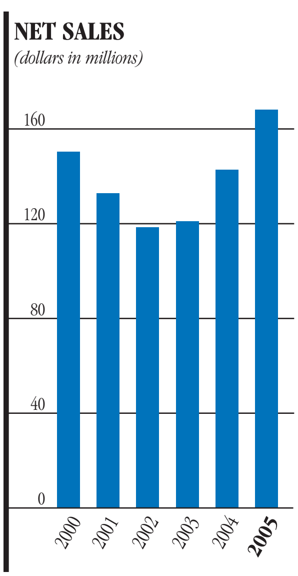
RAVEN 2005 Annual Report
for the fiscal year ended January 31

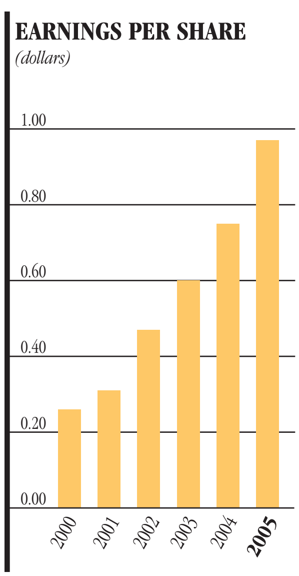
Building a Platform for Success

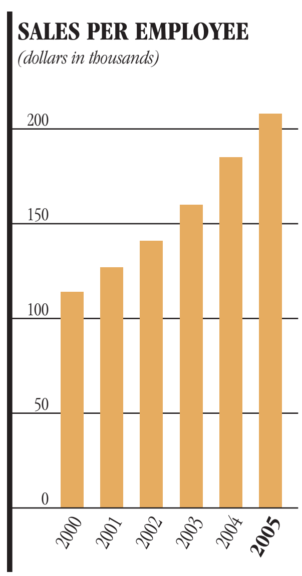
Financial Highlights

Dollars in thousands, except per-share data	For the years ended January 31 **2005**	2004	change
OPERATIONS			
Net sales	**$168,086**	$142,727	17.8%
Operating income	**27,862**	21,626	28.8%
Net income	**17,891**	13,836	29.3%
PER SHARE			
Net income – diluted	**$ 0.97**	$ 0.75	29.3%
Cash dividends	**0.22**[(a)]	0.17	29.4%
Book value	**3.67**	3.68	– 0.3%
PERFORMANCE			
Operating income margin	**16.6%**	15.2%	9.2%
Return on net sales	**10.6%**	9.7%	9.3%
Return on average assets	**21.3%**	18.2%	17.0%
Return on beginning shareholders' equity	**26.9%**	23.8%	13.0%
Shares outstanding, year-end (in thousands)	**17,999**	18,041	– 0.2%

(a) Excludes a special dividend of $.625 per share that was paid during the second quarter of fiscal 2005.







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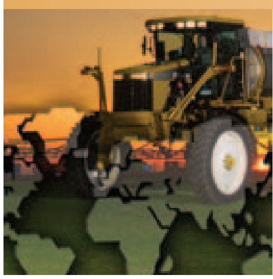
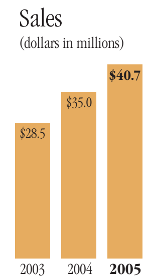
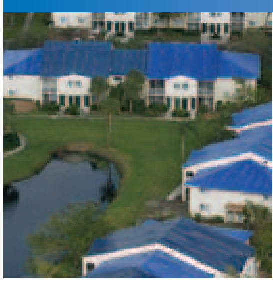
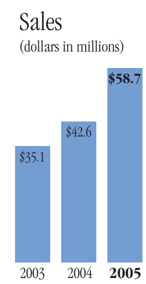
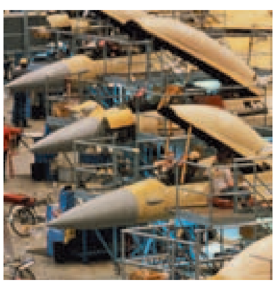
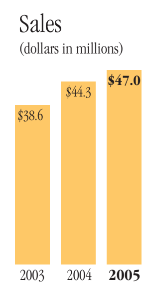
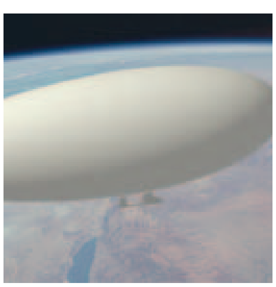
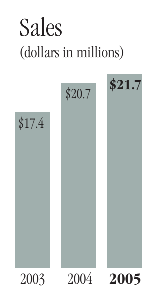
Business Profile

Founded in 1956, Raven today is an industrial manufacturer with four operating units. The company has divested lower-performing assets, simplified its product bases, and enhanced profitability (cash return on invested capital) and shareholder value–a strategy of "Improve, innovate, grow."

Operating Unit	Products	Markets	Competitive Strengths	
Flow Controls 	• Computerized control hardware and software for precision farming • Leading developer of GPS-based control systems • Precision application of pesticides, fertilizer and road de-icers	• Agriculture OEMs and sprayer manufacturers • Agricultural equipment after-market • Marine navigation	• Market leader for ag sprayer controls • Strong brand recognition and distribution network • Wide range of precision agricultural products	
Engineered Films 	• Rugged reinforced plastic sheeting	• Manufactured housing and RVs • Temporary grain covers for agriculture • Temporary building construction enclosures • Pond lining and containment for oil exploration	• Vertically integrated manufacturing capabilities • Broad product line • Superior target marketing • High productivity and low-cost structure	
Electronic Systems 	• Electronics Manufacturing Services (EMS)	• Primarily industrial OEMs in North America • Fortune 500 companies that contract their low-volume, high-mix production	• Advanced manufacturing, technology • Full-service provider, from engineering and manufacturing to customer service • ISO 9001	
Aerostar 	• Military cargo parachutes • Government service uniforms • High-altitude research balloons • Custom-shaped inflatables	• US and foreign governments • NASA • Promotional and advertising markets, including Disney and Macy's	• Reputation for innovation and quality • Sole source in US for scientific balloons • Best technology	

To Our Shareholders, Employees and Customers

Ronald M. Moquist
President & Chief Executive Officer

During the past year we continued to build a solid platform for success—one that further strengthens our four core businesses and sets the stage for long-term profitable growth. The platform starts with a business model that focuses our resources on developing specialty niche markets where we can be a market leader, not dependent on cheap labor or commodity-type products. It's a model capable of driving high-margin sales and capital-efficient growth.

Fiscal Year Results

We became an even stronger company last year. The major initiatives we launched five years ago are paying off both in top- and bottom-line growth.

- Sales climbed 18% to a record $168 million. Special one-time hurricane plastic tarp sales contributed $9 million.
- Net earnings were up 29% to $17.9 million.
- Operating margins expanded to 17% from the previous year's 15%.
- Investments in plant and equipment, and new product development increased 89% to $9.5 million.
- The quarterly dividend was increased 22%, our eighteenth consecutive annual increase. In May we paid a one-time special cash dividend of $.625 per share.
- Total return to Raven shareholders (stock price appreciation, assuming all dividends were reinvested) was 37% versus the S&P 500's total return of 6%.
- The stock was split two-for-one in October.

Building for the Future

We have a solid game plan, one that can deliver strong results. We will continue to seek out high-growth markets where we can apply our engineering and manufacturing expertise. Our businesses rely on speed, flexibility and innovation, providing our customers with a level of engineering and service support that is not easily duplicated. We never stop evaluating our business model to ensure it is still relevant and can provide the returns we have promised to our shareholders.

The best way to create shareholder value is to deliver consistent, dependable growth. This means continuously reinvesting in our core businesses while improving productivity. Our innovation efforts yielded promising new products last year, and our current level of investments in plant and equipment give us the capacity for continued growth. In the last three years capital investments have averaged less than $6 million per year. This year we kick it up several notches with planned investments of $10 million.

Segment Performance

The Engineered Films Division (EFD) had an outstanding year, by far its best ever. Higher raw material costs were offset by selling price increases, improved productivity and increased volume that optimized equipment utilization. We continue to invest heavily in new extrusion equipment for producing multi-layer specialty films. Last year we invested $4 million in plant and equipment. This year we will spend $6 million. We believe the opportunities for substantial high-margin growth will continue into the foreseeable future.

The Flow Controls Division (FCD) had another stellar performance. Designing innovative precision agricultural products is the engine of growth for FCD. Last year we introduced several successful new products, with SmarTrax,™ the clear-cut "homerun" of the group. SmarTrax™ gives us a leading position in a segment of the tractor-navigation market where low cost and basic sub-meter accuracy are the key drivers. We believe this is the sweet spot of the market where most sales will arise.

We plan to expand our market presence in Brazil and Argentina by opening a distribution warehouse and service support center. We believe our products are well suited to the large-acreage farms and agricultural practices of these countries.

The Electronic Systems Division (ESD) got off to a slow start in the first half of last year but finished with significantly improved results. Start-up problems with a large new customer, plus some process and equipment failures, contributed to the drop-off. The ESD business model of providing low-volume, high-mix contract manufacturing services, coupled with lots of customer service and engineering support is still the most viable in this marketplace. It avoids going toe-to-toe with cheap-labor manufacturers in the Far East. Our business model requires great nimbleness, strict discipline, robust manufacturing processes and a "zero waste" mentality.

Aerostar International had a wonderful performance. Aerostar was once a financial drag on the corporation, but is now a full partner in our success. Up until two years ago, Aerostar was focused on commercial outerwear and hot air balloons. We now target high-tech military outerwear, government and commercial inflatables—such as high-altitude research balloons for NASA, and we also make military parachutes. The challenge in this strategy is that government contracts don't flow in on a smooth, steady schedule. We have not yet received the follow-on contract for parachutes, so sales will be reduced in the first half of this year.

I'm proud to note that early this year Aerostar helped NASA's Balloon Program set another endurance record for large scientific payloads. A 40-million-cubic-foot balloon, manufactured in our Texas facility, carried the 6,000-pound CREAM (Cosmic Ray Energetics And Mass) experiment to an altitude of 130,000 feet for almost 42 days.

Strong Financial Returns

Cash flow is a core element of our long-term corporate strategy. We have a strong balance sheet with no debt and $9.6 million in cash, plus inventories and accounts receivable that are clean. The one big disappointment last year was the slippage in inventory turns. Inventory turns are a key metric for a manufacturing company. We ended the year with inventory at $23.3 million, much higher than necessary.

We have made great progress in our three-year plan to improve returns on invested capital. Very few companies can match us on these key ratios. It's one of the things we are most proud of:

	FY 2005	FY 2004	FY 2003	FY 2002
Annual EPS Growth	29.3%	25.0%	29.0%	50.0%
Return on Equity	26.9%	23.8%	21.5%	18.4%
Return on Assets	21.3%	18.2%	15.9%	13.3%
Return on Sales	10.6%	9.7%	9.3%	7.5%

In the last three years we have grown earnings per share at an average annual rate of 28%. Although these levels of growth are not sustainable long-term, we are committed to delivering at least 15% earnings growth, on average.

Our Growth Strategies

The best growth strategies are the ones that the competition has difficulty copying. That's why we avoid labor-intensive, commodity-type products. Our strategy is to create high-margin, capital-efficient growth in niche markets where we can be a leader. To do that, we emphasize three main strategies: Innovation, Operational Excellence, and Market Expansion. We develop these strategies with a return-on-investment mentality. Before new capital is committed, we must be convinced that the opportunity is real and Raven has a high potential to succeed.

Innovation

Innovation at Raven means more than developing great new products, although that's an absolutely essential element. It's also about building effective sales and distribution networks; providing higher levels of technical and service support to customers; and adding advanced processing machinery that drives efficiency. By continuously challenging each other to act and think in new and creative ways, through robust dialogue and honest give-and-take, we sustain an environment where innovation flourishes.

Operational Excellence

Operating excellence is really a culture. It's how we want to run our company. We're achieving operating improvements every day through our Total Quality and Six Sigma programs. As we reduce defects, improve processes and eliminate variation in every department at Raven we not only become more competitive, but also, more consumer-centric. In many cases, we have been able to drive down prices while improving margins. We set an annual productivity improvement goal of 6%. Last year we met our goal through the accomplishments of Engineered Films and Aerostar. All our operations are capable of doing the same.

Market Expansion

We plan to take our high-margin products and multiply their impact by expanding into associated markets and geographic regions. Our international revenues were only $11 million last year, so there is plenty of room for growth. Brazil is a target country that holds great potential for Raven precision ag products. It could someday rival the US market in total size. We recognize that to gain a strong presence we need to establish warehousing, service capabilities and training facilities. Those efforts will start this second quarter.

Investor Trust

Our approach to building investor trust is based on a commitment to "performance with integrity." Tom Iacarella, our Chief Financial Officer, leads a financial team that adheres to high standards of controllership and is committed to full disclosure with transparency. We take pride in the clarity and directness of our financial reports. We present the numbers in this Annual Report proudly, knowing that investment decisions are made based on their accuracy and completeness.

Raven does not provide analysts or shareholders with specific targets for sales and profits. Instead, we commit to achieving our financial objectives over the long haul:

- **Sales growth of 12%+**
- **Earnings growth of 15%+**
- **Return on sales exceeding 9%**
- **Return on assets exceeding 15%**
- **Return on equity exceeding 20%**

A Strong Outlook

It is an honor to lead a great company such as Raven. Our 850 employees and our Board of Directors are dedicated to making Raven one of the best small companies in America. I am grateful for their loyalty, talent and commitment. We are proud of what we accomplished last year, but we realize that business is not about reliving the past—it is the constant challenge to improve and grow.

Last year we not only delivered strong results but also took the necessary steps to create a company of lasting value. With our strong cash flow, we will continue to invest heavily in organic growth; make small, add-on acquisitions; increase the regular quarterly dividend; and repurchase our stock.

We are well positioned for this year, projecting double-digit earnings growth—making it another year of record sales and profits.

My sincere thanks to all Raven employees. Together, we have created an open, challenging, respectful environment built on mutual trust—a place where we can succeed, grow and have fun.

Ronald M. Moquist
President & CEO
March 29, 2005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Flow Controls Division

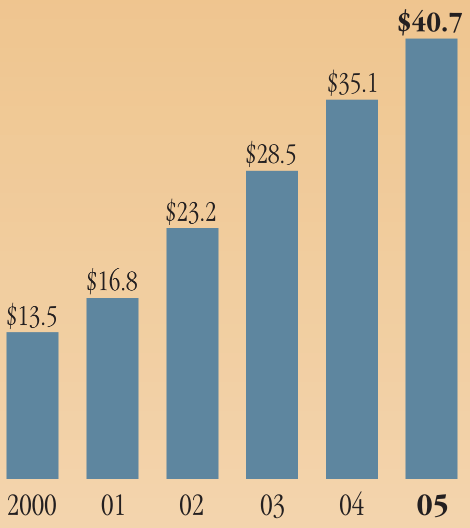
Many factors contributed to a strong showing, including a vigorous agricultural economy.

Sales in the Flow Controls Division (FCD) climbed 16% to $41 million while operating income rose 27% to $10.5 million despite the revenue loss of $6 million from a special order for chemical-injection systems in the previous year. Many internal and external factors contributed to this strong showing, including a vigorous agricultural economy in North America. New products over the past three years—such as the SmarTrax™, Viper, and Lightbar guidance systems for improved farming efficiency—were purchased by farmers and farm service providers in record volumes.

Adjustments to our distribution strategy to foster better representation of our product lines in the southern and western US generated strong sales improvements there. Large national accounts also chose our line of products based on the breadth of the line and the availability of training and field support.

The strategic emphasis to develop deeper technical expertise while also developing significantly more dealer representation is paying off. Raven products sold to growers for greater farming efficiency utilize professional grade GPS technology, "ruggedized" field computers, wireless data transmission methods, and other technologies. This blend of technologies calls for high levels of training and field support availability and has been well received by existing channel partners. And, finally, international FCD sales increased 53% and now exceed 10% of total division sales. We grew in both our South American and Australian markets.

Flow Controls Sales
(dollars in millions)



Prospects

Strong gross profit improvement in the division was driven by aggressive value-engineering efforts, which led to significant material cost reductions on key product lines and lower overall labor content to build product. This year we should further reduce labor cost while cutting cycle times for most products to two days or less. We also continue to invest significant business development efforts in each of our international markets. Continued growth has been strengthened by our acquisition, in February 2005, of a Canadian company that has developed an automatic boom height control system.

As part of FCD's initiatives to enhance product training and to improve product development and testing processes, the Raven Precision Solutions Center was opened last year. This new 7,200-square-foot facility sits on 190 acres of farmland and includes state-of-the-art development and test tools for a range of FCD technologies as well as a custom-built training facility. Facility utilization has been much higher than planned as large customers and researchers, potential technology partners, and universities have all begun using this site.

Raven products sold to farmers for greater efficiency in their fields utilize professional grade GPS technology, "ruggedized" field computers, wireless data transmission methods, and other technologies.

Engineered Films Division

Biggest growth was in disaster films, followed by agriculture, manufactured housing and pit linings.

The Engineered Films Division (EFD) experienced a record year both in sales and profitability for the 12 months ended January 31, 2005. Sales were up 38% to $59 million from the previous fiscal year while operating income grew by 49% to $15.7 million in the same timeframe. The division shipped over $9 million of film in response to the severe hurricane season in the southeastern United States.

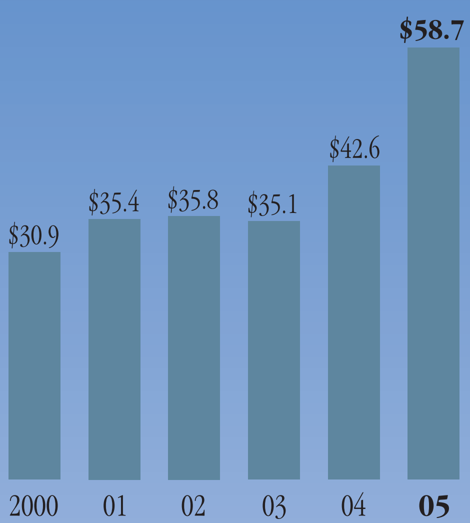
Higher profits were driven by operational efficiencies generated through increased sales of higher-margin products. Sales increases were propelled for the most part by an improving economy, which saw all of our market segments increase. Our largest growth was in our disaster films product line, followed by agriculture, manufactured housing and pit linings for oil exploration.

Several operational and equipment changes and purchases occurred this past year. Our Ohio production facility was converted into a warehousing facility, cutting staffing levels significantly but still providing quick access to key markets in the eastern United States. We continued to invest in manufacturing capacity, building two new extrusion lines late in the year.

Prospects

We expect ongoing growth in virtually all plastic sheeting markets this new year and have prepared for greater demand. With the two new extruders added to our Sioux Falls location: one, a state-of-the-art 3-layer line; the other, a 5-layer line—we will have access to new markets this year. We are constructing a 26,000-foot addition to our manufacturing facility in Sioux Falls for anticipated future growth. This addition should be completed this spring and will be used initially for warehouse space, but will soon house new lamination equipment.

Engineered Film Sales
(dollars in millions)



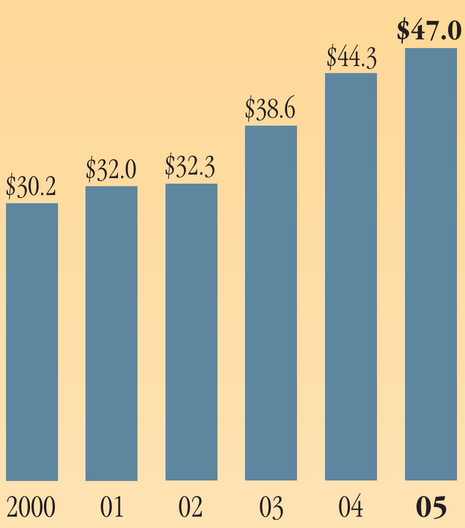
A sea of blue temporary roof coverings dominated parts of hurricane-devastated Florida last fall. Many were made from Raven's disaster film.

photo credit: Lannis Waters

Electronic Systems Division

Management continues to believe the model of high-mix, low-volume manufacturing is the best path to success.

Electronic Systems Sales
(dollars in millions)



Expansion into the avionics market, including military fighter aircraft and missiles as well as commercial jetliners, continues strong in Electronic Systems.

Electronic Systems Division (ESD) sales for the last fiscal year climbed 6% to $47 million. The division got off to a slow start in the first six months, but performance improved in the second half. High startup costs with a major new client combined with lower first-half sales to impact profits negatively. For the full year, ESD operating profits declined 23% from the previous fiscal year, reaching $4.5 million.

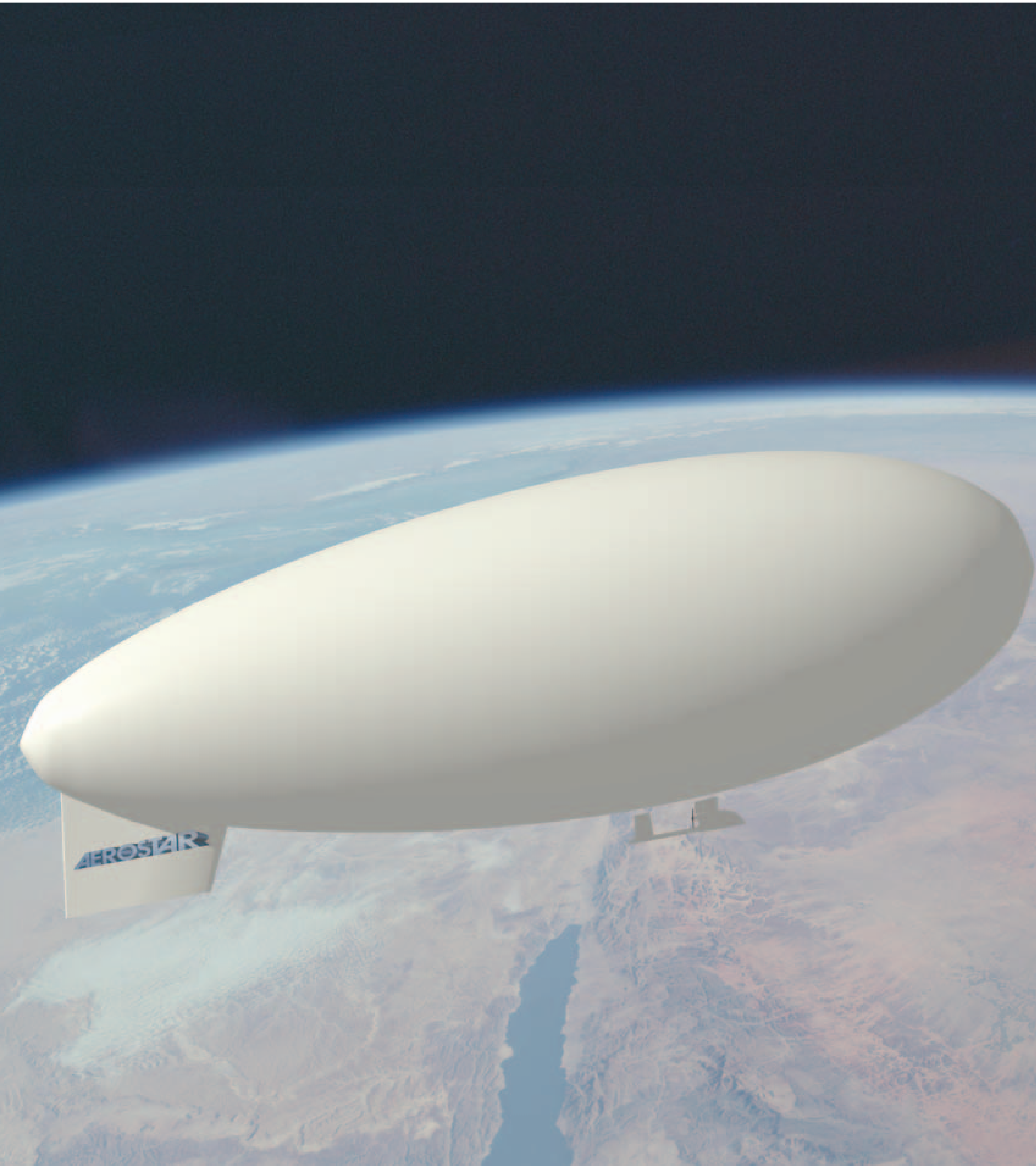
Management continues to believe that ESD's model of high-mix, low-volume manufacturing is the best path to success in the highly competitive Electronics Manufacturing Services (EMS) business.

ESD continues to aggressively utilize Six Sigma, a quality-improvement business strategy focused on using statistical and problem-solving tools to enhance manufacturing efficiency. ESD efforts this past year included improvements in our Design Engineering and Engineering Change Order (ECO) processes. Major activities also included improvements in quoting and new product introductions, and moving to lead-free manufacturing.

The division added one client in the fourth quarter of the past fiscal year. This account will give us exposure to a new market—medical equipment.

Prospects

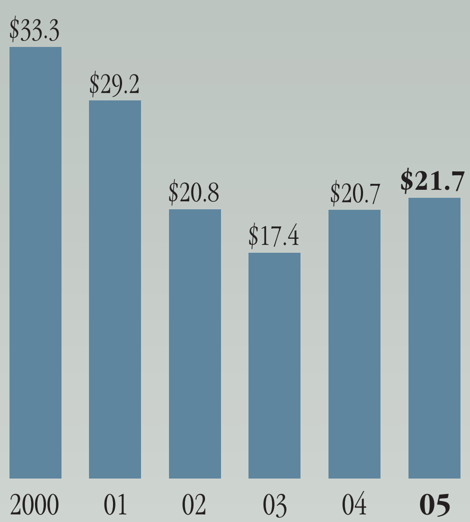
Efforts will continue on reducing manufacturing cycle time, increasing inventory turns, and improving cycle time in technical support processes. As in this past year, ESD has pushed to maintain a selective base of customers by adding one or two new clients annually. We will continue our focus on enhancing customer service and in providing value-added services in test, design, manufacturability analysis and component obsolescence tracking.


AEROSTAR

Aerostar

Aerostar has completed ISO 9002 certification, which will open up new business opportunities.

Aerostar Sales
(dollars in millions)



The huge inflatable airship called "High Sentry" is an Aerostar concept for a new high-altitude unmanned airship to reach 67,000 feet. It could be used for communications or surveillance over a 300-mile radius (280,000 square-mile area).

This past year Aerostar sales rose 4% to $22 million while operating income climbed 17% to $3.6 million, with profits for the past fiscal year reflecting higher efficiencies on our parachute contracts. Aerostar results now include the company's high-altitude research balloon business, which was formerly part of the Engineered Films Division. Aerostar accelerated new business development in the areas of meteorological balloons and Near Space applications.

Aerostar optimized manufacturing efficiencies in its $ 7.7 million cargo parachute contract. Every procedure in the new contract lent itself to automation—Aerostar's greatest strength. This second-year contract ramped up to full delivery rates for the first three quarters of the year. At that point, deliveries originally scheduled through January 2005 were rescheduled by the US Army through October 2005. This subsidiary also received significant business in government-uniform manufacturing due to the reorganization of federal agencies in the formation of the Department of Homeland Security. Profitability on these orders was solid due to substantial order volume.

We developed a relationship with a high-tech designer of coldwater survival suits. Aerostar added these products to its existing GSA contract. Sales of inflatable military decoys were also strong, particularly in the first half of the year.

Commercial product sales were off this year due to the lack of activity by some of Aerostar's largest customers such as Disney, and the movie and event/concert industries. Renewed activities in these areas were seen in the fourth quarter with an upturn in orders leading into the new year.

Prospects

Aerostar begins this new year with substantially lower parachute shipments. We are ready for new parachute contract solicitations that are due to be released in the second half of the year. These bids are for five-year contracts in areas that would take advantage of the strengths of Aerostar's manufacturing automation capabilities. Sales and profits in fiscal 2006 will significantly depend on obtaining new government contracts in the parachute and protective-wear area. During the past fiscal year, Aerostar completed ISO 9002 certification, which will allow us to pursue business opportunities that otherwise would not have been available.

Eleven-Year Financial Summary

Dollars in thousands, except per-share data	For the years ended January 31, **2005**	2004	2003
OPERATIONS FOR THE YEAR			
Net sales			
Ongoing operations	**$168,086**	$142,727	$119,589
Sold businesses[a]	**—**	—	1,314
Total	**168,086**	142,727	120,903
Gross profit	**43,200**	33,759	27,515
Operating income			
Ongoing operations	**27,862**	21,981	16,861
Sold businesses[a]	**—**	(355)	204
Total	**27,862**	21,626	17,065
Income before income taxes	**27,955**	21,716	17,254
Net income	**$ 17,891**	$ 13,836	$ 11,185
Net income % of sales	**10.6%**	9.7%	9.3%
Net income % of beginning equity	**26.9%**	23.8%	21.5%
Cash dividends	**$ 15,298**[b]	$ 3,075	$ 2,563
FINANCIAL POSITION			
Current assets	**$ 61,592**	$ 55,710	$ 49,351
Current liabilities	**20,950**	11,895	13,167
Working capital	**$ 40,642**	$ 43,815	$ 36,184
Current ratio	**2.94**	4.68	3.75
Property, plant and equipment	**$ 19,964**	$ 15,950	$ 16,455
Total assets	**88,509**	79,508	72,816
Long-term debt, less current portion	**—**	57	151
Shareholders' equity	**$ 66,082**	$ 66,471	$ 58,236
Long-term debt / total capitalization	**0.0%**	0.1%	0.3%
Inventory turnover (CGS / year-end inventory)	**5.4**	6.5	4.4
CASH FLOWS PROVIDED BY (USED IN)			
Operating activities	**$ 18,871**	$ 19,732	$ 12,735
Investing activities	**(7,631)**	(4,352)	(9,166)
Financing activities	**(19,063)**	(6,155)	(5,830)
Increase (decrease) in cash and cash equivalents	**(7,823)**	9,225	(2,261)
COMMON STOCK DATA			
Net income per share – basic	**$ 0.99**	$ 0.77	$ 0.61
Net income per share – diluted	**0.97**	0.75	0.60
Cash dividends per share	**0.85**[b]	0.17	0.14
Book value per share	**3.67**	3.68	3.21
Stock price range during year			
High	**$ 26.94**	$ 15.23	$ 9.20
Low	**13.08**	7.56	4.38
Close	**$ 18.38**	$ 14.11	$ 7.91
Shares outstanding, year-end (in thousands)	**17,999**	18,041	18,133
Number of shareholders, year-end	**6,269**	3,560	2,781
OTHER DATA			
Price / earnings ratio	**18.9**	18.8	13.2
Average number of employees	**807**	770	758
Sales per employee	**$ 208**	$ 185	$ 160
Backlog	**$ 43,646**	$ 47,120	$ 42,826

All per-share, shares outstanding and market price data reflect the October 2004 two-for-one stock split, the January 2003 two-for-one stock split and the July 2001 three-for-two stock split. All other figures are as reported.

Price / earnings ratio is determined as closing stock price divided by net income per share-diluted.

(a) During the second quarter of fiscal 2003, the company sold its Beta Raven Industrial Controls Division. In fiscal 2001, 2000 and 1996, the company sold its Plastic Tank, Glasstite and Astoria businesses, respectively.

(b) Includes a special dividend of $.625 per share that was paid during the second quarter of fiscal 2005.

For the years ended January 31,

2002[h]	2001[h]	2000[h]	1999[h]	1998[h]	1997[h]	1996[h]	1995[h]
$112,018	$113,360	$107,862	$108,408	$104,489	$101,869	$ 84,379	$ 87,458
6,497	19,498	42,523	46,798	47,679	39,576	38,010	35,889
118,515	132,858	150,385	155,206	152,168	141,445	122,389	123,347
23,851	21,123	24,217	24,441	24,929	25,287	22,660	23,968
13,788	7,417[c]	7,971	8,220	9,555	9,321	7,692	10,470
(613)	3,331[d]	2,606[e]	1,453	1,007	2,650	1,869	466[g]
13,175	10,748	10,577	9,673	10,562	11,971	9,561	10,936
13,565	10,924	10,503	9,649	12,540[f]	11,915	9,566	9,372
$ 8,847	$ 6,411[c](d)	$ 6,762[e]	$ 6,182	$ 8,062	$ 7,688	$ 6,197	$ 6,088[g]
7.5%	4.8%	4.5%	4.0%	5.3%	5.4%	5.1%	4.9%
18.4%	11.8%	10.9%	10.0%	14.2%	15.6%	13.6%	14.8%
$ 2,371	$ 2,399	$ 2,895	$ 2,944	$ 2,709	$ 2,367	$ 2,130	$ 1,843
$ 45,308	$ 51,817	$ 55,371	$ 60,279	$ 57,285	$ 56,696	$ 45,695	$ 43,795
13,810	13,935	14,702	15,128	17,816	20,016	14,771	15,078
$ 31,498	$ 37,882	$ 40,669	$ 45,151	$ 39,469	$ 36,680	$ 30,924	$ 28,717
3.28	3.72	3.77	3.98	3.22	2.83	3.09	2.90
$ 14,059	$ 11,647	$ 15,068	$ 19,563	$ 19,817	$ 18,142	$ 18,069	$ 18,570
67,836	65,656	74,047	83,657	82,066	80,662	67,553	65,636
280	2,013	3,024	4,572	1,128	3,181	2,816	4,179
$ 52,032	$ 47,989	$ 54,519	$ 62,293	$ 61,563	$ 56,729	$ 49,151	$ 45,526
0.5%	4.0%	5.3%	6.8%	1.8%	5.3%	5.4%	8.4%
5.0	5.9	5.2	4.9	4.8	4.5	4.1	4.4
$ 18,496	$ 9,441	$ 10,375	$ 8,326	$ 9,274	$ 7,088	$ 9,687	$ 7,452
(13,152)	9,752	6,323	(3,127)	(4,979)	(5,090)	(4,158)	(10,000)
(8,539)	(14,227)	(16,326)	(2,714)	(4,884)	(2,363)	(4,029)	406
(3,195)	4,966	372	2,485	(589)	(365)	1,500	(2,142)
$ 0.48	$ 0.31	$ 0.26	$ 0.22	$ 0.28	$ 0.27	$ 0.22	$ 0.22
0.47	0.31	0.26	0.22	0.28	0.27	0.22	0.21
0.13	0.12	0.11	0.10	0.09	0.08	0.08	0.07
2.82	2.53	2.32	2.21	2.13	1.96	1.74	1.60
$ 5.88	$ 3.48	$ 3.04	$ 3.79	$ 4.29	$ 3.92	$ 3.46	$ 4.08
3.02	1.88	2.25	2.54	3.27	2.67	2.58	3.00
$ 5.64	$ 3.04	$ 2.40	$ 2.67	$ 3.77	$ 3.75	$ 3.21	$ 3.13
18,424	18,956	23,496	28,164	28,944	29,016	28,296	28,410
2,387	2,460	2,749	3,014	3,221	3,011	3,190	3,031
12.1	9.8	9.2	12.4	13.7	13.9	14.9	14.9
838	1,043	1,320	1,445	1,511	1,387	1,368	1,414
$ 141	$ 127	$ 114	$ 107	$ 101	$ 102	$ 89	$ 87
$ 33,834	$ 38,239	$ 44,935	$ 47,431	$ 47,154	$ 38,102	$ 32,539	$ 29,661

(c) Includes $2.6 million of business repositioning charges, net of gains on plant sales, primarily in Electronic Systems Division and Aerostar.

(d) Includes the $3.1 million pretax gain ($1.4 million net of tax) on the sale of the company's Plastic Tank Division.

(e) Includes the $1.2 million pretax gain ($764,000 net of tax) on the sale of assets of the company's Glasstite subsidiary.

(f) Includes the $1.8 million pretax gain ($1.2 million net of tax) on sale of an investment in an affiliate.

(g) Includes $1.8 million of business repositioning charges at the company's Beta Raven Industrial Controls Division.

(h) Amounts for these years are unaudited.

Business Segments

Dollars in thousands	**2005**	2004	2003	2002[j]	2001[j]	2000[j]
	For the years ended January 31					
FLOW CONTROLS DIVISION						
Sales	**$ 40,726**	$ 35,059	$ 28,496	$ 23,178	$ 16,758	$ 13,520
Operating income	**10,516[a]**	8,254	6,897	5,509[c]	3,985	2,873
Assets	**23,701**	19,304	21,483	20,313	9,578	7,096
Capital expenditures	**1,372**	341	729	677	327	202
Depreciation & amortization	**876**	1,004	948	443	353	351
ENGINEERED FILMS DIVISION						
Sales	**$ 58,657**	$ 42,636	$ 35,096	$ 35,796	$ 35,403	$ 30,868
Operating income	**15,739**	10,563	10,030	8,257	7,397	6,274
Assets	**25,181**	15,941	17,244	13,691	11,520	12,001
Capital expenditures	**3,960**	712	4,080	3,178	633	764
Depreciation & amortization	**1,403**	1,611	1,475	1,001	946	993
ELECTRONIC SYSTEMS DIVISION						
Sales	**$ 47,049**	$ 44,307	$ 38,589	$ 32,289	$ 32,039	$ 30,176
Operating income (loss)	**4,492**	5,797	4,022	2,264	(542)[e]	1,632
Assets	**17,382**	14,975	14,528	13,910	15,359	18,846
Capital expenditures	**1,201**	841	395	774	1,492	1,168
Depreciation & amortization	**880**	850	978	1,101	1,089	1,032
AEROSTAR						
Sales	**$ 21,654**	$ 20,725	$ 17,408	$ 20,755	$ 29,160	$ 33,298
Operating income	**3,609**	3,092[b]	1,012	2,907[d]	2,996	3,282
Assets	**7,492**	7,756	7,032	7,150	8,872	12,778
Capital expenditures	**542**	1,130	570	256	163	145
Depreciation & amortization	**389**	436	374	347	367	454
SOLD BUSINESSES[h]						
Sales	**$ —**	$ —	$ 1,314	$ 6,497	$ 19,498	$ 42,523
Operating income (loss)	**—**	(355)	204	(613)	3,331[f]	2,606[g]
Assets	**—**	—	—	1,102	4,805	13,475
Capital expenditures	**—**	—	7	52	246	1,172
Depreciation & amortization	**—**	—	20	76	718	1,831
REPORTABLE SEGMENTS TOTAL						
Sales	**$168,086**	$142,727	$120,903	$118,515	$132,858	$150,385
Operating income	**34,356[a]**	27,351[b]	22,165	18,324[c,d]	17,167[e,f]	16,667[g]
Assets	**73,756**	57,976	60,287	56,166	50,134	64,196
Capital expenditures	**7,075**	3,024	5,781	4,937	2,861	3,451
Depreciation & amortization	**3,548**	3,901	3,795	2,968	3,473	4,661
CORPORATE & OTHER[i]						
Operating (loss)	**$ (6,494)**	$ (5,725)	$ (5,100)	$ (5,149)	$ (6,419)	$ (6,090)
Assets	**14,753**	21,532	12,529	11,670	15,522	9,851
Capital expenditures	**466**	306	252	157	229	188
Depreciation & amortization	**293**	244	171	177	194	223
TOTAL COMPANY						
Sales	**$168,086**	$142,727	$120,903	$118,515	$132,858	$150,385
Operating income	**27,862[a]**	21,626[b]	17,065	13,175[c,d]	10,748[e,f]	10,577[g]
Assets	**88,509**	79,508	72,816	67,836	65,656	74,047
Capital expenditures	**7,541**	3,330	6,033	5,094	3,090	3,639
Depreciation & amortization	**3,841**	4,145	3,966	3,145	3,667	4,884

(a) Includes a $1.3 million pretax writeoff of assets related to the Fluent Systems product line (See Note 4).
(b) Includes $182,000 of pretax gain on plant sale.
(c) Includes a $550,000 in-process research and development charge related to the Starlink acquisition.
(d) Includes $414,000 of pretax gains on plant sales.
(e) Includes $1.8 million of business repositioning charges in the Electronic Systems Division and $2.6 million for the total company.
(f) Includes a $3.1 million pretax gain on the sale of the company's Plastic Tank Division.
(g) Includes a $1.2 million pretax gain on the sale of the company's Glasstite business.
(h) Operating income for sold businesses includes administrative expenses directly attributable to the sold businesses.
(i) Operating loss consists of administrative expenses — assets are principally cash, investments, deferred taxes and notes receivable.
(j) Amounts for 2002, 2001 and 2000 are unaudited.

Financial Review and Analysis

RESULTS OF OPERATIONS

The following table presents comparative financial performance for the past three years:

	For the years ended January 31								
	2005			2004			2003		
Dollars in thousands, except per-share data		% Sales	% Change		% Sales	% Change		% Sales	% Change
Net sales	**$168,086**	**100.0**	**+17.8**	$142,727	100.0	+18.1	$120,903	100.0	+ 2.0
Gross profit	**43,200**	**25.7**	**+28.0**	33,759	23.7	+22.7	27,515	22.8	+15.4
Operating expenses	**14,056**	**8.4**	**+17.5**	11,960	8.4	+12.5	10,629	8.8	− 3.7
Loss (gain) on disposition of businesses and assets	**1,282**			173			(179)		
Operating income	**27,862**	**16.6**	**+28.8**	21,626	15.2	+26.7	17,065	14.1	+29.5
Income before income taxes	**27,955**	**16.6**	**+28.7**	21,716	15.2	+25.9	17,254	14.3	+27.2
Income taxes	**10,064**	**6.0**	**+27.7**	7,880	5.5	+29.8	6,069	5.0	+28.6
Net income	**$ 17,891**	**10.6**	**+29.3**	$ 13,836	9.7	+23.7	$ 11,185	9.3	+26.4
Net income per share — diluted	**$ 0.97**		**+29.3**	$ 0.75		+25.0	$ 0.60		+28.8
Effective income tax rate	**36.0%**		**− 0.8**	36.3%		+ 3.1	35.2%		+ 1.1

EXECUTIVE SUMMARY

Consolidated Operating Results

Fiscal 2005 was another record-breaking year for the company, exceeding fiscal 2004 record-setting results with $17.9 million in net income and $0.97 of earnings per diluted share. This represents growth in net income and diluted earnings per share of 29.3%. Net sales reached a record $168.1 million, surpassing fiscal 2004 by $25.4 million, or 17.8%. Driving the income and sales increases were strong performances in the company's Engineered Films and Flow Controls segments. Results for fiscal 2004 were also a record, with net income of $13.8 million, or $0.75 per diluted share.

During fiscal 2005, the company split its stock two-for-one and paid dividends of 22 cents per share, adjusted for the stock split, or 5½ cents per quarter. A one-time special dividend of 62½ cents per share, which totaled $11.3 million, was also distributed to shareholders. In fiscal 2004, the company increased its quarterly dividend from 3½ cents to 4½ cents per share. Capital expenditures totaled $7.5 million for fiscal 2005, which was significantly higher than the $3.3 million spent in fiscal 2004. Fiscal 2005 capital spending in the Engineered Films segment to increase extrusion capacity totaled almost $4.0 million.

Management has planned for another year of double-digit profit growth, based on continuing agricultural demand for precision agriculture products and carryover demand for plastic sheeting, with another year of record sales and profits in fiscal 2006.

The following discussion highlights the consolidated operating results. Results at the divisional and subsidiary level are more fully explained in the segment discussions that follow. In addition, the company has undertaken divestitures and repositioning activities in fiscal 2003 and fiscal 2004, which are more fully explained under "Divestitures and Repositioning Activities." The company's high-altitude research balloon operation, formerly in the Engineered Films segment, is included with Aerostar results as a result of a change in the company's organizational structure. Prior year results have been reclassified to reflect this change.

Fiscal 2005 versus fiscal 2004

Net sales of $168.1 million were 17.8% higher than fiscal 2004, with all segments recording increases over their fiscal 2004 revenue levels. Operating income rose $6.2 million, reaching $27.9 million. Profit gains were a result of significant sales increases in the company's higher-margin product lines. Flow Controls' net sales of $40.7 million were $5.7 million, or 16.2% ahead of fiscal 2004, due to the strong agricultural economy and new product introductions while operating income rose 27.4% to $10.5 million. Engineered Films posted the largest revenue gain, increasing net sales by 37.6%, or $16.0 million. The severe hurricane season resulted in disaster film sales of $9.1 million in fiscal 2005. This segment also recorded the largest operating income gain of $5.2 million, a 49.0% increase over fiscal 2004 results. Electronic Systems' net sales of $47.0 million were $2.7 million higher than fiscal 2004, although the increase in revenue did not result in positive profit growth. Electronic Systems' operating income decreased $1.3 million from the prior year due to unfavorable product mix and start-up issues with a new customer. Aerostar recorded a modest net sales increase over fiscal 2004 of 4.5%, while operating income of $3.6 million rose 16.7%. Fiscal 2004 results include an operating loss of $355,000 for ongoing environmental and legal liabilities associated with previously sold businesses.

Fiscal 2004 versus fiscal 2003

Net sales of $142.7 million and operating income of $21.6 million represented 18.1% and 26.7% growth over fiscal 2003. All segments achieved sales growth over fiscal 2003 and gains in operating income were a result of increased gross profits in all the segments. An increase in special-order chemical injection system sales and new product sales drove Flow Controls' sales up to $35.1 million, a $6.6 million sales jump. Operating income in this segment reached $8.3 million. Engineered Films sales of $42.6 million were up 21.5% over fiscal 2003, but material pricing pressures kept operating income relatively flat at $10.6 million. Electronic Systems increased sales 14.8% to $44.3 million while growing operating income to $5.8 million, or 44.1%, from a selective customer base generating new and expanded orders. Aerostar executed a strong turnaround in fiscal 2004, increasing sales from $17.4 million to $20.7 million, and increasing operating income by $2.1 million to $3.1 million, largely due to a US Army cargo parachute contract. Fiscal 2004 results include an operating loss of $355,000 for ongoing environmental and legal liabilities associated with previously sold businesses. Fiscal 2003 results include $1.3 million in net sales and $204,000 of operating income related to operations of Sold Businesses.

FISCAL 2005 PERFORMANCE MEASURES

The company's net income as a percent of net sales has steadily risen over the last five years, reaching 10.6% for fiscal 2005. In terms of average assets, net income was 21.3%. This highlights the company's effective use of its assets to generate income. Finally, as a percent of beginning equity for fiscal 2005, net income improved to 26.9%, generating shareholder value.

	2005	2004	2003	2002	2001	2000
Net income as % of						
Net sales	**10.6%**	9.7%	9.3%	7.5%	4.8%	4.5%
Average assets	**21.3%**	18.2%	15.9%	13.3%	9.2%	8.6%
Beginning equity	**26.9%**	23.8%	21.5%	18.4%	11.8%	10.9%

DIVESTITURES AND OTHER REPOSITIONING ACTIVITIES

During fiscal 2004 and 2003, the company closed and downsized business units that did not provide proper returns on investment. While the company will continue to review the utilization of invested capital, management believes this activity was substantially completed in fiscal 2003.

Fiscal 2004 Activities

Fiscal 2004 divestiture activities were limited to the sale, by the company's Aerostar subsidiary, of a sewing plant closed in fiscal 2003. The sale of that plant and its related equipment resulted in cash proceeds of $196,000 and a pretax gain of $182,000. This gain was offset by a $355,000 loss from increased liabilities for environmental or legal issues related to previously sold businesses, as estimated by the company and its advisors.

Fiscal 2003 Activities

During fiscal 2003, the former Beta Raven Industrial Controls Division was sold. A pretax gain of $104,000 and $577,000 of cash proceeds were realized on the completion of the disposal of that subsidiary. An Aerostar sewing plant was closed during the third quarter as well. The remainder of the pretax net gain of $179,000 related to the collection of a previously discounted note receivable, net of increased anticipated costs from ongoing environmental and legal liabilities from previously sold businesses.

Sold Businesses

Fiscal 2003 net sales from Sold Businesses of $1.3 million were entirely composed of Beta Raven Industrial Controls Division operations. Operating income totaled $204,000, which included $179,000 of gains on asset sales.

SEGMENT ANALYSIS

SALES AND OPERATING INCOME BY SEGMENT

	2005		2004		2003	
Dollars in thousands	amount	% change	amount	% change	amount	% change
SALES						
Flow Controls	**$ 40,726**	**+16.2**	$ 35,059	+23.0	$ 28,496	+22.9
Engineered Films	**58,657**	**+37.6**	42,636	+21.5	35,096	−12.9
Electronic Systems	**47,049**	**+ 6.2**	44,307	+14.8	38,589	+19.5
Aerostar	**21,654**	**+ 4.5**	20,725	+19.1	17,408	+ 7.0
Total ongoing	**168,086**	**+17.8**	142,727	+19.3	119,589	+ 6.8
Sold businesses	**—**		—		1,314	−79.8
Total	**$168,086**	**+17.8**	$142,727	+18.1	$120,903	+ 2.0

	2005		2004		2003	
Dollars in thousands	amount	% sales	amount	% sales	amount	% sales
OPERATING INCOME (LOSS)						
Flow Controls	**$ 10,516**	**25.8**	$ 8,254	23.5	$ 6,897	24.2
Engineered Films	**15,739**	**26.8**	10,563	24.8	10,030	28.6
Electronic Systems	**4,492**	**9.5**	5,797	13.1	4,022	10.4
Aerostar	**3,609**	**16.7**	3,092	14.9	1,012	5.8
Corporate expenses	**(6,494)**		(5,725)		(5,100)	
Total ongoing	**27,862**	**16.6**	21,981	15.4	16,861	14.1
Sold businesses	**—**		(355)		204	
Total	**$ 27,862**	**16.6**	$ 21,626	15.2	$ 17,065	14.1

FLOW CONTROLS

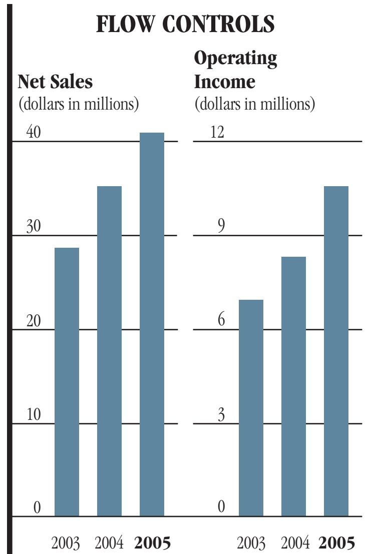
The Flow Controls Division (FCD) provides electronic speed and Global Positioning System (GPS)-based, location-compensated application-control products for the agriculture, marine navigation and other niche markets.

Fiscal 2005 versus fiscal 2004

FCD increased sales 16.2% over fiscal 2004 to reach $40.7 million, despite the decrease of $6.0 million in sales recorded last year under a special order for chemical injection systems. Improved farm incomes, new product sales, value-engineering activities, and an increase in market share contributed to the fiscal 2005 revenue growth. As a percentage of net sales, gross profits increased from 30.4% to 36.7%. Fiscal 2005 operating income of $10.5 million grew 27.4% due to the higher sales level, high-margin product sales, and value engineering activities. The operating income growth was tempered by a $1.3 million writeoff against inventory, fixed assets and intangible assets from the segment's December 2003 acquisition of Fluent Systems, LLC. Also, selling expenses rose $729,000, or 30.4%, due to continued investment in the segment's precision agriculture distribution plan.

Fiscal 2004 versus fiscal 2003

Net sales of $35.1 million grew 23.0% from fiscal 2003 net sales of $28.5 million. Shipments of $6.0 million under a special order for chemical injection systems during the first half of fiscal 2004 were $2.8 million higher than fiscal 2003 shipments. The division's precision agriculture distribution plan, comprised of new product introductions, improvements on existing products and an expanded customer base, helped drive the remaining growth. Operating income of $8.3 million surpassed fiscal 2003 operating income by $1.4 million. Higher sales levels in turn produced increased gross profits, but were partially offset by a $678,000, or 39.5%, increase in selling expenses. As a percentage of net sales, gross profits were 30.4% as compared to 29.8% for fiscal 2003. Selling expenses rose sharply from personnel and advertising costs associated with the new precision agriculture distribution plan. Additionally, fiscal 2003 bad debt expense was favorable due to the collection of a receivable for which an allowance had previously been established.



Prospects

FCD continues to focus on gaining market share in the precision agriculture market; developing new, innovative products; and improving its existing products through value-engineering efforts. New product growth will be aided by the February 2005 acquisition of a Canadian company that has developed an automatic boom height control system and market expansion into international markets, particularly South America. These factors are expected to contribute to revenue growth in the 15-20% range in the upcoming year.

ENGINEERED FILMS

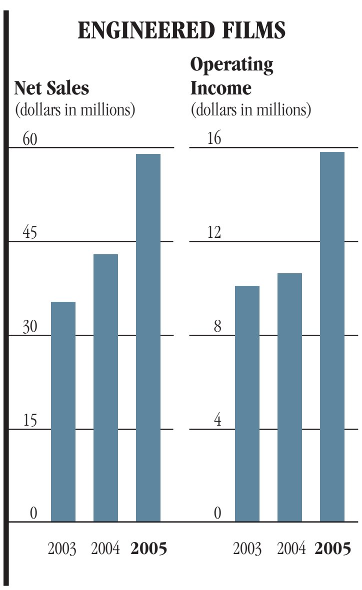
The Engineered Films Division (EFD) produces rugged reinforced plastic sheeting for industrial, construction, manufactured housing and agriculture applications.

Fiscal 2005 versus fiscal 2004

Fiscal 2005 net sales of $58.7 million surpassed fiscal 2004 net sales by $16.0 million, or 37.6%. As a result of the severe hurricane season, disaster film sales of $9.1 million, including $5.0 million of fourth-quarter shipments, boosted the sales level for the current fiscal year. The segment also recorded fiscal 2005 net sales gains in the pit lining, manufactured housing, and agricultural markets. Fiscal 2005 operating income climbed to $15.7 million, a $5.2 million, or 49.0%, increase over fiscal 2004 results. The profit impact of the higher sales level was partially offset by increased selling expenses, which rose $461,000, or 21.3%, due to higher personnel and advertising expenses. As a percentage of net sales, gross profits increased from 30.0% to 31.4%. The fiscal 2005 gross profit rate reflects favorable plant utilization due to the higher sales level that has been partially offset by higher raw material costs experienced by EFD in the current fiscal year.

Fiscal 2004 versus fiscal 2003

The segment's net sales exceeded fiscal 2003 net sales by $7.5 million to reach $42.6 million. Fiscal year 2004 saw an upturn in pit-lining, industrial-market and vapor-barrier sales. Construction sales remained steady and agriculture sales increased. Despite the sales growth, gross profits increased only 6.7%. Combined with a $231,000, or 12.0%, increase in selling expenses, operating income increased $533,000. Selling expenses grew as a result of additional sales personnel as the division worked to expand its new product sales and market penetration. As a percentage of net sales, gross profits declined from 34.2% to 30.0%, reflecting the fluctuation in raw material costs between the years.



Prospects

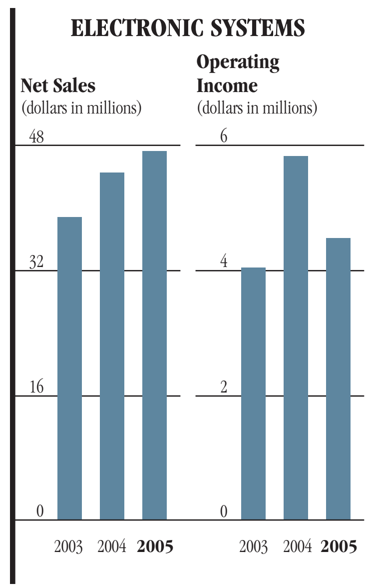
Additional extrusion capacity, which will be brought online at the beginning of fiscal 2006, will enable EFD to continue its revenue growth in the markets it currently serves as well as open new market possibilities. Absent reorders for hurricane film, sales growth could fall to the 5% range in fiscal 2006. Volatility in resin prices could impact gross profit rates, although the segment adjusts selling prices whenever possible to pass along the raw material cost increases.

ELECTRONIC SYSTEMS

The Electronic Systems Division (ESD) is a total-solutions provider of electronics manufacturing services, primarily to North American original equipment manufacturers.

Fiscal 2005 versus fiscal 2004

Electronic Systems' net sales for fiscal 2005 reached $47.0 million, an increase of $2.7 million, or 6.2% over fiscal 2004 net sales. Operating income fell behind fiscal 2004 results, decreasing by $1.3 million. Fiscal 2005 net sales were positively impacted by shipments made to a new customer, although low profit margins due to high start-up costs did not result in a corresponding increase in operating income. Slightly higher personnel costs in fiscal 2005 accounted for selling expenses increasing 6.9% to $823,000. As a percentage of sales, gross profits declined to 11.3% as compared to 14.8% for fiscal 2004, reflecting the start-up costs.



Fiscal 2004 versus fiscal 2003

Segment net sales rose 14.8%, or $5.7 million, to $44.3 million over fiscal 2003 net sales. Increased demand for our customers' products fueled the increase. Operating income increased $1.8 million over fiscal 2003 operating income of $4.0 million. Gross profit growth was the main contributor, as selling expenses remained relatively flat. Gross profit margins improved from 12.4% in fiscal 2003 to 14.8% in 2004. The improvement was a result of production efficiencies and better capacity utilization.

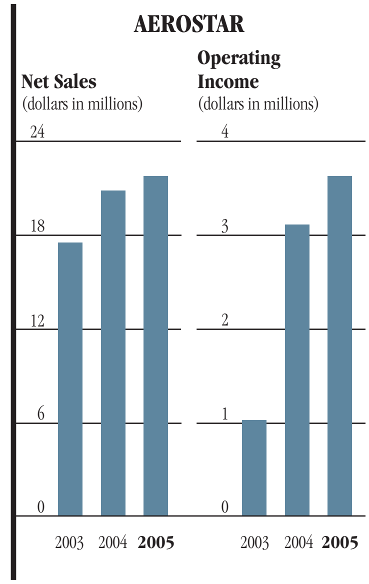
Prospects
ESD's business model of providing low-volume, high-mix contract manufacturing services continues to serve the segment well, although increased manufacturing efficiencies will be sought in fiscal 2006. The segment will continue to focus on reducing cycle time in all areas of manufacturing and looks for sales growth in the 10% range for fiscal 2006, with profit margins moving toward fiscal 2004 levels.

AEROSTAR

The Aerostar segment manufactures military cargo parachutes, government service uniforms, custom-shaped inflatable products, and high-altitude balloons for public and commercial research.

Fiscal 2005 versus fiscal 2004
Aerostar's fiscal 2005 net sales of $21.7 million were $929,000, or 4.5%, above fiscal 2004 net sales. Sales growth in parachute products, military decoys, and uniforms were partially offset by declines in the segment's sales of hot-air balloons, commercial inflatable products, and high-altitude research balloons. Fourth-quarter sales of $4.0 million were down 16.0% from the prior year. The lower fourth-quarter sales reflect a reduced shipping schedule for Army cargo parachutes and resulted in a $97,000 fourth-quarter operating loss. For the full year, fiscal 2005 operating income increased $517,000, or 16.7%, over fiscal 2004 results due to relatively high profitability realized on the parachute products and military decoys. As a percentage of sales, gross profit increased from 18.1% for fiscal 2004 to 21.1% for the current fiscal year. Selling expenses rose to $950,000 in fiscal 2005, an increase of $117,000, or 14.0%. Most of the selling expense increase was due to an increased emphasis on attaining government contract business.

Fiscal 2004 versus fiscal 2003
Aerostar had a strong turnaround in fiscal 2004, pulling net sales up 19.1% over fiscal 2003 results to $20.7 million. Shipments under the US Army cargo parachute contract secured in fiscal 2003 increased $6.0 million, which offset the loss in sales from discontinued outerwear lines, lower advertising-inflatables sales, and a decrease in research balloon sales of $1.1 million. Operating income of $3.1 million displayed a similarly strong turnaround as compared to operating income of $1.0 million in fiscal 2003, driven by gross profit increases and selling expense decreases. The restructuring that the subsidiary has undergone in the past three fiscal years has resulted in the elimination of cold-weather outerwear business and a diminished focus on hot-air balloon sales. Operating income includes a $182,000 gain on the sale of a sewing plant closed in fiscal 2003. Gross profits increased as a percentage of sales from 11.7% to 18.1%, largely on the strength of the cargo parachute contract and improved margins on other sewn and sealed products. Fiscal 2003 profits were also depressed by $306,000 of inventory obsolescence charges on hot-air balloon and apparel operations and start-up costs incurred for parachute manufacturing.

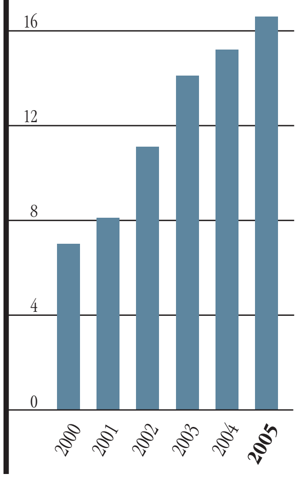


Prospects
The first half of fiscal 2006 will reflect substantially lower parachute shipments as compared to the first six months of fiscal 2005. Interest in high-altitude research balloon projects is increasing and may partially offset these losses. Fiscal 2006 results will depend on obtaining new government contracts where Aerostar can leverage its capacity and experience. Aerostar targets overall sales growth in the 5-10% range in the coming fiscal year.

EXPENSES, INCOME TAXES AND OTHER

Corporate expenses increased 13.4% over fiscal 2004 to $6.5 million for fiscal 2005. Higher professional service fees accounted for nearly half of the $769,000 increase, with the remaining increase due to higher personnel costs. As a percentage of sales, corporate expenses were 3.9% of net sales for fiscal 2005 as compared to fiscal 2004's 4.0% of net sales. Fiscal 2004 corporate expenses of $5.7 million increased 12.3% over fiscal 2003. Personnel costs accounted for nearly half of the growth, a result of additional staff and increased compensation and insurance expenses. Fiscal 2005 interest expense of $35,000 decreased $36,000 from fiscal 2004 and consisted of interest on capital leases and deferred acquisition payments from the Starlink and System Integrators acquisitions. No borrowings were made in fiscal 2005. For fiscal 2004, interest expense increased slightly from $63,000 in fiscal 2003 to $70,000. In addition to interest incurred on the company's capital leases and deferred acquisition payments during fiscal 2004, interest expense was recorded on payments related to a previously accrued tax dispute settlement. Fiscal 2005 other income of $128,000 declined from $160,000 in fiscal 2004. The main component of other income is interest income, which was reduced in fiscal 2005 due to lower cash levels that resulted from the $11.3 million special dividend payout in May 2004. Fiscal 2005's effective income tax rate of 36.0% was slightly lower than the 36.3% effective rate for fiscal 2004. Fiscal 2004's tax rate of 36.3% was higher than the 35.2% effective rate for fiscal 2003 due to state income taxes, higher nondeductible expenses, and the impact of graduated rates.

NET OPERATING MARGIN
(in percent)



LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes cash provided by (used in) the company's business activities for the past three fiscal years:

Dollars in thousands	**2005**	2004	2003
Operating activities	**$18,871**	$19,732	$12,735
Investing activities	**(7,631)**	(4,352)	(9,166)
Financing activities	**(19,063)**	(6,155)	(5,830)

OPERATING ACTIVITIES AND CASH POSITION

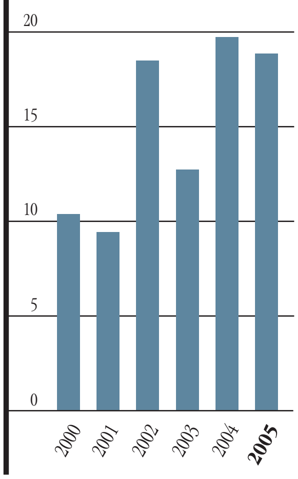
The company's cash flow from operations totaled $51.3 million over the past three years compared to net income of $42.9 million over the same period. Cash flow from operations in fiscal 2005 totaled $18.9 million, an $861,000 decrease as compared to cash inflows in fiscal 2004. The rise in net income and higher accounts payable balances at fiscal 2005 year-end were offset by higher accounts receivable and inventory levels. Fiscal 2005 net income was $4.1 million higher than fiscal 2004 while accounts payable increased by $6.6 million due to the higher inventory levels and to the extenstion of payment terms on certain vendor invoices. Fiscal 2005's ending accounts receivable balance was $25.4 million, an increase of nearly $7.0 million from fiscal 2004. Accounts receivable balances for the company's Engineered Films and Flow Controls segments were substantially higher at fiscal 2005 year-end as compared to their fiscal 2004 year-ending balances due to higher sales levels. Fiscal 2005 inventory levels in Engineered Films, Electronic Systems, and Flow Controls were up as compared to January 31, 2004, with Engineered Films accounting for over half of the increase. Fiscal 2004 operating cash flows were $19.7 million as compared to cash flows of $12.7 million for fiscal 2003. The rise in net income and cash generated from inventory reductions were the main drivers for the fiscal 2004 increase in operating cash flows as compared to fiscal 2003.

Cash, cash equivalents and short-term investments totaled $9.6 million at January 31, 2005, which represents an $8.8 million decrease from one year earlier. Higher working capital requirements, increased capital expenditures, and the $11.3 million special dividend have generated the decline in available cash at fiscal 2005 year-end. The company expects that cash and short-term investments, combined with continued positive operating cash flows, will continue to be sufficient to fund day-to-day operations. The company utilized its short-term credit facility to fund the Flow Controls' Canadian acquisition in February 2005, borrowing $3.0 million against its line of credit.

INVESTING ACTIVITIES

The company used $7.6 million of cash for investing activities in fiscal 2005 versus $4.4 million for fiscal 2004. Fiscal 2005 capital expenditures of $7.5 million increased by $4.2 million from fiscal 2004, with over half of the investment being made in the Engineered Films segment for additional extrusion capacity. A $650,000 investment was made during fiscal 2005 in an unconsolidated real estate affiliate and $1.0 million of short-term investments were liquidated. Fiscal 2004 cash used in investing activities included the acquisition of Fluent Systems, LLC for $1.0 million and the purchase of a formerly leased Aerostar facility for $1.0 million. Short-term investments of $4.0 million were purchased in fiscal 2003 with excess cash. Fiscal 2006 capital expenditures are planned to reach $10 million — primarily for additional Engineered Films capacity.

CASH FLOWS FROM OPERATIONS
(dollars in millions)



FINANCING ACTIVITIES

Fiscal 2005 cash used in financing activities increased significantly to $19.1 million as compared to $6.2 million expended in fiscal 2004. The increase in cash used was due primarily to the $11.3 million special dividend paid in May 2004. The company's main financing activities continue to be the payment of dividends and the repurchase of company stock. The company increased its quarterly dividend on a per-share basis for the eighteenth consecutive year. Dividends, excluding the special 62½ cent dividend, increased 29.4% over fiscal 2004, and purchases of 186,500 treasury shares at an average price of $18.87 were made during the year. In fiscal 2004, 288,350 shares were repurchased at an average price of $10.64 while 502,460 shares at an average price of $6.62 were repurchased in fiscal 2003.

No borrowings were made in fiscal 2005. The remaining debt of the company consists of capital leases assumed in the acquisition of Starlink that are scheduled to be repaid in fiscal 2006. The company utilized its short-term credit facility early in fiscal 2006, borrowing in February 2005 to fund its Flow Controls' acquisition.

Contractual obligations consist of capital leases and non-cancelable operating leases for facilities and equipment, and unconditional purchase obligations primarily for raw materials. Letters of credit have been issued for workers' compensation insurance obligations that remain from the period of self-insurance (February 1, 2001, and prior). In the event the bank chooses not to renew the company's line of credit, the letters of credit would cease and alternative methods of support for the insurance obligations would be necessary that would be more expensive and require additional cash outlays. The company believes the chances of such an event are remote. In fiscal 2005, the company entered into an agreement to purchase for $1.8 million a building to be used in the Engineered Films segment. The agreement required an earnest payment of $25,000 at signing with the remainder due upon closing, on or before May 1, 2006. A summary of the obligations and commitments at January 31, 2005, for the next five years is shown below.

Dollars in thousands	Total	FY 2006	FY 2007-FY 2008	FY 2009-FY 2010
Contractual Obligations:				
Line of credit[(a)]	$ —	$ —	$ —	$—
Capital leases	61	61	—	—
Operating leases	562	222	329	11
Unconditional purchase obligations	16,952	16,952	—	—
Real estate purchase agreement	1,775	1,775	—	—
	19,350	19,010	329	11
Other Commercial Commitments:				
Letters of credit	2,032	2,032	—	—
	$21,382	$21,042	$ 329	$ 11

(a) $7.0 million line bears interest at 5.25% as of January 31, 2005, and expires May 2005.

CAPITAL REQUIREMENTS

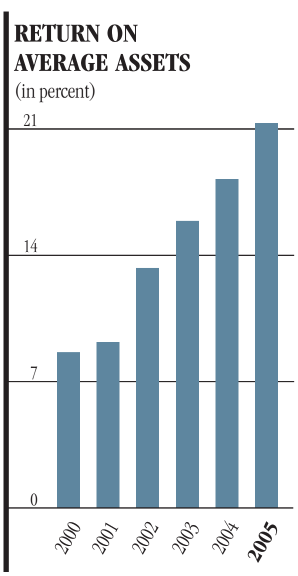
The company maintains an excellent financial condition and capacity for growth. Management continues to look for opportunities to expand its core businesses through acquisitions or internal growth. The company has the capacity to assume additional financing and will do so if the appropriate strategic opportunity presents itself. Capital expenditures for fiscal 2006 are forecast in the $10 million range, with over half of these expenditures supporting Engineered Films with extrusion equipment and facilities capacity. The company intends to return approximately 30% of its earnings to shareholders in the form of dividends. Stock repurchases are anticipated to continue as a means to return additional cash to shareholders and increase the leverage of the company's balance sheet. Although the cash generated from operations and the availability of cash under existing credit facilities is anticipated to be sufficient to fund these initiatives, the company has explored long-term debt financing.

CRITICAL ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

CRITICAL ACCOUNTING POLICIES

Critical accounting policies for the company are those policies that require the application of judgment when valuing assets and liabilities on the company's balance sheet. These policies are discussed immediately below because a fluctuation in actual results versus expected results could materially affect our operating results and because the policies require significant judgments and estimates to be made. Our accounting related to these policies is initially based on our best estimates at the time of original entry in our accounting records. Adjustments are periodically recorded when our actual experience differs from the expected experience underlying the estimates. These adjustments could be material if our experience were to change significantly in a short period of time. The company, other than utilizing operating leases, does not enter into off-balance sheet financing or derivatives.

The company's most difficult accounting decision is determining inventory value at the lower of cost or market. Typically, when a product reaches the end of its life cycle, inventory value declines slowly or the product has alternative uses. Management uses its computerized manufacturing resources planning data to help determine if inventory is slow-moving or has become obsolete due to an engineering change. The company closely reviews items that have balances in excess of the prior year's requirements or that have been dropped from production requirements. Despite these reviews, technological or strategic decisions, made by management or the company's customers, may result in unexpected excess material. In the Electronic Systems Division, the company typically has recourse to customers for obsolete or excess material. Under terms of the contract, the customers may have to take delivery of the material or compensate the company accordingly. In every operating unit of the company, management must manage obsolete inventory risk. The accounting judgment ultimately made is an evaluation of the success that division management will have in controlling inventory risk and mitigating the impact of obsolescence when it does occur.



Determining the level of the allowance for doubtful accounts, warranty and self-insurance accruals represent management's best estimate of future events. Historical levels of activity or assistance from advisors may be used in certain circumstances, but knowledge of the current financial climate or the impact of a new product on these accruals always tempers evaluation of the historical data.

The company periodically assesses goodwill and other intangible assets for impairment, at the segment level, using fair value measurement techniques. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These valuation methodologies use significant estimates and assumptions, which include projected future cash flows, including timing and the risks inherent in future cash flows, perpetual growth rates and determination of appropriate market comparables.

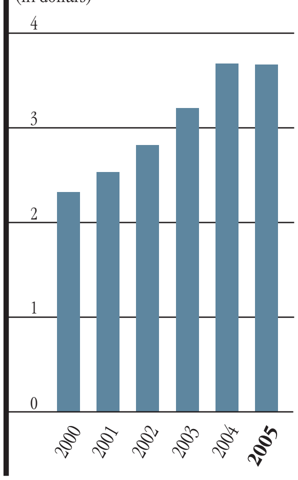
NEW ACCOUNTING STANDARDS

In November 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 151, *Inventory Costs – An Amendment of ARB No. 43, Chapter 4.* SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, SFAS No. 151 requires that allocation of fixed-production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The company believes that it is currently in compliance with SFAS No. 151 and does not expect adoption of this revised statement to have a significant effect on consolidated results of operations or financial position.

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 153, *Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29.* This statement amends APB Opinion No. 29 and is based on the principle that exchanges of nonmonetary assets should be measured on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement will not have a significant effect on the consolidated results of operations or financial position.

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (Revised 2004), *Share-Based Payment,* or SFAS No. 123R, which is a revision of SFAS No. 123. SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows.* SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. SFAS No. 123R is effective for the company beginning July 1, 2005. The company began expensing stock options in fiscal 2003 utilizing the modified prospective method and does not expect adoption of this revised statement will have a significant effect on consolidated results of operations or financial position.

BOOK VALUE PER SHARE
(in dollars)

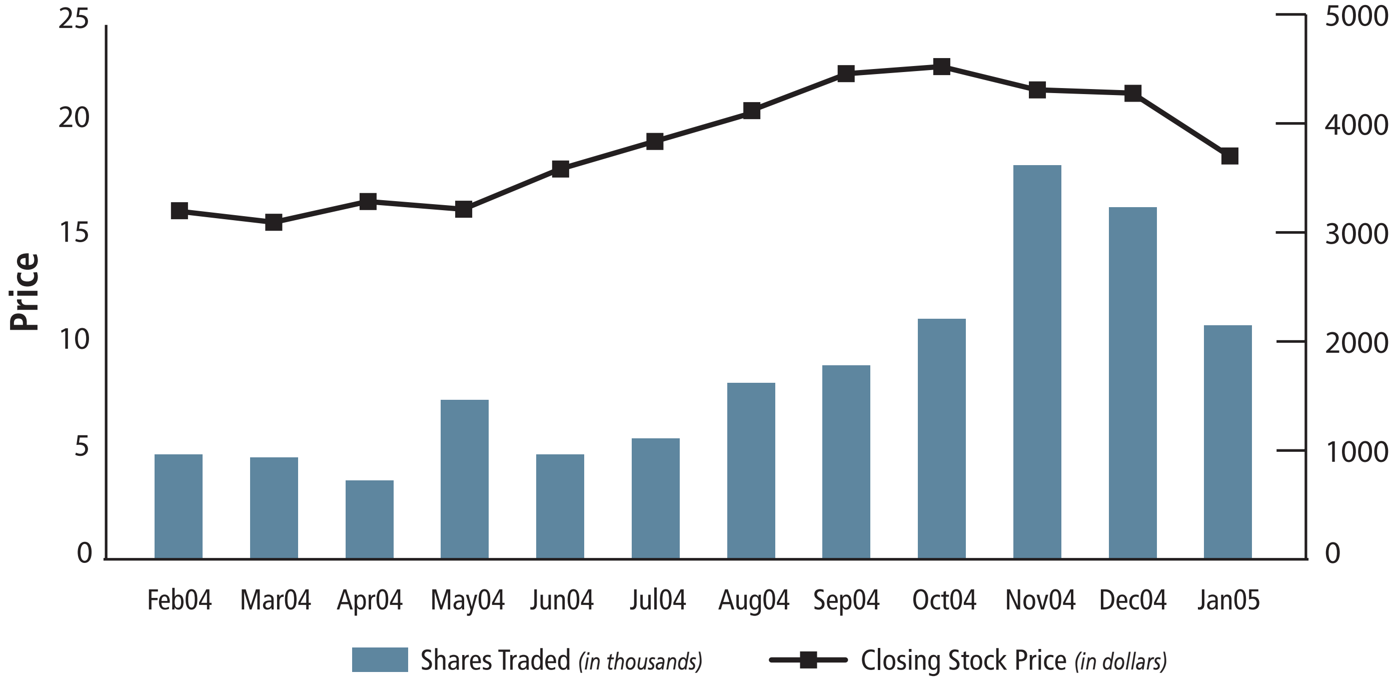


RECENTLY PASSED LEGISLATION

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phaseout of the existing extraterritorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. The company expects the net effect of the phaseout of the ETI and the phase-in of this new deduction to result in a decrease in the effective tax rate for fiscal years 2006 and 2007 of less than one percentage point, based on current earnings levels. In the long term, the company expects that the new deduction will result in a decrease of the annual effective tax rate by up to an additional two percentage points based on current earnings levels.

Under the guidance in FASB Staff Position No. FSP 109-1, *Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004,* the deduction will be treated as a "special deduction" as described in FASB Statement No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return.

Monthly Closing Stock Price and Volume



Quarterly Information (Unaudited)

Dollars in thousands, except per-share data	Net Sales	Gross Profit	Operating Income	Pretax Income	Net Income	Net Income Per Share[a][b] Basic	Net Income Per Share[a][b] Diluted	Common Stock Market Price[b] High	Common Stock Market Price[b] Low	Cash Dividends Per Share[b]
FISCAL 2005										
First Quarter	**$ 38,408**	**$11,678**	**$ 8,451**	**$8,475**	**$ 5,415**	**$0.30**	**$0.29**	**$17.17**	**$13.65**	**$0.055**
Second Quarter	**37,077**	**8,759**	**5,651**	**5,677**	**3,642**	**0.20**	**0.20**	**19.43**	**13.08**	**0.680**[c]
Third Quarter	**48,597**	**12,962**	**8,099**[d]	**8,115**[d]	**5,194**[d]	**0.29**	**0.28**	**23.89**	**17.41**	**0.055**
Fourth Quarter	**44,004**	**9,801**	**5,661**	**5,688**	**3,640**	**0.20**	**0.20**	**26.94**	**17.05**	**0.055**
Total Year	**$168,086**	**$43,200**	**$27,862**	**$27,955**	**$17,891**	**$0.99**	**$0.97**	**$26.94**	**$13.08**	**$0.845**
FISCAL 2004										
First Quarter	$ 36,942	$ 9,437	$ 6,544	$ 6,556	$ 4,183	$ 0.23	$ 0.23	$ 9.50	$ 7.56	$ 0.040
Second Quarter	36,110	7,811	4,937	4,976	3,163	0.17	0.17	11.00	7.90	0.040
Third Quarter	36,081	9,219	6,121	6,126	3,902	0.22	0.21	13.73	10.62	0.045
Fourth Quarter	33,594	7,292	4,024	4,058	2,588	0.14	0.14	15.23	11.89	0.045
Total Year	$ 142,727	$ 33,759	$ 21,626	$ 21,716	$ 13,836	$ 0.77	$ 0.75	$ 15.23	$ 7.56	$ 0.170
FISCAL 2003										
First Quarter	$ 30,974	$ 8,150	$ 5,304	$ 5,320	$ 3,458	$ 0.19	$ 0.18	$ 6.09	$ 4.38	$ 0.035
Second Quarter	29,692	5,996	3,532	3,569	2,320	0.13	0.12	7.22	5.38	0.035
Third Quarter	31,423	7,332	4,872	4,939	3,210	0.18	0.17	7.00	5.83	0.035
Fourth Quarter	28,814	6,037	3,357	3,426	2,197	0.12	0.12	9.20	6.70	0.035
Total Year	$ 120,903	$ 27,515	$ 17,065	$ 17,254	$ 11,185	$ 0.61	$ 0.60	$ 9.20	$ 4.38	$ 0.140

(a) Net income per share is computed discretely by quarter and may not add to the full year.

(b) All per-share and market price data reflect the October 2004 and January 2003 two-for-one stock splits.

(c) A special dividend of $.625 per share was paid during the second quarter of fiscal 2005.

(d) Includes a pretax $1.3 million ($845,000 net of tax) writeoff of assets related to the Fluent Systems product line (See Note 4).

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed 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. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed our internal control over financial reporting in relation to criteria described in *Internal Control – Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment using those criteria, we concluded that, as of January 31, 2005, our internal control over financial reporting was effective.

Our management's assessment of the effectiveness of our internal control over financial reporting as of January 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 39 of this Annual Report.

Ronald M. Moquist
President & Chief Executive Officer

Thomas Iacarella
Vice President & Chief Financial Officer

March 24, 2005

Consolidated Balance Sheets

Dollars in thousands, except per-share data	As of January 31 **2005**	2004	2003
ASSETS			
Current assets			
Cash and cash equivalents	**$ 6,619**	$14,442	$ 5,217
Short-term investments	**3,000**	4,000	4,000
Accounts receivable, net	**25,370**	18,454	16,468
Inventories, net	**23,315**	16,763	21,366
Deferred income taxes	**1,465**	1,313	1,493
Prepaid expenses and other current assets	**1,823**	738	807
Total current assets	**61,592**	55,710	49,351
Property, plant and equipment, net	**19,964**	15,950	16,455
Goodwill	**5,933**	6,776	5,933
Other assets, net	**1,020**	1,072	1,077
Total assets	**$88,509**	$79,508	$72,816
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	**$ 57**	$ 72	$ 119
Accounts payable	**10,322**	3,666	5,291
Accrued liabilities	**9,716**	7,784	7,157
Customer advances	**855**	373	600
Total current liabilities	**20,950**	11,895	13,167
Long-term debt, less current portion	**—**	57	151
Other liabilities, primarily compensation and benefits	**1,477**	1,085	1,262
Commitments and contingencies			
Shareholders' equity	**66,082**	66,471	58,236
Common shares, par value $1.00 per share Authorized — 100,000,000 Outstanding — 2005: 17,999,468; 2004: 18,041,088 (9,020,544 pre-split); 2003: 18,132,724 (9,066,362 pre-split)			
Total liabilities and shareholders' equity	**$88,509**	$79,508	$72,816

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

Consolidated Statements of Income

Dollars in thousands, except per-share data	For the years ended January 31 **2005**	2004	2003
Net sales	**$168,086**	$142,727	$120,903
Cost of goods sold	**124,886**	108,968	93,388
Gross profit	**43,200**	33,759	27,515
Selling, general and administrative expenses	**14,056**	11,960	10,629
Loss (gain) on disposition of businesses and assets, net	**1,282**	173	(179)
Operating income	**27,862**	21,626	17,065
Interest expense	**35**	70	63
Other income, net	**(128)**	(160)	(252)
Income before income taxes	**27,955**	21,716	17,254
Income taxes	**10,064**	7,880	6,069
Net income	**$ 17,891**	$ 13,836	$ 11,185
Net income per common share			
— basic	**$ 0.99**	$ 0.77	$ 0.61
— diluted	**$ 0.97**	$ 0.75	$ 0.60

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Dollars in thousands, except per-share data	$1 Par Common Stock	Paid-in Capital	Treasury stock Shares	Treasury stock Cost	Retained Earnings	Total
Balance January 31, 2002.	$ 7,875	$ 1,222	(3,269,019)	$ (31,789)	$74,724	$ 52,032
SFAS 123 adoption adjustment	—	478	—	—	—	478
Net and comprehensive income	—	—	—	—	11,185	11,185
Cash dividends ($.140 per share)[(a)]	—	—	—	—	(2,563)	(2,563)
Two-for-one stock split	7,875	(1,682)	(3,269,019)	—	(6,193)	—
Purchase of stock	—	—	(251,230)	(3,324)	—	(3,324)
Purchase and retirement of stock	(70)	(835)	—	—	—	(905)
Employees' stock options exercised	176	917	—	—	—	1,093
Stock compensation expense	—	174	—	—	—	174
Tax benefit from exercise of stock options	—	66	—	—	—	66
Balance January 31, 2003.	15,856	340	(6,789,268)	(35,113)	77,153	58,236
Net and comprehensive income	—	—	—	—	13,836	13,836
Cash dividends ($.170 per share)[(a)]	—	—	—	—	(3,075)	(3,075)
Purchase of stock	—	—	(144,175)	(3,068)	—	(3,068)
Purchase and retirement of stock	(39)	(804)	—	—	—	(843)
Employees' stock options exercised	137	435	—	—	—	572
Stock compensation expense	—	282	—	—	—	282
Tax benefit from exercise of stock options	—	531	—	—	—	531
Balance January 31, 2004.	15,954	784	(6,933,443)	(38,181)	87,914	66,471
Net and comprehensive income	—	—	—	—	17,891	17,891
Cash dividends ($.220 per share)	—	—	—	—	(3,971)	(3,971)
Cash dividend — Special ($.625 per share)	—	—	—	—	(11,327)	(11,327)
Two-for-one stock split	15,954	(411)	(6,933,443)	—	(15,543)	—
Purchase of stock	—	—	(186,500)	(3,519)	—	(3,519)
Purchase and retirement of stock	(40)	(646)	—	—	—	(686)
Employees' stock options exercised	185	327	—	—	—	512
Stock compensation expense	—	309	—	—	—	309
Tax benefit from exercise of stock options	—	402	—	—	—	402
Balance January 31, 2005	**$32,053**	**$ 765**	**(14,053,386)**	**$(41,700)**	**$74,964**	**$66,082**

(a) Reflects the January 2003 and October 2004 two-for-one stock splits.

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

Consolidated Statements of Cash Flows

Dollars in thousands	For the years ended January 31 **2005**	2004	2003
Cash flows from operating activities			
Net income	**$17,891**	$13,836	$11,185
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**3,410**	3,674	3,541
Amortization	**431**	471	425
Provision for losses on accounts receivable, net of recoveries	**34**	67	(100)
(Gain) loss on disposition of businesses and assets	**1,282**	173	(179)
Deferred income taxes	**(31)**	254	1,157
Stock compensation expense	**309**	282	174
Change in operating assets and liabilities, net of effects from the acquisition and sale of businesses	**(4,669)**	850	(3,470)
Other operating activities, net	**214**	125	2
Net cash provided by operating activities	**18,871**	19,732	12,735
Cash flows from investing activities			
Capital expenditures	**(7,541)**	(3,330)	(6,033)
Purchase of short-term investments	**(3,000)**	(4,000)	(5,000)
Sale of short-term investments	**4,000**	4,000	1,000
Acquisition of businesses	**(414)**	(1,038)	(57)
Sales of businesses and assets, net of cash sold	**—**	257	927
Investment in unconsolidated affiliate	**(650)**	—	—
Other investing activities, net	**(26)**	(241)	(3)
Net cash used in investing activities	**(7,631)**	(4,352)	(9,166)
Cash flows from financing activities			
Proceeds from borrowing under line of credit	**—**	—	1,025
Repayment on borrowing under line of credit	**—**	—	(1,025)
Long-term debt principal payments	**(72)**	(141)	(131)
Dividends paid	**(15,298)**	(3,075)	(2,563)
Purchase of treasury stock	**(3,519)**	(3,068)	(3,324)
Other financing activities, net	**(174)**	129	188
Net cash used in financing activities	**(19,063)**	(6,155)	(5,830)
Net increase (decrease) in cash and cash equivalents	**(7,823)**	9,225	(2,261)
Cash and cash equivalents at beginning of year	**14,442**	5,217	7,478
Cash and cash equivalents at end of year	**$ 6,619**	$14,442	$ 5,217

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

Note 1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Raven Industries, Inc. and its wholly owned subsidiaries (the "company"). The company is an industrial manufacturer providing a variety of products to customers within the industrial, agricultural, construction and military/aerospace markets primarily in North America. The company operates three divisions (Flow Controls, Engineered Films and Electronic Systems) in addition to a wholly owned subsidiary, Aerostar International, Inc. (Aerostar). All significant intercompany balances and transactions have been eliminated in consolidation. The company has a 50% ownership investment in Zip City Partners, LLC. The equity method is used to account for this investment.

USE OF ESTIMATES

The preparation of the company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that 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 periods. Actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS

The company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalent balances are principally concentrated in checking and savings accounts with Wells Fargo Bank.

SHORT-TERM INVESTMENTS

The investments consist of fully insured certificates of deposit with varying maturities, all less than 12 months from the balance sheet date. Rates on the deposits at January 31, 2005 range from 1.55% to 2.4%.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the company's best estimate of the amount of problable credit losses based on historical write-off experience by segment and an estimate of the collectibility of any known problem accounts.

INVENTORY VALUATION

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out basis. Market value encompasses consideration of all business factors including price, contract terms and usefulness.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost and are depreciated over the estimated useful lives of the assets using accelerated methods. The estimated useful lives used for computing depreciation are as follows:

Buildings and improvements	7 to 39 years
Machinery and equipment	3 to 7 years

Maintenance and repairs are charged to expense in the year incurred and renewals and betterments are capitalized. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts and the resulting gain or loss is reflected in operations.

INTANGIBLE ASSETS

Intangible assets, primarily comprised of technologies acquired through acquisition, are recorded at cost net of accumulated amortization. Amortization is computed on a straight-line basis over estimated useful lives ranging from 3 to 20 years. The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in each reporting period.

GOODWILL

The company recognizes the excess cost of an acquired entity over the net amount assigned to assets acquired, including intangible assets with indefinite lives, and liabilities assumed, as goodwill. Goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis during the fourth quarter, and between annual tests whenever there is an impairment indicated. Fair values are estimated based on future cash flows and are compared with the corresponding carrying value of the related asset.

LONG-LIVED ASSETS

The company periodically assesses the recoverability of long-lived and intangible assets using fair value measurement techniques, where fair value is calculated based upon anticipated future earnings and undiscounted operating cash flows. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset.

INSURANCE OBLIGATIONS

The company employs insurance policies covering workers' compensation and general liability costs. Liabilities are accrued related to claims filed and estimates for claims incurred but not reported. To the extent these obligations will be reimbursed by insurance, the expected reimbursement is included as a component of other current assets.

CONTINGENCIES

The company is involved as a defendant in lawsuits, claims or disputes arising in the normal course of business. An estimate of the loss on these matters is charged to operations when it is probable that an asset has been impaired or a liability has been incurred, and the amount of the loss can be reasonably estimated. The settlement of such claims cannot be determined at this time; however, management believes that any liability resulting from these claims will be substantially mitigated by insurance coverage. Accordingly, management does not believe that the ultimate outcome of these matters will be significant to its results of operations, financial position or cash flows.

REVENUE RECOGNITION

The company recognizes revenue and records revenues upon shipment of products. The company sells directly to customers or distributors who incur the expense and commitment for any post-sale obligations beyond stated warranty terms. Estimated returns, allowances or warranty charges are recognized upon shipment of a product. The company does not typically require collateral from its customers. Shipping and handling costs are classified as a component of cost of goods sold.

WARRANTIES

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

RESEARCH AND DEVELOPMENT

Research and development expenditures of $2.0 million in fiscal 2005, $1.7 million in fiscal 2004, and $1.3 million in fiscal 2003 were charged to cost of goods sold in the year incurred. Expenditures are principally composed of labor and material costs.

STOCK-BASED COMPENSATION

The company records compensation expense related to its stock-based compensation plan using the fair value method permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" under the modified prospective method outlined by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure."

INCOME TAXES

Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities and reserves. Judgmental reserves are maintained for income tax audits and other tax issues. Deferred income taxes reflect temporary differences between assets and liabilities reported on the company's balance sheet and their tax bases. These differences are measured using enacted tax laws and statutory tax rates applicable to the periods when the temporary differences will impact taxable income. Deferred tax assets are reduced by a valuation allowance to reflect realizable value, when necessary.

STOCK SPLITS

The company completed two-for-one stock splits effected in the form of a 100% stock dividend on October 15, 2004, and January 15, 2003. All per-share information reflects the effect of these stock splits.

NEW ACCOUNTING STANDARDS

In November 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 151, *Inventory Costs – An Amendment of ARB No. 43, Chapter 4.* SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, SFAS No. 151 requires that allocation of fixed-production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The company believes that it is currently in compliance with SFAS No. 151 and does not expect adoption of this revised statement to have a significant effect on consolidated results of operations or financial position.

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 153, *Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29.* This statement amends APB Opinion No. 29 and is based on the principle that exchanges of nonmonetary assets should be measured on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement will not have a significant effect on the consolidated results of operations or financial position.

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (Revised 2004), *Share-Based Payment,* or SFAS No. 123R, which is a revision of SFAS No. 123. SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows.* SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. SFAS No. 123R is effective for the company beginning July 1, 2005. The company began expensing stock options in fiscal 2003 utilizing the modified prospective method and does not expect adoption of this revised statement will have a significant effect on consolidated results of operations or financial position.

RECENTLY PASSED LEGISLATION

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phaseout of the existing extraterritorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union.

Under the guidance in FASB Staff Position No. FSP 109-1, *Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004,* the deduction will be treated as a "special deduction" as described in FASB Statement No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return.

Note 2. Selected Balance Sheet Information

Following are the components of selected balance sheet items:

	As of January 31		
Dollars in thousands	**2005**	2004	2003
Accounts receivable, net:			
Trade accounts	**$25,635**	$18,719	$16,708
Allowance for doubtful accounts	**(265)**	(265)	(240)
	$25,370	$18,454	$16,468
Inventories, net:			
Finished goods	**$ 3,538**	$ 2,500	$ 5,290
In process	**2,820**	2,120	2,275
Materials	**16,957**	12,143	13,801
	$23,315	$16,763	$21,366
Property, plant and equipment, net:			
Land	**$ 1,084**	$ 1,110	$ 1,091
Building and improvements	**15,184**	13,049	12,154
Machinery and equipment	**36,486**	32,479	32,248
Accumulated depreciation	**(32,790)**	(30,688)	(29,038)
	$19,964	$15,950	$16,455
Other assets, net:			
Amortizable assets:			
Purchased technology	**$ 1,080**	$ 1,250	$ 1,080
Other intangibles	**946**	1,136	884
Accumulated amortization	**(1,831)**	(1,494)	(1,027)
	195	892	937
Investment in unconsolidated affiliate	**650**	—	—
Other, net	**175**	180	140
	$ 1,020	$ 1,072	$ 1,077
Accrued liabilities:			
Salaries and benefits	**$ 1,992**	$ 1,875	$ 1,766
Vacation	**1,852**	1,638	1,627
401(k) contributions	**980**	906	782
Insurance obligations	**1,541**	524	1,045
Income taxes	**567**	267	276
Profit sharing	**900**	544	406
Deferred acquisition payments	**—**	389	—
Other	**1,884**	1,641	1,255
	$ 9,716	$ 7,784	$ 7,157

Note 3. Supplemental Cash Flow Information

	For the years ended January 31		
Dollars in thousands	**2005**	2004	2003
Changes in operating assets and liabilities, net of effects from the purchase and sale of businesses:			
Accounts receivable	**$(6,950)**	$(2,072)	$ (304)
Inventories	**(6,704)**	4,603	(2,671)
Prepaid expenses and other assets	**150**	(16)	15
Accounts payable	**6,576**	(1,625)	560
Accrued and other liabilities	**1,777**	187	(1,153)
Customer advances	**482**	(227)	83
	$(4,669)	$ 850	$(3,470)
Cash paid during the year for:			
Interest	**$ 77**	$ 50	$ 44
Income taxes	**9,596**	7,014	4,852

Cash flows from investing activities in fiscal 2005 include $409,000 of payments related to acquisitions that were deferred under their respective purchase agreements.

Note 4. Fluent Systems

On December 19, 2003, the company acquired substantially all of the assets of Fluent Systems, LLC for $1.0 million in cash and a payment deferred until December 2004, which was valued at $60,000. This start-up company had developed a wireless liquid level monitoring system used with anhydrous ammonia tanks. Of the purchase price, $79,000 was assigned to equipment, $195,000 was assigned to intangible assets, $19,000 to current liabilities assumed and $848,000 to goodwill, which is fully deductible for tax purposes. The operation was assigned to the Flow Controls segment. Pro forma earnings are not presented due to the immateriality of the acquisition to the consolidated operations.

The results of operations were included in the consolidated financial statements from the date of acquisition. In the third quarter of fiscal 2005, Flow Controls decided to abandon the Fluent Systems product line resulting in a $1.3 million pretax writeoff of inventory, equipment, intangible assets and goodwill.

Note 5. Divestitures and Other Repositioning Activities

Fiscal 2004 divestiture activities were limited to the sale by the company's Aerostar subsidiary of a sewing plant closed in fiscal 2003. The sale of that plant and its related equipment resulted in cash proceeds of $196,000 and a pretax gain of $182,000. This gain was offset by a $355,000 loss from increased liabilities for environmental or legal issues related to previously sold operations, as estimated by the company and its advisors. At January 31, 2005, the company had an undiscounted accrual remaining of $145,000 for environmental monitoring and clean-up costs of sold operations.

During fiscal 2003, the former Beta Raven Industrial Controls Division was sold. A pretax gain of $104,000 and $577,000 of cash proceeds were realized on the completion of the disposal of that subsidiary. An Aerostar sewing plant was closed during the third quarter as well. The remainder of the pretax net gain of $179,000 related to the collection of a previously discounted note receivable, net of increased anticipated costs from ongoing liabilities from previously sold businesses.

Note 6. Goodwill and Other Intangibles

Goodwill

The changes in the carrying amount of goodwill by reporting segment are shown below:

Dollars in thousands	Flow Controls	Engineered Films	Electronic Systems	Aerostar	Total
Balance at January 31, 2002	$ 4,947	$ 96	$ 356	$ 464	$ 5,863
Purchase price adjustments	(7)	—	77	—	70
Balance at January 31, 2003	4,940	96	433	464	5,933
Goodwill acquired during year	843	—	—	—	843
Balance at January 31, 2004	5,783	96	433	464	6,776
Adjustment	5	—	—	—	5
Writeoff of Fluent Systems	(848)	—	—	—	(848)
Balance at January 31, 2005	**$4,940**	**$ 96**	**$433**	**$464**	**$5,933**

Intangible Assets

Estimated future amortization expense based on the current carrying value of amortizable intangible assets for fiscal periods 2006 through 2010 is $79,000, $62,000, $6,000, $5,000, and $4,000, respectively.

Note 7. Employee Retirement Benefits

The company has a 401(k) plan covering substantially all employees and contributed 3% of qualified payroll. The company's contribution expense was $836,000, $817,000 and $715,000 for fiscal 2005, 2004 and 2003, respectively.

In addition, the company provides postretirement medical and other benefits to senior executive officers and senior managers. The company accounts for these benefits in accordance with SFAS No. 106, "Accounting for Postretirement Benefits Other Than Pensions." There are no assets held for the plans and any obligations are covered through the company's operating cash and investments. The liability and expense reflected in the balance sheet and income statement are as follows:

	As of January 31		
Dollars in thousands	**2005**	2004	2003
Beginning balance	**$1,212**	$1,102	$ 969
Employer expense	**391**	316	306
Retiree benefits paid	**(156)**	(206)	(173)
Ending balance	**1,447**	1,212	1,102
Current portion	**(180)**	(200)	(150)
Long-term portion	**$1,267**	$1,012	$ 952
Discount rate	**7.0%**	7.0%	8.0%
Wage inflation rate	**4.0%**	4.0%	4.0%
Medical inflation rate	**7.0%**	7.0%	7.0%

The accumulated benefit obligation based upon the rates noted in the table above was approximately $2.7 million, $2.4 million and $2.2 million at January 31, 2005, 2004 and 2003, respectively. No material fluctuations in retiree benefits are expected in future years.

Note 8. Warranties

Changes in the warranty accrual were as follows:

	As of January 31		
Dollars in thousands	**2005**	2004	2003
Beginning balance	**$ 263**	$ 156	$ 248
Accrual for warranties	**932**	863	584
Settlements made (in cash or in kind)	**(743)**	(756)	(576)
Sale of businesses	**—**	—	(100)
Ending balance	**$ 452**	$ 263	$ 156

Note 9. Income Taxes

The reconciliation of income tax computed at the federal statutory rate to the company's effective income tax rate is as follows:

	For the years ended January 31		
	2005	2004	2003
Tax at U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State and local income taxes, net of U.S. federal benefit	**0.9**	0.9	0.4
Nondeductible stock option expense	**0.3**	0.3	0.3
Impact of graduated rates	**—**	—	(0.6)
Other, net.	**(0.2)**	0.1	0.1
	36.0%	36.3%	35.2%

Significant components of the company's income tax provision are as follows:

	For the years ended January 31		
Dollars in thousands	**2005**	2004	2003
Income taxes:			
Currently payable	**$10,095**	$7,626	$4,912
Deferred	**(31)**	254	1,157
	$10,064	$7,880	$6,069

Significant components of the company's deferred tax assets and liabilities are as follows:

	As of January 31		
Dollars in thousands	**2005**	2004	2003
Current deferred tax assets:			
Accounts receivable	**$ 93**	$ 93	$ 84
Inventory valuation	**237**	182	194
Accrued vacation	**591**	532	508
Insurance obligations	**161**	183	369
Other accrued liabilities	**383**	323	338
	1,465	1,313	1,493
Non-current deferred tax assets (liabilities):			
Accrued compensation and benefits	**443**	354	333
Depreciation and amortization	**(771)**	(502)	(380)
Other	**118**	75	53
	(210)	(73)	6
Net deferred tax asset	**$1,255**	$1,240	$1,499

Note 10. Financing Arrangements

Raven has an uncollateralized credit agreement providing a line of credit of $7.0 million which expires in May 2005. Letters of credit totaling $2.0 million have been issued under the line, primarily to support self-insured workers' compensation bonding requirements. No borrowings were outstanding as of January 31, 2005, 2004 or 2003, and $5.0 million was available at January 31, 2005. The credit agreement contains certain restrictive covenants that, among other things, require maintenance of certain levels of net worth and working capital. Borrowings on the credit line bore interest as of January 31, 2005, 2004 and 2003 at 5.25%, 4.00% and 4.25%, respectively. The weighted-average interest rate for borrowing under the short-term credit line in fiscal 2003 was 4.6%. There were no borrowings under the credit line in fiscal years 2005 or 2004.

Wells Fargo Bank, N.A. provides the company's line of credit. One member of the company's board of directors is also on the board of directors of Wells Fargo & Co., the parent company of Wells Fargo Bank, N.A.

The company leases certain transportation, equipment and facilities under operating leases. Total rent and lease expense was $305,000, $355,000 and $446,000 in fiscal 2005, 2004 and 2003, respectively. Future minimum lease payments under non-cancelable operating leases for fiscal periods 2006 to 2010 are $222,000, $185,000, $144,000, $6,000, and $5,000 with all leases scheduled to expire by fiscal 2010.

Note 11. Stock Options

Senior officers and key employees of the company have been granted options to purchase stock under the company's 2000 Stock Option and Compensation Plan ("Plan"). The Plan, administered by the board of directors, allows for either incentive or non-qualified options with terms not to exceed ten years. There are 655,700 shares of the company's common stock reserved for future option grants under the plan at January 31, 2005. Options are granted with exercise prices not less than market value at the date of grant. These stock options vest over a four-year period and expire after five years.

Effective February 1, 2002, the company adopted the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation.'' Under the modified prospective method of adoption selected by the company pursuant to the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," compensation cost recognized in fiscal year 2003 is the same as that which would have been recognized had the recognition provisions of SFAS No. 123 been applied from its original effective date. Stock compensation expense for fiscal years 2005, 2004 and 2003 was $309,000, $282,000 and $174,000, respectively.

The weighted average grant date fair value of each option granted was $5.91, $4.11 and $1.89 in fiscal 2005, 2004 and 2003, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions by grant year.

	For the years ended January 31		
	2005	2004	2003
Risk-free interest rate	**3.51%**	3.02%	3.02%
Expected dividend yield	**1.07%**	1.33%	2.00%
Expected volatility factor	**34.92%**	35.89%	33.57%
Expected option term (in years)	**4.5**	4.5	4.5

Information regarding option activity is as follows:

	For the years ended January 31					
	2005		2004		2003	
	options	weighted average exercise price	options	weighted average exercise price	options	weighted average exercise price
Outstanding at beginning of year	**723,676**	**$ 5.89**	872,112	$ 3.72	1,102,608	$ 3.05
Granted	**86,600**	**22.00**	129,000	13.50	152,800	7.00
Exercised	**(184,600)**	**2.77**	(274,436)	2.61	(353,892)	3.09
Forfeited	**(13,500)**	**9.79**	(3,000)	2.65	(29,404)	3.14
Outstanding at end of year	**612,176**	**$ 9.02**	723,676	$ 5.89	872,112	$ 3.72
Options exercisable at end of year	**323,076**	**$ 5.27**	326,608	$ 3.57	414,146	$ 2.78

The following table contains information about stock options outstanding at January 31, 2005:

Exercise Price	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
$ 2.67	0.75	106,876	106,876
4.38	1.75	149,400	112,050
7.00	2.75	147,300	73,650
13.50	3.75	122,000	30,500
22.00	4.75	86,600	—
		612,176	323,076

Note 12. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average common shares outstanding. Common shares outstanding represent common shares issued less shares purchased and held in treasury. Share and per-share data in the net income per-share computation have been restated to reflect the October 15, 2004, and January 15, 2003, two-for-one stock splits. 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. Certain outstanding options were excluded from the diluted net income per-share calculations because their exercise prices were greater than the average market price of the company's common stock during those periods. For fiscal 2005, 2004 and 2003, 21,650, 32,250 and 38,200 options, respectively, were excluded from the diluted net income per-share calculation. Details of the computation are presented below.

	For the years ended January 31		
Dollars in thousands, except per-share amounts	**2005**	2004	2003
Net income	**$ 17,891**	$ 13,836	$ 11,185
Weighted-average common shares outstanding	**18,066,223**	18,081,712	18,302,930
Dilutive impact of stock options	**344,104**	407,868	392,720
Weighted-average common and common-equivalent shares outstanding	**18,410,327**	18,489,580	18,695,650
Net income per common share:			
— basic	**$ 0.99**	$ 0.77	$ 0.61
— diluted	**$ 0.97**	$ 0.75	$ 0.60

Note 13. Business Segments and Major Customer Information

The company's reportable segments are defined by their common technologies, production processes and inventories. These segments reflect the organization of the company into three Raven divisions, each with a Divisional Vice President, and one subsidiary. The Industrial Controls Division of Beta Raven, sold in fiscal 2003, is included under the caption "Sold Businesses." During fiscal 2005, the company's high-altitude research balloon operation, formerly in the Engineered Films segment, moved under the management of Aerostar. As a result of this change in the company's organizational structure, the financial results of those operations have been included in Aerostar's segment disclosures.

The company measures the performance of its segments based on their operating income exclusive of administrative and general expenses. The accounting policies of the operating segments are the same as those described in Note 1, Summary of Significant Accounting Policies. Other income, interest expense and income taxes are not allocated to individual operating segments, and assets not identifiable to an individual segment are included as corporate assets. Segment information is reported consistent with the company's management reporting structure as required by SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information."

No customer accounted for more than 10% of the company's consolidated sales or accounts receivable in fiscal 2005 or 2004. In fiscal 2003, one customer in the Electronic Systems segment accounted for $12.9 million, or 10.7%, of the company's consolidated sales, although no customer accounted for more than 10% of accounts receivable.

The company had sales of $11.0 million for the year ended January 31, 2005, to countries outside the United States, primarily to Canada. Sales were included in the Flow Controls, Engineered Films, Electronic Systems and Aerostar segments totaling $5.0 million, $621,000, $4.8 million and $474,000, respectively.

Market and segment information for 2005, 2004 and 2003 is presented on pages 1 and 16 of this annual report.

Note 14. Commitment to Purchase Engineered Films Facility

In fiscal 2005, the company entered into an agreement to purchase for $1.8 million a building to be used in the Engineered Films segment. The agreement required an earnest payment of $25,000 at signing with the remainder due upon closing, on or before May 1, 2006.

Note 15. Subsequent Event

On February 17, 2005, the company entered into a purchase agreement to buy substantially all of the assets of Montgomery Industries, Inc., a privately held Canadian corporation, for $2.8 million in cash plus the assumption of certain liabilities and a quarterly payment of six percent on future sales of Montgomery products up to a maximum of $1.825 million.

Montgomery has developed and sold an automatic boom height control system under the name "Autoboom" for agricultural sprayers designed to successfully maintain optimum boom height in uneven terrain without compromising the speed with which the sprayer can be operated. This operation will be combined into the company's Flow Controls segment.

Note 16. Quarterly Information (Unaudited)

The company's quarterly information is presented on page 26.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Raven Industries, Inc:

We have completed an integrated audit of Raven Industries, Inc.'s 2005 consolidated financial statements and of its internal control over financial reporting as of January 31, 2005, and audits of its 2004 and 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Raven Industries, Inc. and its subsidiaries at January 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing on page 27 of the 2005 Annual Report to Shareholders, that the Company maintained effective internal control over financial reporting as of January 31, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

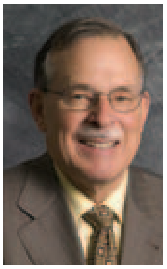
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

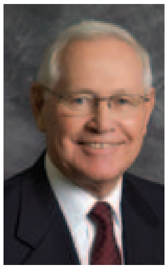
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
March 24, 2005

Board of Directors



Anthony W. Bour

President & Chief Executive Officer, Showplace Wood Products, Inc., Sioux Falls, SD; Director since: 1995



David A. Christensen

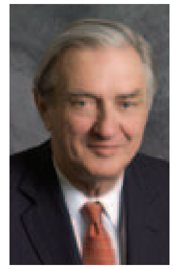
Former President & Chief Executive Officer, Raven Industries, Inc., Sioux Falls, SD; Director since: 1971

Thomas S. Everist

President, The Everist Company, Sioux Falls, SD; Director since: 1996

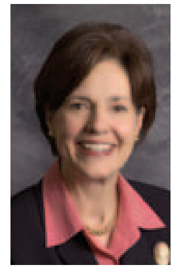
Mark E. Griffin

President & Chief Executive Officer, Lewis Drugs, Inc., Sioux Falls, SD; Director since: 1987



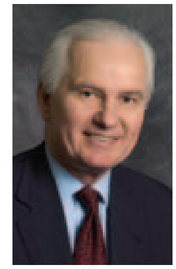
Conrad J. Hoigaard

Chairman of the Board, Raven Industries, Inc.; *Chairman of the Board,* Hoigaard's Inc., Minneapolis, MN; Director since: 1976



Cynthia H. Milligan

Dean, College of Business Administration, University of Nebraska, Lincoln, Lincoln, NE; Director since: 2001



Ronald M. Moquist

President & Chief Executive Officer, Raven Industries, Inc., Sioux Falls, SD; Director since: 1999

The Raven Board held four regular meetings and two special meetings in Fiscal Year 2005. In April 2004, it increased the quarterly dividend for the 18th year.

Audit Committee

Thomas S. Everist, *Chair*
Anthony W. Bour
Cynthia H. Milligan

The Audit Committee held three meetings to review the activities and independence of Raven's external auditors. It also reviewed the auditor's findings regarding Raven's financial reporting process, related internal and disclosure controls and compliance with applicable law.

Personnel and Compensation Committee

David A. Christensen, *Chair*
Mark E. Griffin
Conrad J. Hoigaard

The Personnel and Compensation Committee held two meetings to review and approve executive compensation plans, policies and practices, and key succession plans.

Governance Committee

Cynthia H. Milligan, *Chair*
Anthony W. Bour
David A. Christensen
Thomas S. Everist
Mark E. Griffin
Conrad J. Hoigaard

The Governance Committee held two meetings to review corporate bylaws, corporate governance standards, and assess the Board's effectiveness. This Committee is responsible for the Board nomination process.

Senior Executive Officers

Ronald M. Moquist	*President & Chief Executive Officer,* Age: 59, Service 29 years
Thomas Iacarella	*Vice President & Chief Financial Officer,* Age: 51, Service 13 years

Senior Management

David R. Bair	*Division Vice President & General Manager–Electronic Systems Division,* Age: 48, Service 6 years
James D. Groninger	*Division Vice President & General Manager–Engineered Films Division,* Age: 46, Service 18 years
Barbara K. Ohme	*Vice President–Administration,* Age: 57, Service 17 years
Daniel A. Rykhus	*Executive Vice President, General Manager–Flow Controls Division,* Age: 40, Service 15 years
Mark L. West	*President–Aerostar International, Inc.,* Age: 51, Service 23 years

Investor Information

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Minneapolis, MN

Stock Transfer Agent & Registrar

Wells Fargo Bank, N.A.
161 N. Concord Exchange
P.O. Box 64854
S. St. Paul, MN 55164-0854
Phone: 1-800-468-9716

Form 10-K

Upon written request, Raven Industries, Inc.'s form 10-K for the fiscal year ended January 31, 2005, which has been filed with the Securities and Exchange Commission, is available free of charge.

Direct inquires to:
Raven Industries, Inc.
Attention: Investor Relations
P.O. Box 5107
Sioux Falls, SD 57117-5107

Phone: 605-336-2750

Raven Website

www.ravenind.com

Stock Quotations

Listed on the Nasdaq Stock Market—RAVN

Annual Meeting

May 26, 2005, 9:00 a.m.
Washington Pavilion of Arts and Science
301 S. Main Avenue
Sioux Falls, SD

Raven Industries, Inc. is an Equal Employment Opportunity Employer with an approved affirmative action plan.

Dividend Reinvestment Plan

Raven Industries, Inc. sponsors a Dividend Reinvestment Plan whereby shareholders can purchase additional Raven common stock without the payment of any brokerage commission or fees. For more information on how you can take advantage of this plan, contact your broker, our stock transfer agent or write: Investor Relations; P.O. Box 5107, Sioux Falls, SD 57117-5107

SIC Codes:

3672, 3081, 3829

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act provides a "safe harbor" for forward-looking statements. Certain information included in this Annual Report and other materials filed or to be filed by the company with the Securities and Exchange Commission (as well as information included in statements made or to be made by the company) contains statements that are forward-looking. Although the company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, there is no assurance that such expectations will be achieved. Such 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, which could affect certain of the company's primary markets, such as agriculture and construction, or changes in competition, raw material availability, technology or relationships with the company's largest customers, any of which could adversely impact any of the company's product lines. 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.

Design: Creative Design Board, Chicago, IL

I would like more information on

Raven Industries, Inc.

Please send me the following:

- ☐ News releases
- ☐ 2005 Form 10-K
- ☐ Latest quarterly report
- ☐ Information on your Dividend Reinvestment Plan

☐ Please add me to the Raven mailing list.

(please print)

Name and Title ______________________________

Company ______________________________

Address ______________________________

City ____________ State ____________ Zip+4 ____________

Phone (   ) ____________ Fax (   ) ____________

Broker Identity Card:

Raven Industries, Inc.

Dear Shareholder:

Keeping you and your stockbroker informed of our corporate activities is the best way for us to make sure that both of you are current on our financial condition.

So that we are able to keep you informed, please provide the required information. This will enable us to maintain an accurate mailing list.

My name is ______________________________

My address is ______________________________

My broker is ______________________________

His/Her company is ______________________________

Located in (city) ____________ Fax (   ) ____________

I have been a shareholder of Raven since ______________________________

☐ Please add me to the Raven mailing list.

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