**Entire Agreement.**

This Agreement, together with the CIC Agreement, are the final and complete agreements between Raven, the Company, and me with regard to the matters therein. Any modification of, or addition to, this Agreement must be in writing and signed by the parties.

**Successors and Assigns.**

This Agreement will be binding upon and inure to the benefit of the successors and assigns of Raven, the Company, and me. I understand that I may not assign this Agreement.

**Governing Law And Venue.**

The parties agree that this Agreement shall be interpreted, construed, governed and enforced under and pursuant to the laws of the State of South Dakota. I irrevocably consent to the exclusive jurisdiction of courts in South Dakota for the purposes of any action arising out of or related to my employment, or any actions for temporary, preliminary, and permanent equitable relief.

**Knowing and Voluntary Agreement.**

I have read this Agreement carefully and understand all of its terms. I have had the opportunity to discuss this Agreement with my own attorney prior to signing it, and to make certain that I understand the meaning of the terms and conditions contained in this Agreement and fully understand the content and effect of this Agreement. In agreeing to sign this Agreement, I have not relied on any statements or explanations made by Raven, the Company, or all and each of their respective agents or attorneys except as set forth in this Agreement. I agree to abide by this Agreement.

Date \_\_\_\_\_  
[EMPLOYEE NAME]

Date \_\_\_\_\_ RAVEN INDUSTRIES, INC.

By \_\_\_\_\_

Its \_\_\_\_\_

*REST OF PAGE INTENTIONALLY LEFT BLANK*

**RAVEN INDUSTRIES, INC.**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel A. Rykhus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raven Industries, Inc. (the Registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or others performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Dated: August 24, 2017

/s/ Daniel A. Rykhus

Daniel A. Rykhus

President and Chief Executive Officer

RAVEN INDUSTRIES, INC.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven E. Brazones, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raven Industries, Inc. (the Registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or others performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Dated: August 24, 2017

/s/ Steven E. Brazones

\_\_\_\_\_  
Steven E. Brazones

Vice President and Chief Financial Officer

**Exhibit 32.1**

**RAVEN INDUSTRIES, INC.**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

The undersigned, Daniel A. Rykhus, President and Chief Executive Officer of Raven Industries, Inc., has executed this Certification in connection with the filing with the Securities and Exchange Commission of Raven Industries, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2017 (the Report).

The undersigned hereby certifies, to his knowledge, that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Raven Industries, Inc.

Dated: August 24, 2017

/s/ Daniel A. Rykhus

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Daniel A. Rykhus

President and Chief Executive Officer

**RAVEN INDUSTRIES, INC.**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

The undersigned, Steven E. Brazones, the Vice President and Chief Financial Officer of Raven Industries, Inc., has executed this Certification in connection with the filing with the Securities and Exchange Commission of Raven Industries, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2017 (the Report).

The undersigned hereby certifies, to his knowledge, that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Raven Industries, Inc.

Dated: August 24, 2017

/s/ Steven E. Brazones

\_\_\_\_\_  
Steven E. Brazones

Vice President and Chief Financial Officer