

OLD VALUES
NEW IDEAS

1956

50 YEARS OF INNOVATION

RAVEN

06

ANNUAL REPORT
for the fiscal year ended January 31

Financial Highlights

For the years ended January 31

Dollars in thousands, except per-share data

OPERATIONS

	2006	2005	change
Net sales	\$204,528	\$168,086	21.7%
Operating income	37,284	27,862	33.8%
Net income	24,262	17,891	35.6%

PER SHARE

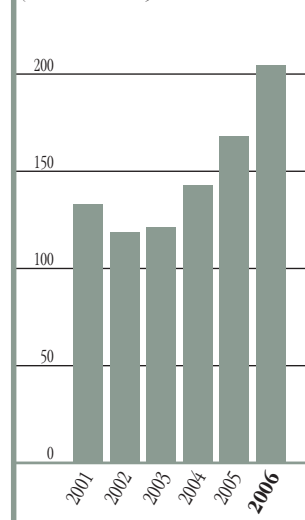
	2006	2005	change
Net income – diluted	\$ 1.32	\$ 0.97	36.1%
Cash dividends	0.28	0.22 ^(a)	27.3%
Book value	4.67	3.67	27.2%

PERFORMANCE

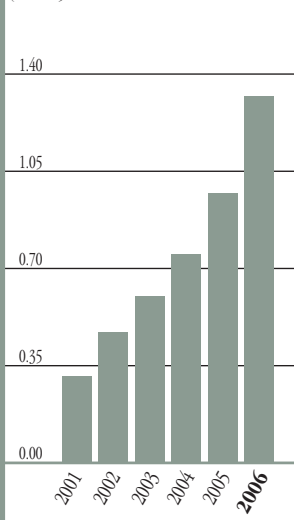
	2006	2005	change
Operating income margin	18.2%	16.6%	9.6%
Return on net sales	11.9%	10.6%	12.3%
Return on average assets	24.9%	21.3%	16.9%
Return on beginning shareholders' equity	36.7%	26.9%	36.4%
Shares outstanding, year-end (in thousands)	18,072	17,999	0.4%

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

NET SALES
(dollars in millions)



EARNINGS PER SHARE
(dollars)



SALES PER EMPLOYEE
(dollars in thousands)

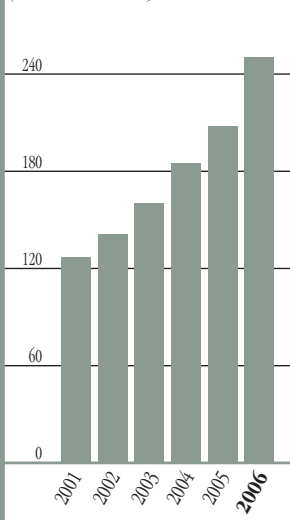

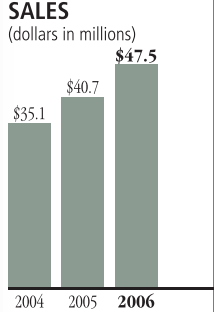

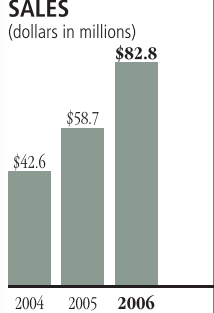

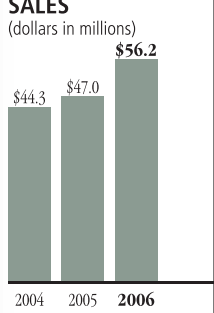

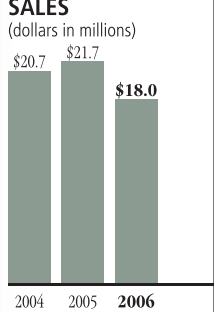


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Business Profile

Founded 50 years ago, in 1956, Raven today is an industrial manufacturer that believes in “old values and new ideas.” The company has four operating units and focuses on cash return on invested capital and shareholder value.

Operating Unit	Products	Markets	Competitive Strengths	SALES (dollars in millions)								
 <p>Flow Controls</p>	<ul style="list-style-type: none"> • Computerized control hardware and software for precision farming • Leading developer of GPS-based control systems • Precision application of pesticides, fertilizers and other chemicals 	<ul style="list-style-type: none"> • Domestic and international agricultural OEMs and sprayer manufacturers • Agricultural equipment aftermarket • Marine navigation 	<ul style="list-style-type: none"> • Market leader for ag sprayer controls • Strong brand recognition and distribution network • Wide range of precision agricultural products 	 <table border="1"> <tr> <th>Year</th> <th>2004</th> <th>2005</th> <th>2006</th> </tr> <tr> <td>Sales (\$M)</td> <td>\$35.1</td> <td>\$40.7</td> <td>\$47.5</td> </tr> </table>	Year	2004	2005	2006	Sales (\$M)	\$35.1	\$40.7	\$47.5
Year	2004	2005	2006									
Sales (\$M)	\$35.1	\$40.7	\$47.5									
 <p>Engineered Films</p>	<ul style="list-style-type: none"> • Rugged reinforced plastic sheeting 	<ul style="list-style-type: none"> • Manufactured housing and RVs • Temporary grain covers for agriculture • Temporary building construction enclosures • Pond lining and containment for oil exploration 	<ul style="list-style-type: none"> • Vertically integrated manufacturing capabilities • Broad product line • Superior target marketing • High productivity and low-cost structure 	 <table border="1"> <tr> <th>Year</th> <th>2004</th> <th>2005</th> <th>2006</th> </tr> <tr> <td>Sales (\$M)</td> <td>\$42.6</td> <td>\$58.7</td> <td>\$82.8</td> </tr> </table>	Year	2004	2005	2006	Sales (\$M)	\$42.6	\$58.7	\$82.8
Year	2004	2005	2006									
Sales (\$M)	\$42.6	\$58.7	\$82.8									
 <p>Electronic Systems</p>	<ul style="list-style-type: none"> • Electronics Manufacturing Services (EMS) 	<ul style="list-style-type: none"> • Primarily industrial OEMs in North America • Fortune 500 companies that contract their low-volume, high-mix production 	<ul style="list-style-type: none"> • Advanced manufacturing technology • Full-service provider, from engineering and manufacturing to customer service • ISO 9001 	 <table border="1"> <tr> <th>Year</th> <th>2004</th> <th>2005</th> <th>2006</th> </tr> <tr> <td>Sales (\$M)</td> <td>\$44.3</td> <td>\$47.0</td> <td>\$56.2</td> </tr> </table>	Year	2004	2005	2006	Sales (\$M)	\$44.3	\$47.0	\$56.2
Year	2004	2005	2006									
Sales (\$M)	\$44.3	\$47.0	\$56.2									
 <p>Aerostar</p>	<ul style="list-style-type: none"> • High-altitude aerostats • Custom-shaped inflatables • Protective wear • Military parachutes 	<ul style="list-style-type: none"> • US and foreign governments • NASA and scientific agencies • Promotional and advertising markets, including Disney and Macy's 	<ul style="list-style-type: none"> • Reputation for innovation and quality • Sole source in US for scientific balloons • Best technology for sewing and sealing 	 <table border="1"> <tr> <th>Year</th> <th>2004</th> <th>2005</th> <th>2006</th> </tr> <tr> <td>Sales (\$M)</td> <td>\$20.7</td> <td>\$21.7</td> <td>\$18.0</td> </tr> </table>	Year	2004	2005	2006	Sales (\$M)	\$20.7	\$21.7	\$18.0
Year	2004	2005	2006									
Sales (\$M)	\$20.7	\$21.7	\$18.0									

T o O u r S h a r e h o l d e r s , E m p l o y e e s a n d C u s t o m e r s



Ronald M. Moquist
*President &
Chief Executive Officer*

Raven achieved record sales and earnings last year, demonstrating the strength of a business model capable of driving high-margin sales and capital-efficient growth. We invested heavily in our core businesses, emphasizing those where revenue growth and returns are highest. Results in our Engineered Films and Flow Controls Divisions showed the power of this strategy. We greatly improved performance in the Electronic Systems Division, reflecting investment in people and processes. Aerostar struggled, but we are fine-tuning and leveraging our unique capabilities in high-altitude aerostats and specialty military products.

Fiscal Year Results

Raven achieved several milestones last year, topping \$200 million in sales and scoring net income in excess of \$24 million. The high returns on invested capital reflect the strength and competitive position of our operations.

- Sales increased 22% to an all-time high of \$205 million.
- Net earnings were up 36% to \$24.3 million, or a record \$1.32 per diluted share.
- Investments in plant and equipment and product development increased by \$3.3 million to \$12.8 million.
- Sales per employee reached \$250,000 versus \$127,000 just five years ago.
- The quarterly dividend was increased 27%, our nineteenth consecutive increase. Combined with stock repurchases, \$6.7 million was returned to shareholders.

Segment Performance

The Engineered Films Division (EFD) had a strong year and grew operating income by 26%. Profit margins dropped 2.8 points, but that was expected given the volatility of raw material costs. During the year, the cost of plastic resin, which represents approximately 60% of our cost of sales, ranged from 50¢/lb to 84¢/lb. Jim Groninger, General Manager, and his team did a great job of growing the business and maintaining profitability in the face of uncertainty.

We continue to invest in plant and equipment, developing specialty multi-layer film products and branching out into new domestic markets. Last year EFD had capital expenditures of \$7 million. This year we are projecting over \$13 million.

The Flow Controls Division (FCD) had another record-setting year as investments in new products and new markets began paying off. General Manager Dan Rykhus leads a talented group which continues to build on its market leadership position.

We are developing distributors worldwide who can successfully sell and service our products. FCD is currently focused on distribution in South America, Europe, Canada and Australia. International sales have grown from \$3.5 million to \$6.7 million in the last three years and will become increasingly important to the success of this division.

New products continue to be the lifeblood in FCD. During the past year we spent \$2.4 million in product development, up 26% from the previous year and double three years ago. We introduced several new agricultural products including a sub-decimeter accuracy tractor steering system; a digital map display to highlight the field being worked; and a new injection pump for pumping farm chemicals in their undiluted form. Our injection system is gaining greater acceptance for environmental, safety and cost reasons.

The Electronic Systems Division (ESD) showed dramatic improvement this past year. General Manager David Bair and his staff provided strong leadership, improving all aspects of the business, resulting in a doubling of operating income. ESD provides electronics manufacturing services to customers needing low-volume, high-mix production with high levels of engineering and customer service support. By focusing on this strategy, we avoid direct competition with cheap-labor, offshore suppliers.

Growing demand from Fortune 500 companies who seek the manufacturing capabilities of a reliable source plus our continued investment in advanced manufacturing technology will drive growth. This is not a high-margin business, but it's a solid one that fits our overall corporate strategy.

Aerostar International struggled during the year. The U.S. Army contract for cargo parachutes ran out last year and new contracts were delayed. We continue to be optimistic about long-term prospects for parachute orders, starting in the third quarter of this year.

Aerostar, together with Southwest Research Institute and the U.S. Air Force Research Lab, successfully launched and flew a powered stratospheric airship. The project is focused on developing near-space airships for inexpensive tactical communications, intelligence, surveillance and reconnaissance applications. This is part of Aerostar's ongoing technology roadmap to develop high-altitude, lighter-than-air-platforms for military and commercial use. Under the leadership of Mark West, Aerostar continues its transition from low-tech sewn products to high-tech scientific balloons and aerostats, military parachutes, and specialty outerwear for security forces.

Optimizing Long Term Value

Operational excellence and innovation continue to be the growth drivers at Raven.

Productivity Improvement

We measure productivity at Raven by dividing total sales by total employee compensation. That number is then compared to the previous year's productivity ratio. Our goal every year is to improve by 6%, or approximately twice the national average.

Only when every employee commits to continuous improvement and a “total quality – no waste” mentality can we be confident that we are optimizing operating margins. We constantly assess all of our businesses to assure long-term value, and prune low-growth, low-profit product lines and markets. Our goal is to drop the weakest 10% each year.

We have pursued a Total Quality/Six Sigma program for 15 years and it is now part of our corporate DNA. Adherence to these powerful tools has made us a better company, building higher quality products at a lower cost and becoming more profitable. There is an unending supply of process and quality issues that can be improved upon.

Innovation

For Raven to grow, we must continue to innovate and execute at a higher level. I consider this to be one of my principal responsibilities as CEO. Innovation at Raven is a culture. It flourishes in an environment of rigorous “give and take” where all ideas are listened to. In a digital world where e-mail rules, the most productive discussions still take place face-to-face. As we grow larger, this becomes more challenging. We work hard to tear down the walls that separate us and keep us from engaging in robust dialogue.

Growth

Once a business is in a “lean” condition and margins and growth prospects are strong, we invest heavily in plant, equipment, marketing and new product development.

Even in a slow growth environment, our goal is to increase earnings 15% a year on average. Each of our four business units has a unique role to play in that growth. It starts with a business model that emphasizes niche markets and avoids production based on cheap labor. We call this “China-proofing” the business and it is a strategy that has served us well. This somewhat limits growth but it allows us to earn above-average returns on invested capital.

We don’t make a lot of acquisitions because there aren’t many good ones that would benefit our shareholders, but we never shy away from making an investment when it makes long-term sense. We have a disciplined approach to investing and only commit resources to projects when we are convinced the opportunity is real and Raven has a high potential to succeed.

Cash Management

Our balance sheet is strong, with virtually no debt, allowing us to pursue a wide range of strategic options, while returning cash to our shareholders. We will continue to raise the dividend, with a target of approximately 30% of earnings, and to buy back our shares, although at a somewhat reduced rate.

	FY2006	FY2005	FY2004	FY2003	FY2002
Annual EPS Growth	36.1%	29.3%	25.0%	29.0%	50.0%
Return on Equity	36.7%	26.9%	23.8%	21.5%	18.4%
Return on Assets	24.9%	21.3%	18.2%	15.9%	13.3%
Return on Sales	11.9%	10.6%	9.7%	9.3%	7.5%

Governance

Strong corporate governance is a real asset. We believe that a small but effective Board of Directors that is totally engaged best serves our shareholders. The role of Raven's Board is to oversee how management serves the interests of shareholders and other corporate stakeholders. Our philosophy is to have all members of the Board, except the CEO, be independent under the NASDAQ definition of independence. We also believe that splitting the functions of the Chairman of the Board and the CEO best suits our current needs.

This Report is the second one covered by the Sarbanes-Oxley Act of 2002. While I never felt that Raven needed more regulation to do the right thing, Section 404 of the Act has brought increased emphasis to process discipline and shows our shareholders we are doing things right.

Tom Iacarella, Raven's Chief Financial Officer, and his team do an outstanding job putting together our Annual Report. We are proud to present the numbers and analyses in this Report and hope we have done it in a way that is meaningful and easy to understand.

Old Values, New Ideas

Old Values, New Ideas refers to "our core" and "our competitive edge." Our core at Raven is performance with integrity. When you are running a company for the long haul, these core values complement each other. Achieving results ethically is fundamental to how we do business.

Our competitive edge – the highly focused, carefully structured approach to the marketplace – is the strong business model and effective game plan that we execute every day. We play off our strengths and stay on target. We have profitable niche market positions, a flow of innovative new products, expanding international markets, and a talented management team.

Leadership is the key differentiator in business. The people you have managing investments are more important than the dollars invested. To ensure we have a strong group of future leaders moving through all levels of the company, Barb Ohme, Vice President Administration, has us focused on a plan to hire well, sort out the best, then mentor and provide opportunities for personal development. We believe we're growing the best group of leaders in Raven's history.

Raven 2006 has been 50 years in the making. We've come a long way since our founders started the company in February 1956. Those four men: Joseph Kaliszewski, J.R. Smith, Duwayne Thon and Paul (Ed) Yost left their jobs and homes in Minnesota to follow their dream. My sincere gratitude to them and to all the dedicated men and women who over the past 50 years helped build Raven into a great company.

They started with a dream and a vision. Our current 900 employees follow that heritage and tradition.

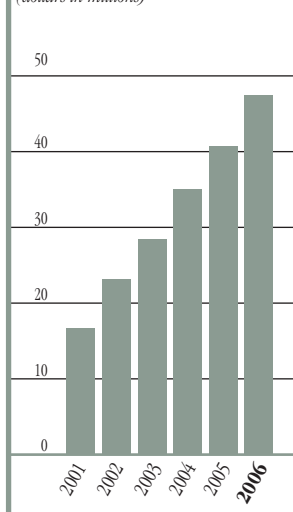


Ronald M. Moquist
President & CEO
March 29, 2006

Flow Controls Division

Investments in worldwide sales and customer support, including the opening of a European customer-support office are expected to increase sales.

FLOW CONTROLS SALES
(dollars in millions)



Reflecting a strong emphasis on expanding international revenues, sales reached \$48 million, a 17% increase over the prior year. The successful introduction of the Autoboom™, an automatic boom-height control—a product line acquired from Montgomery Industries in Canada—was an important factor in the company's success. Operating income of \$13.6 million was up 29% due primarily to higher sales.

International sales reached 14% of total division sales, up from 12% in the previous year. Efforts to establish a Brazilian dealer network with local service provided by a master distributor were largely successful despite a currently weak agricultural economy in Brazil. Canadian sales were bolstered by the acquisition of Montgomery Industries and the establishment of a Canadian subsidiary.

The division's strategy of providing a high level of customer service and support continued in the United States as well. Stronger relationships with Original Equipment Manufacturers (OEMs) led to an expansion of OEM offerings of Flow Controls products, which created a higher percentage of revenues for this market segment.

Prospects


The division introduced its new SmarTrax™ decimeter-level automatic steering control system with GPS-enhancer technology and a new combination lightbar and GPS touch-screen display unit called Envisio™. Growth drivers of FCD this year and the near future include these new products, along with Autoboom™. Investments in worldwide sales and customer support, including the refocusing of Raven Canada on sales and distribution efforts and the opening of a European customer support office are all expected to increase sales. The division expects to find additional markets for its non-ag GPS products, especially in marine navigation. Additionally, value-engineering methods will be used to reduce costs for key growth products.

Three new state-of-the-art extrusion lines will come on-line during the coming year. EFD capital spending is expected to exceed \$13 million in this new fiscal year.

Engineered Films Division

The Engineered Films Division (EFD) expanded its product offerings and continues to invest in growth. Sales reached \$83 million, up 41% over the prior year. Increases came in all of the division's product markets, led by oil field pit lining films and was aided by about 15 percent higher pricing. Operating income grew 26% to \$19.9 million but the impact of higher plastic resin prices reduced operating margins by three percentage points.

The division invested heavily in new facilities and equipment during the year, with total EFD capital expenditures reaching \$7 million. Two new extruders were added, a three-layer and

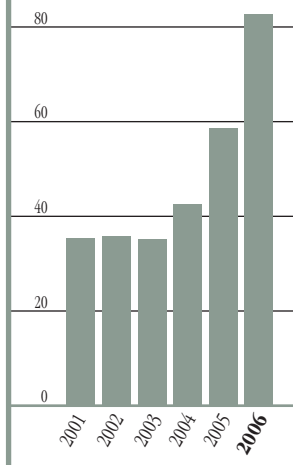


Farmers worldwide are reaping the benefits of the automated steering and control systems our Flow Controls Division provides. Field operations can be managed to within inches of accuracy.



ENGINEERED FILMS SALES

(dollars in millions)



a five-layer line. A new laminator helped EFD manufacture additional disaster films so as to meet the needs created by another violent hurricane season as well as grow its industrial and construction markets.

Sales functions were restructured, separating new product sales from recurring orders for our established products. The repositioning allows the division to continue to focus on development of new films specifically tailored to the needs of its customers while providing quick response to customer demand.

Prospects

Three new state-of-the-art extrusion lines will come on-line during the coming year. Mono-line, three-layer and seven-layer extruders will expand the division's product capabilities. EFD capital spending is expected to exceed \$13 million in this new fiscal year. Other investments will include printers, winders, tables and robotic equipment. The division recently purchased a new warehouse and will begin construction of a new extrusion tower and manufacturing floor space. These investments will support the growth in the division as it continues to diversify and develop its product offerings.

Electronic Systems Division

ESD's model of high-mix, low-volume manufacturing continues to be successful in a highly competitive global industry.

Electronic Systems Division (ESD) sales for the last fiscal year climbed 19% to \$56 million while operating profits almost doubled, reaching \$8.9 million. The year started off strong, with increases in business coming from several existing customers. This type of growth allowed the division to bring startup costs under control as compared to the previous year.

ESD's model of high-mix, low-volume manufacturing continues to be successful in a highly competitive global industry.

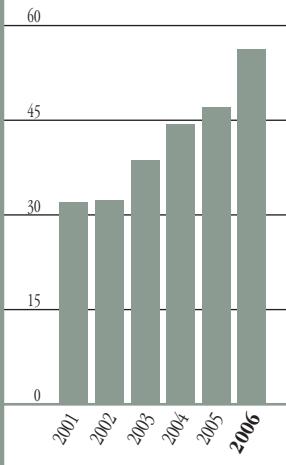
The division expanded its utilization of the six-sigma methodology to improve processes; recent efforts included upgrading Production Process Control and New Product Introduction processes. ESD added a new customer in the fourth quarter of this past year. Lead-free manufacturing techniques were successfully undertaken across the division as a result of extensive design-of-experiments efforts by Engineering and Manufacturing personnel.

An aerial photograph showing a large, rectangular construction site. The site is filled with a silver, textured geomembrane liner. The liner is laid out in a grid pattern, with several large rectangular sections separated by narrow paths. The surrounding area is brown earth, and there are some small structures and equipment visible in the distance. The text is overlaid on the center of the image.

Pictured here is a 575,000-square-foot Rufco® geomembrane liner. The polyethylene liner/cover market continues to be a highly robust market segment for Raven's Engineered Films Division.

ELECTRONIC SYSTEMS SALES

(dollars in millions)



ESD expects to be ready for lead-free manufacturing in the first quarter—well in advance of the July 2006 deadline for products used in Europe.

Prospects

ESD is focused on improving customer relations and providing additional value-added services in test, design, manufacturability-analysis and component-obsolescence tracking. The division follows a model of adding one to two select clients each year. Efforts continue to focus on improving operational excellence in the areas of manufacturing cycle time, increasing inventory turns, and in making technical support processes more robust.


Aerostar

Aerostar sales and profits sagged as deliveries under its major military contract for cargo parachutes wound down during the year and ended in October 2005. Sales of \$18 million were down 17% and operating income declined 41% to \$2.1 million. No new parachute contracts have been let with the military's shift to total support of deployed ground forces. Additionally, other high-tech military protective gear manufactured by Aerostar was overtaken by the need for basic uniforms and body armor.

Aerostar nevertheless has continued developing streamlined manufacturing methods to set the standard in parachute manufacturing. It also is building on its high-altitude, heavy-payload parachute capability with added parachute-design capabilities.

Aerostar has fully integrated the scientific ballooning group, which was added to Aerostar in May 2004. While the traditional high-altitude balloon market remains steady, emerging markets in "Near Space"—above 50,000 feet—offer a nearly untapped environment for long-distance communications, data relay, and intelligence gathering. Partnering with Physical Science Lab and Southwest Research Institute has strengthened our prowess as

Emerging markets
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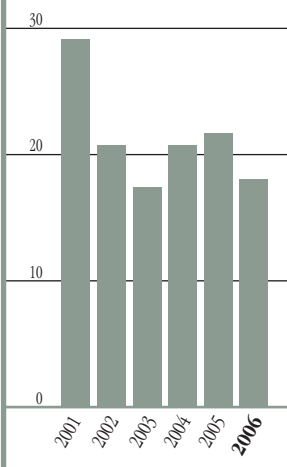


By this spring, Raven's Electronic Systems Division expects to be shipping lead-free electronics to Europe. The division beats the deadline that most products shipped to Europe be lead-free beginning in July 2006.

the leading scientific balloon manufacturer in the world. Two significant tests were done in November 2005. A powered airship was flown in the stratosphere—the HiSentinel, under contract with the U.S. Army. This flight was the first step in developing platforms with increased capabilities to meet ever-changing battlefield needs. A second test involved the use of free-floating balloons for communications and/or intelligence gathering.

AEROSTAR SALES

(dollars in millions)

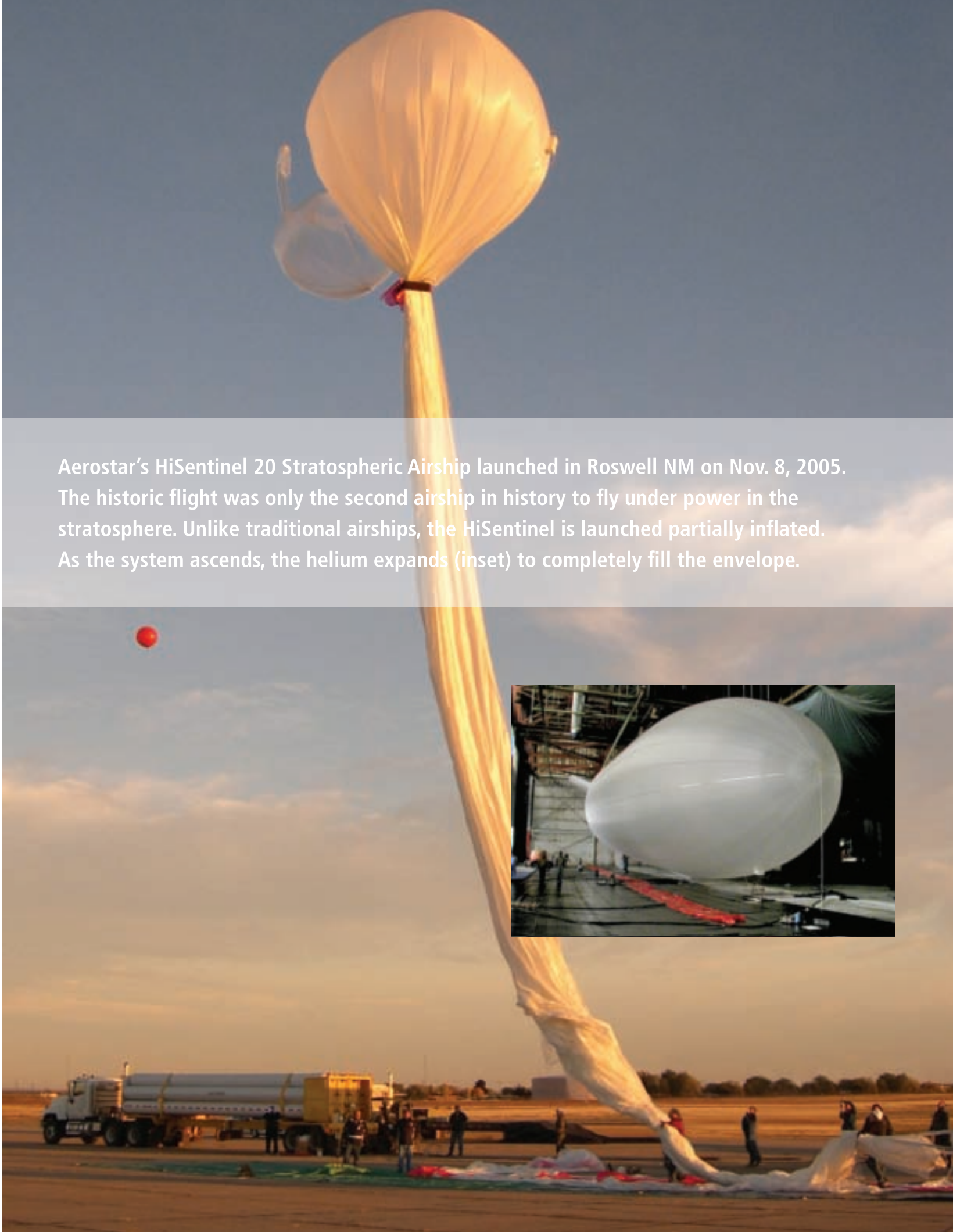


High-tech protective gear is another emerging market for Aerostar. Anti-exposure suits for military fliers and tactical swimmers keep users dry and alive when exposed to extremely cold water. Aerostar is now in the process of qualification to manufacture such suits, and we are positioned to become a major supplier of these products for the military.

Prospects

Significant progress was made this year in development of new products and capabilities. Because the U.S. Army has developed new parachute systems to replace all personnel parachutes in inventory over the next seven years, the industry will go from nearly record low production to levels significantly higher than traditional production. Aerostar also continues to develop flight packages for military payloads operating in the harsh environment of the stratosphere.

An underlying key to Aerostar's exceptional quality and reputation for producing the industry's highest quality products is Aerostar's ISO 9001-2000 certification. This standard has become a cultural process for company employees across the various product families, and will continue to serve Aerostar's future growth and development.



Aerostar's HiSentinel 20 Stratospheric Airship launched in Roswell NM on Nov. 8, 2005. The historic flight was only the second airship in history to fly under power in the stratosphere. Unlike traditional airships, the HiSentinel is launched partially inflated. As the system ascends, the helium expands (inset) to completely fill the envelope.



50 Year Anniversary

We were started by a group of people with a dream and a vision. They have passed the torch to the generations that came after them. We proudly follow that heritage and tradition.



1956

The year was 1955 and what a year it was in American history. Elvis Presley made his first television appearance, and Rosa Parks was arrested for refusing to give up her seat on a city bus. A little-known restaurateur named Ray Kroc started the fast food chain, McDonalds, and the theme park, Disneyland, opened its gates for the first time. That same year, the idea for another company was quietly beginning to take form, fueled by the dreams of four forward-thinking men who worked at the General Mills Aeronautical Research Laboratory. On the eve of 1956, Richard (J.R.) Smith, Paul (Ed) Yost, Duwayne Thon and Joseph Kaliszewski began meeting after hours to explore the idea of starting their own company. It was an idea born of individual inspiration and cooperative endeavor. These were practical, tough-minded businessmen — for which building a business was simply the next logical step in their careers.



With the financial backing of Cyrus Hoigaard, a Minneapolis businessman, Raven was launched in February 1956, and quickly built a reputation as an innovative manufacturer of scientific balloons. The Air Force, Office of Naval Research and various universities began placing orders with Raven; the flight services group provided customers with superior balloon launching and recovery operations. These high-altitude balloons with capsules carrying mice, monkeys and cosmic ray measuring devices, extended our knowledge of space.

Business was stable, but not outstanding, for the first year. With sales of \$95,000, Raven lost \$13,000 that year, the only loss in the history of the company.

Ed Owen became the company's first full-time president in 1961. During his tenure, sales rose to a high of \$12.3 million. In a newspaper article on his retirement, Owen attributed "the growth, image and reputation of the company to the many loyal Raven employees."

1956

J.R. Smith, Ed Yost, Duwayne Thon and Joseph Kaliszewski leave the employ of General Mills, Inc. to form Raven Industries, using capital they receive from Cyrus Hoigaard.

1960

Raven invents the modern hot-air balloon and also starts manufacturing fiberglass tanks.

1961

Ed Owen becomes Raven's first full-time President.

The Manchester Building in downtown Sioux Falls is bought for \$156,000 and becomes corporate headquarters.

1962

Raven is chosen by the National Center for Atmospheric Research to manage the National Scientific Balloon Flight Station in Palestine, TX.

1966

Raven builds its first satellite production facility in Huron, SD to manufacture parachutes.

1967

Raven introduces a heavy-lift balloon for logging. Enters sportswear field with the manufacture of insulated snowmobile clothing.

1971

Ed Owen retires and David A. Christensen becomes President.

1972

Raven declares its first cash dividend. Dividends per share have increased every year since 1972, with only two exceptions.

1973

New plastic sheet material, RUFECO, is introduced to the marketplace.

1980

Raven listed on the American Stock Exchange.

1986

Applied Technology Division is restructured, creating Engineered Films and Aerostar.

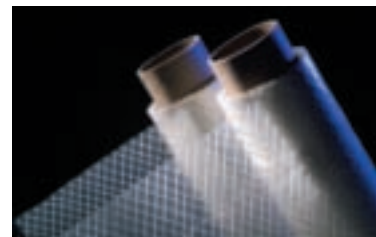
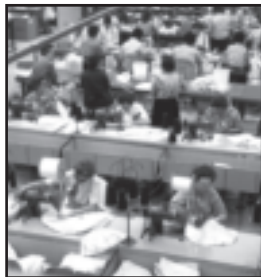
Raven buys Glasstite, Inc. a manufacturer of fiberglass pickup-truck toppers.

1987

Raven named one of the "Best Small Companies in America" by Forbes Magazine.

1990

Raven adopts Total Quality Management (TQM).



With Owen's retirement, Dave Christensen was named President of Raven Industries in 1971 and remained in that position until 2000. During his term, Raven was three times named by Forbes Magazine as one of the "Best Small Companies in America." Raven reached an important goal in 1992 – \$100 million in sales, a major accomplishment since it represented a doubling of sales over the previous five years.

Ron Moquist became the third Chief Executive Officer of the company in 2000 and executed an aggressive strategy for success. The "Shrink, Fix, Grow" strategy as it was called was designed to get Raven Industries out of low-margin businesses like pickup-truck toppers and focus on more profitable products such as high-tech farm equipment. As a result, Raven was able to return more than \$64 million to shareholders through cash dividends and stock repurchases from fiscal 2000 through 2005 while improving the balance sheet and reducing debt.

Today Raven Industries has passed the \$200 million revenue threshold. With the company no longer dependent on labor-intensive, commodity-type products, the business is focused on growth. The company's 900 employees take pride in celebrating Raven's 50th anniversary and salute the dedicated men and women who came before them.

1991
Ag electronics product line is spun out of the Electronic Systems Division, to create a new division, Flow Controls.

1992
Raven reaches \$100 million in sales - represents a doubling of sales over the previous five years.

Begins trading on the Nasdaq Stock Market as RAVN.

1995
Company purchases high-altitude balloon manufacturing assets of Winzen International of Texas.

1996
Raven introduces a new variable-rate controller with global-positioning satellite (GPS) technology for agricultural applications.

1999
Glasstite, Inc. sold.

2000
David Christensen retires. Ronald Moquist becomes chief executive of Raven.

Plastic Tank Division sold to Norwest Equity Partners.

2001
Flow Controls Division acquires GPS technology leader Starlink, Incorporated. Sportswear Division is merged into Aerostar.

2002
Three-layer film extruder built for \$4 million.

2004
Raven Precision Solutions Center opens.

2005
Aerostar International successfully launches and flies the second airship in history to achieve powered flight in the stratosphere. The first one, which flew in 1970, was also a Raven product.

2006
Raven announces fifth year of consecutive record profits with a 30% per year average growth and reaches \$200 million in sales.

ELEVEN-YEAR FINANCIAL SUMMARY

For the years ended January 31

Dollars in thousands, except per-share data

OPERATIONS FOR THE YEAR

	2006	2005	2004
Net sales			
Ongoing operations	\$204,528	\$168,086	\$142,727
Sold businesses ^(a)	—	—	—
Total	204,528	168,086	142,727
Gross profit	53,231	43,200	33,759
Operating income			
Ongoing operations	37,363	27,862	21,981
Sold businesses ^(a)	(79)	—	(355)
Total	37,284	27,862	21,626
Income before income taxes	37,494	27,955	21,716
Net income	\$ 24,262	\$ 17,891	\$ 13,836
Net income % of sales	11.9%	10.6%	9.7%
Net income % of beginning equity	36.7%	26.9%	23.8%
Cash dividends	\$ 5,056	\$ 15,298 ^(b)	\$ 3,075

FINANCIAL POSITION

Current assets	\$ 71,345	\$ 61,592	\$ 55,710
Current liabilities	20,050	20,950	11,895
Working capital	\$ 51,295	\$ 40,642	\$ 43,815
Current ratio	3.56	2.94	4.68
Property, plant and equipment	\$ 25,602	\$ 19,964	\$ 15,950
Total assets	106,157	88,509	79,508
Long-term debt, less current portion	9	—	57
Shareholders' equity	\$ 84,389	\$ 66,082	\$ 66,471
Long-term debt / total capitalization	0.0%	0.0%	0.1%
Inventory turnover (CGS / year-end inventory)	5.4	5.4	6.5

CASH FLOWS PROVIDED BY (USED IN)

Operating activities	\$ 21,189	\$ 18,871	\$ 19,732
Investing activities	(11,435)	(7,631)	(4,352)
Financing activities	(6,946)	(19,063)	(6,155)
Increase (decrease) in cash and cash equivalents	2,790	(7,823)	9,225

COMMON STOCK DATA

Net income per share – basic	\$ 1.34	\$ 0.99	\$ 0.77
Net income per share – diluted	1.32	0.97	0.75
Cash dividends per share	0.28	0.85 ^(b)	0.17
Book value per share	4.67	3.67	3.68
Stock price range during year			
High	\$ 33.15	\$ 26.94	\$ 15.23
Low	16.54	13.08	7.56
Close	\$ 31.60	\$ 18.38	\$ 14.11
Shares outstanding, year-end (in thousands)	18,072	17,999	18,041
Number of shareholders, year-end	9,263	6,269	3,560

OTHER DATA

Price / earnings ratio	23.9	18.9	18.8
Average number of employees	819	807	770
Sales per employee	\$ 250	\$ 208	\$ 185
Backlog	\$ 43,619	\$ 43,646	\$ 47,120

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.

Book value per share is computed by dividing total shareholders' equity by the number of common shares outstanding.

(a) In fiscal 2003, 2001, 2000 and 1996, the company sold its Beta Raven Industrial Controls, 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.

2003	2002	2001	2000	1999	1998	1997	1996
\$ 119,589	\$ 112,018	\$ 113,360	\$ 107,862	\$ 108,408	\$ 104,489	\$ 101,869	\$ 84,379
1,314	6,497	19,498	42,523	46,798	47,679	39,576	38,010
120,903	118,515	132,858	150,385	155,206	152,168	141,445	122,389
27,515	23,851	21,123	24,217	24,441	24,929	25,287	22,660
16,861	13,788	7,417 ^(c)	7,971	8,220	9,555	9,321	7,692
204	(613)	3,331 ^(d)	2,606 ^(e)	1,453	1,007	2,650	1,869
17,065	13,175	10,748	10,577	9,673	10,562	11,971	9,561
17,254	13,565	10,924	10,503	9,649	12,540 ^(f)	11,915	9,566
\$ 11,185	\$ 8,847	\$ 6,411 ^{(c)(d)}	\$ 6,762 ^(e)	\$ 6,182	\$ 8,062	\$ 7,688	\$ 6,197
9.3%	7.5%	4.8%	4.5%	4.0%	5.3%	5.4%	5.1%
21.5%	18.4%	11.8%	10.9%	10.0%	14.2%	15.6%	13.6%
\$ 2,563	\$ 2,371	\$ 2,399	\$ 2,895	\$ 2,944	\$ 2,709	\$ 2,367	\$ 2,130
\$ 49,351	\$ 45,308	\$ 51,817	\$ 55,371	\$ 60,279	\$ 57,285	\$ 56,696	\$ 45,695
13,167	13,810	13,935	14,702	15,128	17,816	20,016	14,771
\$ 36,184	\$ 31,498	\$ 37,882	\$ 40,669	\$ 45,151	\$ 39,469	\$ 36,680	\$ 30,924
3.75	3.28	3.72	3.77	3.98	3.22	2.83	3.09
\$ 16,455	\$ 14,059	\$ 11,647	\$ 15,068	\$ 19,563	\$ 19,817	\$ 18,142	\$ 18,069
72,816	67,836	65,656	74,047	83,657	82,066	80,662	67,553
151	280	2,013	3,024	4,572	1,128	3,181	2,816
\$ 58,236	\$ 52,032	\$ 47,989	\$ 54,519	\$ 62,293	\$ 61,563	\$ 56,729	\$ 49,151
0.3%	0.5%	4.0%	5.3%	6.8%	1.8%	5.3%	5.4%
4.4	5.0	5.9	5.2	4.9	4.8	4.5	4.1
\$ 12,735	\$ 18,496	\$ 9,441	\$ 10,375	\$ 8,326	\$ 9,274	\$ 7,088	\$ 9,687
(9,166)	(13,152)	9,752	6,323	(3,127)	(4,979)	(5,090)	(4,158)
(5,830)	(8,539)	(14,227)	(16,326)	(2,714)	(4,884)	(2,363)	(4,029)
(2,261)	(3,195)	4,966	372	2,485	(589)	(365)	1,500
\$ 0.61	\$ 0.48	\$ 0.31	\$ 0.26	\$ 0.22	\$ 0.28	\$ 0.27	\$ 0.22
0.60	0.47	0.31	0.26	0.22	0.28	0.27	0.22
0.14	0.13	0.12	0.11	0.10	0.09	0.08	0.08
3.21	2.82	2.53	2.32	2.21	2.13	1.96	1.74
\$ 9.20	\$ 5.88	\$ 3.48	\$ 3.04	\$ 3.79	\$ 4.29	\$ 3.92	\$ 3.46
4.38	3.02	1.88	2.25	2.54	3.27	2.67	2.58
\$ 7.91	\$ 5.64	\$ 3.04	\$ 2.40	\$ 2.67	\$ 3.77	\$ 3.75	\$ 3.21
18,133	18,424	18,956	23,496	28,164	28,944	29,016	28,296
2,781	2,387	2,460	2,749	3,014	3,221	3,011	3,190
13.2	12.1	9.8	9.2	12.4	13.7	13.9	14.9
758	838	1,043	1,320	1,445	1,511	1,387	1,368
\$ 160	\$ 141	\$ 127	\$ 114	\$ 107	\$ 101	\$ 102	\$ 89
\$ 42,826	\$ 33,834	\$ 38,239	\$ 44,935	\$ 47,431	\$ 47,154	\$ 38,102	\$ 32,539

(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 the sale of an investment in an affiliate.

BUSINESS SEGMENTS

For the years ended January 31

Dollars in thousands

	2006	2005	2004	2003	2002	2001
FLOW CONTROLS DIVISION						
Sales	\$ 47,506	\$ 40,726	\$ 35,059	\$ 28,496	\$ 23,178	\$ 16,758
Operating income	13,586	10,516 ^(b)	8,254	6,897	5,509 ^(d)	3,985
Assets	30,047	23,701	19,304	21,483	20,313	9,578
Capital expenditures	938	1,372	341	729	677	327
Depreciation & amortization	1,085	876	1,004	948	443	353
ENGINEERED FILMS DIVISION						
Sales	\$ 82,794	\$ 58,657	\$ 42,636	\$ 35,096	\$ 35,796	\$ 35,403
Operating income	19,907	15,739	10,563	10,030	8,257	7,397
Assets	33,512	25,181	15,941	17,244	13,691	11,520
Capital expenditures	7,359	3,960	712	4,080	3,178	633
Depreciation & amortization	2,436	1,403	1,611	1,475	1,001	946
ELECTRONIC SYSTEMS DIVISION						
Sales	\$ 56,219	\$ 47,049	\$ 44,307	\$ 38,589	\$ 32,289	\$ 32,039
Operating income (loss)	8,916	4,492	5,797	4,022	2,264	(542) ^(f)
Assets	20,191	17,382	14,975	14,528	13,910	15,359
Capital expenditures	1,612	1,201	841	395	774	1,492
Depreciation & amortization	871	880	850	978	1,101	1,089
AEROSTAR						
Sales	\$ 18,009	\$ 21,654	\$ 20,725	\$ 17,408	\$ 20,755	\$ 29,160
Operating income	2,133	3,609	3,092 ^(c)	1,012	2,907 ^(e)	2,996
Assets	6,837	7,492	7,756	7,032	7,150	8,872
Capital expenditures	179	542	1,130	570	256	163
Depreciation & amortization	359	389	436	374	347	367
REPORTABLE SEGMENTS TOTAL						
Sales	\$204,528	\$168,086	\$142,727	\$119,589	\$112,018	\$113,360
Operating income	44,542	34,356 ^(b)	27,706 ^(c)	21,961	18,937 ^(d,e)	13,836 ^(f)
Assets	90,587	73,756	57,976	60,287	55,064	45,329
Capital expenditures	10,088	7,075	3,024	5,774	4,885	2,615
Depreciation & amortization	4,751	3,548	3,901	3,775	2,892	2,755
CORPORATE & OTHER^(a)						
Sales from sold businesses	\$ —	\$ —	\$ —	\$ 1,314	\$ 6,497	\$ 19,498
Operating income (loss) from sold businesses	(79)	—	(355)	204	(613)	3,331 ^(g)
Operating (loss) from administrative expenses	(7,179)	(6,494)	(5,725)	(5,100)	(5,149)	(6,419)
Assets	15,570	14,753	21,532	12,529	12,772	20,327
Capital expenditures	270	466	306	259	209	475
Depreciation & amortization	400	293	244	191	253	912
TOTAL COMPANY						
Sales	\$204,528	\$168,086	\$142,727	\$120,903	\$118,515	\$132,858
Operating income	37,284	27,862 ^(b)	21,626 ^(c)	17,065	13,175 ^(d,e)	10,748 ^(f,g)
Assets	106,157	88,509	79,508	72,816	67,836	65,656
Capital expenditures	10,358	7,541	3,330	6,033	5,094	3,090
Depreciation & amortization	5,151	3,841	4,145	3,966	3,145	3,667

(a) Operating income from sold businesses includes administrative expenses directly attributable to the sold businesses. Assets are principally cash, investments, deferred taxes and notes receivable.

(b) Includes a \$1.3 million pretax writeoff of assets related to the Fluent Systems product line (See Note 5).

(c) Includes \$182,000 of pretax gain on plant sale.

(d) Includes a \$550,000 in-process research and development charge related to the Starlink acquisition.

(e) Includes \$414,000 of pretax gains on plant sales.

(f) Includes \$1.8 million of business repositioning charges in the Electronic Systems Division and \$2.6 million for the total company.

(g) Includes a \$3.1 million pretax gain on the sale of the company's Plastic Tank Division.

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								
	2006		2005		2004				
	% Sales	% Change	% Sales	% Change	% Sales	% Change			
<i>Dollars in thousands, except per-share data</i>									
Net sales	\$204,528	100.0	+21.7	\$168,086	100.0	+17.8	\$142,727	100.0	+18.1
Gross profit	53,231	26.0	+23.2	43,200	25.7	+28.0	33,759	23.7	+22.7
Operating expenses	15,868	7.8	+12.9	14,056	8.4	+17.5	11,960	8.4	+12.5
Loss on disposition of businesses & assets	79			1,282			173		
Operating income	37,284	18.2	+33.8	27,862	16.6	+28.8	21,626	15.2	+26.7
Income before income taxes	37,494	18.3	+34.1	27,955	16.6	+28.7	21,716	15.2	+25.9
Income taxes	13,232	6.5	+31.5	10,064	6.0	+27.7	7,880	5.5	+29.8
Net income	\$ 24,262	11.9	+35.6	\$ 17,891	10.6	+29.3	\$ 13,836	9.7	+23.7
Net income per share – diluted	\$ 1.32		+36.1	\$ 0.97		+29.3	\$ 0.75		+25.0
Effective income tax rate	35.3%		- 1.9	36.0%		- 0.8	36.3%		+ 3.1

EXECUTIVE SUMMARY

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

Consolidated Operating Results

The company delivered record sales and profits in fiscal 2006, exceeding fiscal 2005 record-setting results. Net income rose to \$24.3 million, an increase of \$6.4 million, or 35.6% over last year's results. Earnings per diluted share of \$1.32 topped the prior fiscal year's record of \$.97 by 36.1%. Net sales reached \$204.5 million, surpassing fiscal 2005 by \$36.4 million, or 21.7%. The Engineered Films, Electronic Systems, and Flow Controls segments all contributed to the company's sales and profit growth for fiscal 2006, with the higher sales levels in each of these segments driving the increase in company profits.

In fiscal 2006, the company increased its quarterly dividend from 5 1/2 cents per share paid in fiscal 2005 to 7 cents per share. During fiscal 2005, the company split its stock two-for-one and paid a one-time special dividend of 62 1/2 cents per share, which totaled \$11.3 million. Capital expenditures

totaled \$10.4 million for fiscal 2006 and were made primarily in the company's Engineered Films segment for additional manufacturing capacity and facilities. Fiscal 2005 capital spending totaled \$7.5 million and included increased spending for additional capacity in the Engineered Films segment. The company has planned for continued investment in the expansion of Engineered Films manufacturing capacity to exceed \$13 million in fiscal 2007. The company also completed the strategic acquisition of Montgomery Industries, Inc. in its Flow Controls segment at the beginning of fiscal 2006.

Management expects another year of record sales and profits in fiscal 2007. The additional Engineered Films manufacturing capacity will enable the segment to satisfy customer demand in the upcoming year. New product introductions and continued demand for the company's precision agriculture products in the Flow Controls segment are expected to aid in the company's fiscal 2007 sales and profit growth.

The following discussion highlights the consolidated operating results. Operating results are more fully explained in the segment discussions that follow.

Fiscal 2006 versus fiscal 2005

Net sales for the fiscal year ended January 31, 2006, surpassed the \$200 million mark, exceeding fiscal 2005 by \$36.4 million, or 21.7%. The record fiscal 2006 sales performance followed a strong fiscal 2005, which recorded a 17.8% increase over fiscal 2004. The Flow Controls, Engineered Films, and Electronic Systems segments reported increased revenues over one year earlier, with the Engineered Films segment posting the largest sales gain of \$24.1 million, or 41.1% to reach \$82.8 million. Fiscal 2006 revenue levels topped the prior year in all of Engineered Films' markets, reflecting the segment's additional manufacturing capacity, high demand for oil and pond liners, and higher selling prices due to increased resin costs. Flow Controls' net sales reached \$47.5 million, a 16.6% increase over last year. Increased demand for the segment's standard sprayer control systems and sales of automatic boom height control systems ("Autoboom™"), which was acquired during the year as part of the Montgomery Industries, Inc. acquisition, boosted revenue levels for the fiscal year. Electronic Systems reported a 19.5% increase in annual sales due to increased demand from its existing customer base. Aerostar's net sales of \$18.0 million fell short of last year's twelve-month period by \$3.6 million due primarily to an expected cargo parachute revenue decrease and lower uniform contract sales.

For the year ended January 31, 2006, operating income rose to \$37.3 million, a 33.8% increase over one year earlier. Higher sales levels in the company's Flow Controls and Engineered Films segments drove the profit growth, with the Electronic Systems segment contributing to the increase in company profits through higher sales and increased manufacturing efficiencies on existing customer contracts. Flow Controls' operating income of \$13.6 million was \$3.1 million, or 29.2% higher than the previous fiscal year. Fiscal 2006 operating income of \$19.9 million reported in the Engineered Films segment rose \$4.2 million, while Electronic Systems' operating income of \$8.9 million almost doubled that of the previous year. Aerostar operating income of \$2.1 million fell short of the prior year by \$1.5 million, or 40.9%, and reflects the segment's lack of a follow-on military parachute order in fiscal 2006.

Fiscal 2005 versus fiscal 2004

Fiscal 2005 net sales reached \$168.1 million, 17.8% higher than fiscal 2004, with all segments recording increases over their fiscal 2004 revenue levels. Operating income of \$27.9 million was \$6.2 million over the \$21.6 million reported for fiscal 2004. Profit gains were a result of significant sales increases in the company's higher-margin product lines, including Flow Controls' precision ag products and Engineered Films' plastic sheeting. In fiscal 2005, a strong agricultural economy and new product introductions resulted in a net sales increase of \$5.7 million, or 16.2% for the Flow Controls' segment, with revenue reaching \$40.7 million. Flow Controls' 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. 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 contract. 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 included an operating loss of \$355,000 for ongoing environmental and legal liabilities associated with previously sold businesses.

FISCAL 2006 PERFORMANCE MEASURES

The company has set ambitious goals for achieving higher growth, better returns on invested capital, and increased shareholder value. The company's net income as a percent of net sales has steadily risen over the last several years. Net income was 11.9% of sales in fiscal 2006, which exceeded fiscal 2005's record of 10.6%. Net income as a percent of average assets was 24.9% as compared to 21.3% in fiscal 2005. As a percent of beginning equity, fiscal 2006 net income was 36.7%, up almost 10 percentage points from fiscal 2005.

	2006	2005	2004	2003	2002	2001
Net income as % of						
Net sales	11.9%	10.6%	9.7%	9.3%	7.5%	4.8%
Average assets	24.9%	21.3%	18.2%	15.9%	13.3%	9.2%
Beginning equity	36.7%	26.9%	23.8%	21.5%	18.4%	11.8%

SEGMENT ANALYSIS

SALES AND OPERATING INCOME BY SEGMENT

Dollars in thousands	2006		2005		2004	
	amount	% change	amount	% change	amount	% change
SALES						
Flow Controls	\$ 47,506	+16.6	\$ 40,726	+16.2	\$ 35,059	+23.0
Engineered Films . . .	82,794	+41.1	58,657	+37.6	42,636	+21.5
Electronic Systems . .	56,219	+19.5	47,049	+6.2	44,307	+14.8
Aerostar	18,009	-16.8	21,654	+4.5	20,725	+19.1
Total	<u>\$204,528</u>	<u>+21.7</u>	<u>\$168,086</u>	<u>+17.8</u>	<u>\$142,727</u>	<u>+18.1</u>

Dollars in thousands	2006		2005		2004	
	amount	% sales	amount	% sales	amount	% sales
OPERATING INCOME (LOSS)						
Flow Controls	\$ 13,586	28.6	\$ 10,516	25.8	\$ 8,254	23.5
Engineered Films . . .	19,907	24.0	15,739	26.8	10,563	24.8
Electronic Systems . .	8,916	15.9	4,492	9.5	5,797	13.1
Aerostar	2,133	11.8	3,609	16.7	3,092	14.9
Sold businesses	(79)	—	—	—	(355)	—
Corporate expenses . .	(7,179)	—	(6,494)	—	(5,725)	—
Total	<u>\$ 37,284</u>	<u>18.2</u>	<u>\$ 27,862</u>	<u>16.6</u>	<u>\$ 21,626</u>	<u>15.2</u>

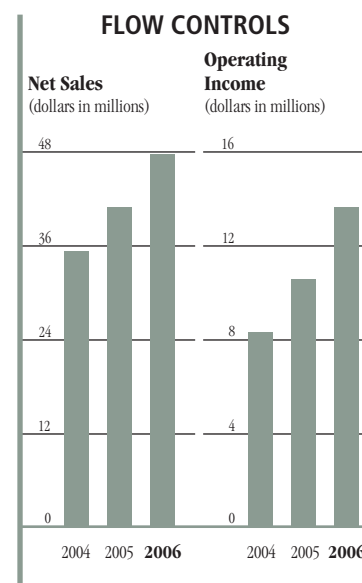
FLOW CONTROLS

The Flow Controls Division (FCD), including Raven Canada, provides electronic and Global Positioning System (GPS) products for the precision agriculture, marine navigation and other niche markets.

Fiscal 2006 versus fiscal 2005

Net sales in fiscal 2006 were \$47.5 million, up 16.6%, or \$6.8 million over fiscal 2005 levels. The segment's standard sprayer control systems and the acquired Autoboom™ product line accounted for the majority of the sales growth on a fiscal year-to-date basis. Sprayer control system sales were up from one year earlier due to increased original equipment manufacturer orders, while acceptance of the Autoboom™ product line also generated revenue growth. As a percentage of net sales, gross profit margins improved slightly to 37.0% from the 36.7% reported for the prior year's comparable period due to the impact of the increased sales level on fixed costs. Fiscal 2006 fourth-quarter sales, hampered by a weakening agricultural economy, increased only 3.6% to \$10.2 million while operating income rose 36.0% to \$2.7 million. The higher operating income level was a result of reduced spending levels and lower warranty expense in the current year's fourth quarter. Fiscal 2006 operating

income of \$13.6 million increased \$3.1 million, or 29.2% as compared to the year ended January 31, 2005. Included in the prior year's operating income is a \$1.3 million pretax write-off of assets related to the segment's fiscal 2004 Fluent Systems acquisition. Excluding the write-off, fiscal 2006 operating income increased \$1.8 million, or 15.2%. The fiscal 2006 operating income increase over fiscal 2005, excluding the Fluent write-off, reflects the segment's higher sales level, tempered by increases in product development and distribution investments. Fiscal 2006 selling expenses were \$3.9 million, a \$784,000, or 25.1%, increase over fiscal 2005. Higher selling expenses related to the segment's precision agriculture distribution plan and expenses incurred to leverage the segment's product offerings in Canada contributed to the fiscal 2006 selling expense increase.



Fiscal 2005 versus fiscal 2004

Fiscal 2005 net sales reached \$40.7 million, an increase of 16.2% over fiscal 2004 despite the decrease of \$6.0 million in sales recorded one year earlier under a special order for chemical injection systems. An improved farm economy, new product sales, and an increase in market share contributed to the fiscal 2005 revenue growth. Increased sales volume and value-engineering activities were the main contributors to a gross profit margin increase from 30.4% of net sales in fiscal 2004 to 36.7% in fiscal 2005. 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 write-off of Fluent Systems assets, which were acquired in December 2003. Fiscal 2005 selling expenses rose \$729,000, or 30.4%, due to increased investment in the segment's precision agriculture distribution plan.

Prospects

FCD continues to focus on gaining market share, domestically and internationally, in the precision agriculture market. New product offerings, together with reaching international markets in Europe, South America, and Australia, is expected to help offset weakness in the North American agricultural market. These efforts are also expected to increase selling expense in fiscal 2007. The company expects revenue growth in the upcoming fiscal year to be under 10%.

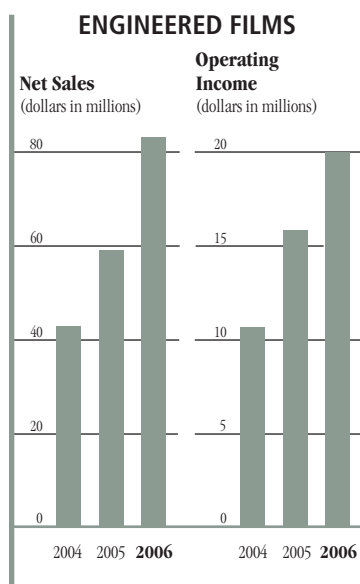
ENGINEERED FILMS

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

Fiscal 2006 versus fiscal 2005

A strong sales performance in fiscal 2006 resulted in revenues rising to \$82.8 million, an increase of 41.1% over fiscal 2005. All of EFD's market segments achieved higher sales levels in fiscal 2006, with the pit and pond lining segment posting the largest revenue growth of \$7.9 million, or 60.1%. Increased oil drilling activity due to high oil prices throughout the year

boosted sales volume for this particular market category. Engineered Films also reported significant sales growth in its agricultural, industrial and construction markets. Fiscal 2006 disaster film sales of \$11.4 million were \$2.0 million, or 21.6%, higher than fiscal 2005. EFD's additional manufacturing capacity that was brought online during the latter part of fiscal 2005 and the beginning of fiscal 2006



enabled the division to fulfill increased customer demand. Increased product pricing resulting from higher raw material prices also positively impacted the overall sales level for fiscal 2006. The increase in the segment's fiscal 2006 sales resulting from higher product pricing due to increased resin costs is

estimated to be 12 – 16%. Fiscal 2006 fourth-quarter sales as compared to the prior year's fourth quarter increased 45.5%, resulting in additional operating income of \$1.6 million. As with the fiscal year, the pit lining segment posted the largest sales increase for the quarter and disaster film sales were up \$1.2 million. Fiscal 2006 operating income climbed to \$19.9 million, increasing 26.5% over the prior year. The positive profit impact of the higher sales level was partially offset by higher resin costs, as reflected in the current fiscal year's gross profit as a percent of sales, which fell from 31.4% in fiscal 2005 to 27.6% for fiscal 2006. Selling expenses rose 10.5% during fiscal 2006, reaching \$2.9 million mainly due to increased personnel costs to support the segment's higher sales level.

Fiscal 2005 versus fiscal 2004

The segment's net sales exceeded fiscal 2004 net sales by \$16.0 million, or 37.6%, to reach \$58.7 million. Disaster film sales of \$9.4 million boosted the sales level for fiscal 2005 together with 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. Increased selling expenses, which rose \$461,000, or 21.3%, due to higher personnel and advertising expenses partially offset the profit impact of the segment's higher sales level. Gross profit as a percentage of net sales increased from 30.0% to 31.4%. The fiscal 2005 gross profit rate reflects favorable plant utilization due to the higher sales level that was partially offset by higher raw material costs.

Prospects

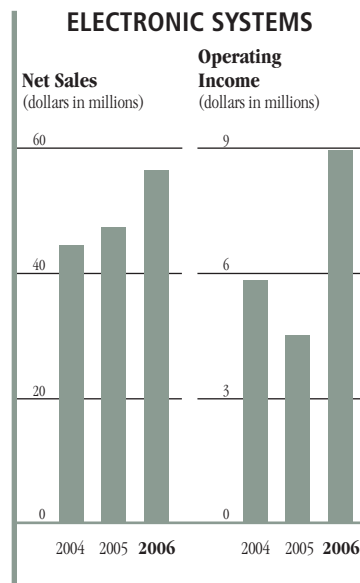
Management expects that continued capital investment in the upcoming year will enable EFD to sustain its revenue growth above 15%, with additional manufacturing capacity for its current products as well as the ability to develop and produce new products. Volatility in resin prices could impact product selling prices as well as gross profit rates in fiscal 2007. A drop in disaster film sales could negatively impact the segment.

ELECTRONIC SYSTEMS

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

Fiscal 2006 versus fiscal 2005

ESD ended fiscal 2006 with sales of \$56.2 million, up from fiscal 2005 by \$9.2 million, or 19.5%. The fiscal 2006 sales growth was due to increased deliveries to long-term customers on existing contracts. This segment sought to improve gross



profit rates by increasing manufacturing efficiencies in fiscal 2006 and successfully attained that goal. Fiscal 2006 operating income of \$8.9 million almost doubled that of the prior year, reflecting the increased sales level and better operational execution on current contracts, which contrasts to fiscal 2005's start-up inefficiencies and customer-driven delays.

As a percentage of sales, the gross profit rate climbed to 17.4% as compared to fiscal 2005's gross profit rate of 11.3%. Fiscal 2006 selling expenses of \$885,000 were up 7.5% compared to fiscal 2005.

Fiscal 2005 versus fiscal 2004

Electronic Systems increased sales 6.2%, or \$2.7 million over fiscal 2004 to reach \$47.0 million. 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. 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 segment's start-up costs related to new contracts.

Prospects

ESD is expected to build on its revenue growth achieved in fiscal 2006 with increases coming from existing accounts and the addition of one or two new customers. Fiscal 2007 sales growth for this segment is targeted to reach the 15-20% range. ESD will continue to strive for operational excellence in all of its manufacturing areas in order to maintain its level of fiscal 2006 profitability; however, a higher percentage of new business is expected to reduce gross profits as a percent of sales.

AEROSTAR

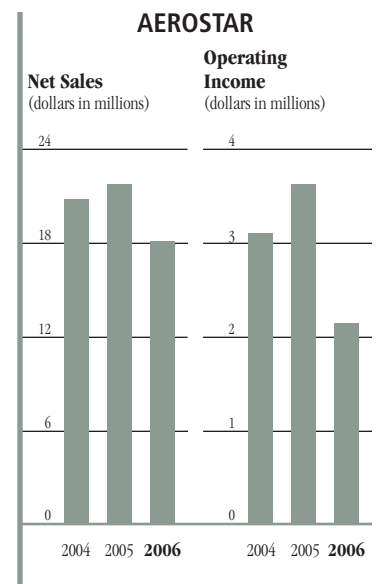
The Aerostar segment manufactures military cargo parachutes, government service uniforms, custom-shaped inflatable products, and high-altitude balloons for government and commercial research.

Fiscal 2006 versus fiscal 2005

Fiscal 2006 net sales dropped to \$18.0 million from the fiscal 2005 sales level of \$21.7 million, with the majority of the decrease due to lower military parachute shipments. New government contracts for parachute products were not obtained in fiscal 2006

and Aerostar faced lower sales levels and under-utilization of plant capacity. Partially offsetting the decline in parachute sales and lower contract uniform deliveries was an increase in high-altitude research balloon revenue. For the full year, operating income of \$2.1 million was \$1.5 million behind the prior fiscal year. An increase in high-altitude research balloon profits

due to the higher sales level was offset by lower parachute product and uniform contract profits. As a percentage of sales, gross profits decreased from 21.1% for fiscal 2005 to 16.9% for the current fiscal year. Selling expenses of \$910,000 were down slightly in fiscal 2006, decreasing \$40,000 from the prior year.



Fiscal 2005 versus fiscal 2004

Fiscal 2005 net sales of \$21.7 million increased \$929,000, or 4.5%, above fiscal 2004 net sales due to sales growth in parachute products, military decoys, and uniforms. Partially offsetting these increases were 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. Fiscal 2005 operating income was up \$517,000, or 16.7%, from fiscal 2004 results due to relatively high profitability realized on the parachute products and military decoys. Gross profit as a percentage of sales increased from 18.1% for fiscal 2004 to 21.1% for fiscal 2005. 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.

Prospects

Fiscal 2007 revenue growth will depend on obtaining new government and uniform contracts where Aerostar can leverage its capacity and experience. If a new military parachute order is obtained, Aerostar would not expect any material impact on sales and profits until the second half of fiscal 2007. Aerostar results are expected to be down through the first half of the year.

DIVESTITURES AND OTHER REPOSITIONING ACTIVITIES

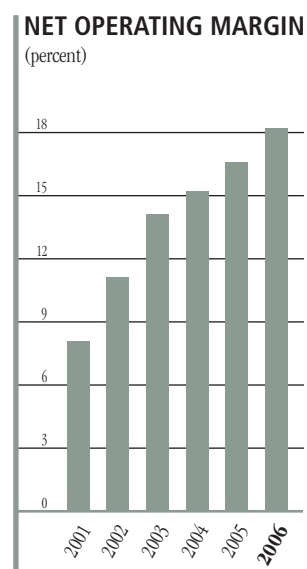
Fiscal 2004 divestiture activities included the sale of a sewing plant closed in fiscal 2003. The sale of that plant and its related equipment resulted in cash proceeds of \$196,000 and a pretax gain of \$182,000. This gain was offset by a \$355,000 loss from increased liabilities for environmental and legal issues related to previously sold businesses, as estimated by the company and its advisors. During fiscal 2006, a \$79,000 pretax loss was incurred from increased liabilities for these environmental issues.

EXPENSES, INCOME TAXES AND OTHER

Corporate expenses increased 10.5% over fiscal 2005 reaching \$7.2 million for fiscal 2006. Higher personnel costs, increased investment in information technologies, and a higher level of corporate giving accounted for the \$685,000 fiscal 2006 increase. As a percentage of sales, corporate expenses were 3.5% of net sales for fiscal 2006 as compared to fiscal 2005's 3.9% of net sales. Fiscal 2005 corporate expenses of \$6.5 million increased 13.4% over fiscal 2004. Higher professional service fees and increased personnel costs contributed to the \$769,000 increase.

Fiscal 2006 interest expense of \$35,000 was even with fiscal 2005 and consisted of interest on short-term borrowings and capital leases. Seasonal short-term borrowings of \$4.5 million were required during the first quarter of fiscal 2006, but were repaid by April 30, 2005.

No borrowings were made in fiscal 2005. Fiscal 2006 other income of \$245,000 increased from \$128,000 in fiscal 2005. The main component of other income is interest income, which increased in fiscal 2006 due to higher interest rates received on the company's cash balances and short-term investments. Fiscal 2006's effective income tax rate of 35.3% decreased from fiscal 2005's effective rate of 36.0% and was one percentage point lower than the fiscal 2004 rate of 36.3%, reflecting the impact of the U.S. Federal tax deduction for income attributable to manufacturing activities.



LIQUIDITY AND CAPITAL RESOURCES

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

<i>Dollars in thousands</i>	2006	2005	2004
Operating activities	\$21,189	\$18,871	\$19,732
Investing activities	(11,435)	(7,631)	(4,352)
Financing activities	(6,946)	(19,063)	(6,155)

OPERATING ACTIVITIES AND CASH POSITION

The company's cash flow from operations totaled \$59.8 million over the past three years compared to net income of \$56.0 million over the same period. Net cash provided by operating activities in fiscal 2006 totaled \$21.2 million, a \$2.3 million increase as compared to operating cash inflows in fiscal 2005. The cash impact of the company's strong earnings performance and higher accrued liabilities at fiscal 2006 year-end were tempered by higher accounts receivable and inventory levels and a lower accounts payable balance. Fiscal 2006 net income was \$6.4 million higher than fiscal 2005 while accrued operating liability balances increased by \$3.0 million. Fiscal 2006's ending accounts receivable balance was \$29.3 million, an operating increase of \$3.8 million from fiscal 2005. Accounts receivable balances for the company's Engineered Films, Flow Controls, and Electronic Systems segments were higher at fiscal 2006 year-end as compared to their fiscal 2005 year-ending balances due to higher sales levels. The fiscal 2006 ending inventory balance of \$27.8 million exceeded fiscal 2005 by \$4.5 million. In support of higher delivery levels, January 31, 2006 inventory balances in Engineered Films, Electronic Systems, and Flow Controls were up as compared to one year earlier, with Engineered Films accounting for over half of the increase. Fiscal 2005 operating cash flows were \$18.9 million as compared to cash flows of \$19.7 million for fiscal 2004. Fiscal 2005 net income was \$4.1 million higher than fiscal 2004 while accounts payable increased by \$6.6 million due to higher inventory levels and to the extension of payment terms on certain vendor invoices.

Cash, cash equivalents and short-term investments totaled \$11.4 million at January 31, 2006, an increase of \$1.8 million from one year earlier. The higher company earnings helped finance the fiscal 2006 increase in working capital requirements, additional capital expenditures, and

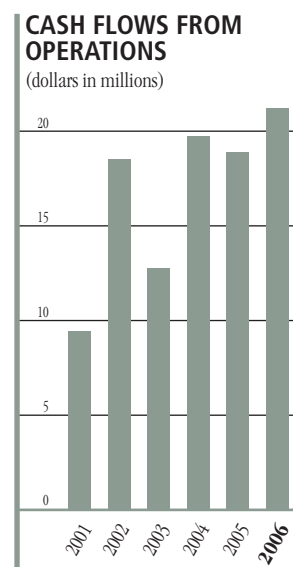
the Flow Controls' Canadian acquisition in February 2005. The company expects that cash and short-term investments, combined with continued positive operating cash flows, will continue to be sufficient to fund day-to-day operations. The company utilized its short-term credit facility to fund the Flow Controls' Canadian acquisition in February 2005 and to help with short-term seasonal cash needs during the first quarter of fiscal 2006. All of these short-term borrowings were repaid by April 30, 2005.

INVESTING ACTIVITIES

Net cash used in investing activities in fiscal 2006 totaled \$11.4 million versus \$7.6 million in fiscal 2005. Fiscal 2006 capital expenditures of \$10.4 million increased by \$2.8 million from fiscal 2005, with \$7.4 million being invested in the Engineered Films segment for additional manufacturing capacity

and facilities. In February 2005, the company acquired substantially all of the assets of Montgomery Industries, Inc. for \$2.7 million in cash. A quarterly payment of six percent of Montgomery product sales was contained in the asset purchase agreement of which \$149,000 was paid in fiscal 2006. A \$650,000 investment in an unconsolidated real estate affiliate was sold in fiscal 2006, resulting in no material gain or loss on the sale and \$1.0 million of short-term investments were

liquidated. The company used \$7.6 million of cash for investing activities in fiscal 2005 versus \$4.4 million one year earlier. Fiscal 2005 investing activities included \$7.5 million of capital expenditures, \$1.0 million of short-term investment sales, and the \$650,000 real estate investment. The company plans to continue its capital investment in additional Engineered Films capacity, with fiscal 2007 capital expenditures expected to reach \$13 million for this segment. Total company capital expenditures are planned to be over \$17 million in fiscal 2007.



FINANCING ACTIVITIES

Net cash used in financing activities in fiscal 2006 of \$6.9 million decreased \$12.1 million from the \$19.1 million used in fiscal 2005. The decrease in cash used was due primarily to the \$11.3 million special dividend paid in fiscal 2005 and lower treasury stock purchases in fiscal 2006 as compared to fiscal 2005. 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 nineteenth consecutive year. Fiscal 2006 quarterly dividend payments of 7 cents per share increased 27.3%, excluding the special 62 1/2 cent dividend paid in fiscal 2005. Purchases of 67,800 treasury shares were made during fiscal 2006 at an average share price of \$24.91. In fiscal 2005, 186,500 treasury shares were purchased at an average price of \$18.87, while 288,350 shares were repurchased at an average price of \$10.64 during fiscal 2004.

Short-term borrowings on the company's line of credit facility totaled \$4.5 million for fiscal 2006. These borrowings were used for seasonal cash needs and to fund the Montgomery Industries, Inc. acquisition. The borrowings were repaid by April 30, 2005, and there were no borrowings outstanding as of January 31, 2006. The debt of the company consists of a capital lease utilized by the Raven Canada operation and is scheduled to be repaid by fiscal 2008.

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 February 1, 2006, the company purchased the building for \$1.8 million. A summary of the obligations and commitments at January 31, 2006, and for the next five years is shown below.

<i>Dollars in thousands</i>	Total	FY 2007	FY 2008- FY 2009	FY 2010- FY 2011
Contractual Obligations:				
Line of credit ^(a)	\$ —	\$ —	\$ —	\$ —
Capital leases	16	7	9	—
Operating leases	557	272	279	6
Unconditional purchase obligations ^(b) ..	29,293	29,293	—	—
Real estate purchase agreement	1,756	1,756	—	—
	<u>31,622</u>	<u>31,328</u>	<u>288</u>	<u>6</u>
Other Commercial Commitments:				
Letters of credit	2,032	2,032	—	—
	<u>\$33,654</u>	<u>\$33,360</u>	<u>\$288</u>	<u>\$ 6</u>

(a) \$8.0 million line bears interest at 7.25% as of January 31, 2006, and expires June 2006. The line of credit is reduced by outstanding letters of credit.

(b) Unconditional purchase obligations include \$5.2 million for Engineered Films capital equipment investments.

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 2007 are planned to be over \$17 million, with \$13 million 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, although at a somewhat reduced level, as a means to return additional cash to shareholders and increase the leverage of the company's balance sheet. Cash generated from operations and the availability of cash under existing credit facilities is anticipated to be sufficient to fund these initiatives.

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 below because a fluctuation in actual results versus expected results could materially affect the company's operating results and because the policies require significant judgments and estimates to be made. Accounting related to these policies is initially based on best estimates at the time of original entry in the accounting records. Adjustments are periodically recorded when our actual experience differs from the expected experience underlying the estimates. These adjustments could be material if 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.

Inventories

The company's most significant accounting judgment is determining inventory value at the lower of cost or market. The company estimates inventory reserves on a quarterly basis. Typically, when a product reaches the end of its life cycle, inventory value declines slowly or the product has alternative uses. Management uses its 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. When ESD customers authorize inventory purchases, especially of long lead-time items, they are required to take delivery of unused 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 management will have in controlling inventory risk and mitigating the impact of obsolescence when it does occur.

Warranty

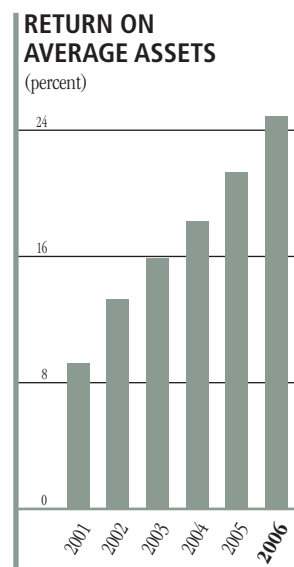
Estimated warranty liability costs are based upon historical warranty costs and average time elapsed between purchases and returns for each business segment. Warranty issues that are unusual in nature are accrued for individually.

Allowance for Doubtful Accounts

Determining the level of the allowance for doubtful accounts requires management's best estimate of the amount of probable credit losses based on historical write-off experience by segment and an estimate of the collectibility of any known problem accounts. Factors which are considered beyond historical experience include the length of time the receivables are outstanding, the current business climate, and the customer's current financial condition.

Revenue Recognition

The company recognizes and records revenue when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is determinable, and collectibility is reasonably assured. Revenue is typically recognized at time of shipment because sales terms are FOB shipping point. Estimated returns, allowances or warranty charges are recognized upon shipment of a product. The company sells directly to customers or distributors who incur the expense and commitment for any post-sale obligations beyond stated warranty terms.



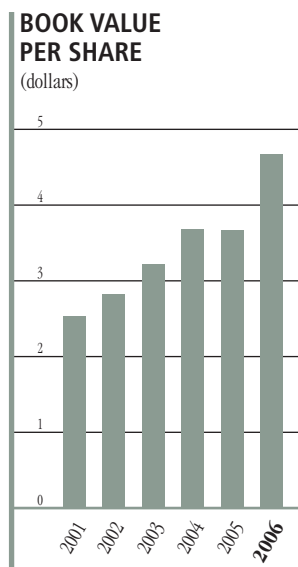
Self-insurance Reserves

The company purchases insurance with deductibles for product liability; general insurance, including aviation product liability; and workers' compensation. Third party insurance is carried for what is believed to be the major portion of potential exposure. The company has established accruals for potential uninsured claims, including estimated costs and legal fees. Management considers these accruals adequate, although a substantial change in the number and/or severity of claims would result in materially different amounts.

Goodwill and Long-lived Asset Impairment

The company periodically assesses goodwill and other long-lived assets for impairment, or more frequently if events or changes in circumstances indicate that an asset might be impaired, using fair value measurement techniques. For goodwill, the company performs impairment reviews annually by reporting units, which are the company's reportable segments except for Aerostar's high-altitude research balloon operation, which is evaluated independently from Aerostar's other operations. 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.



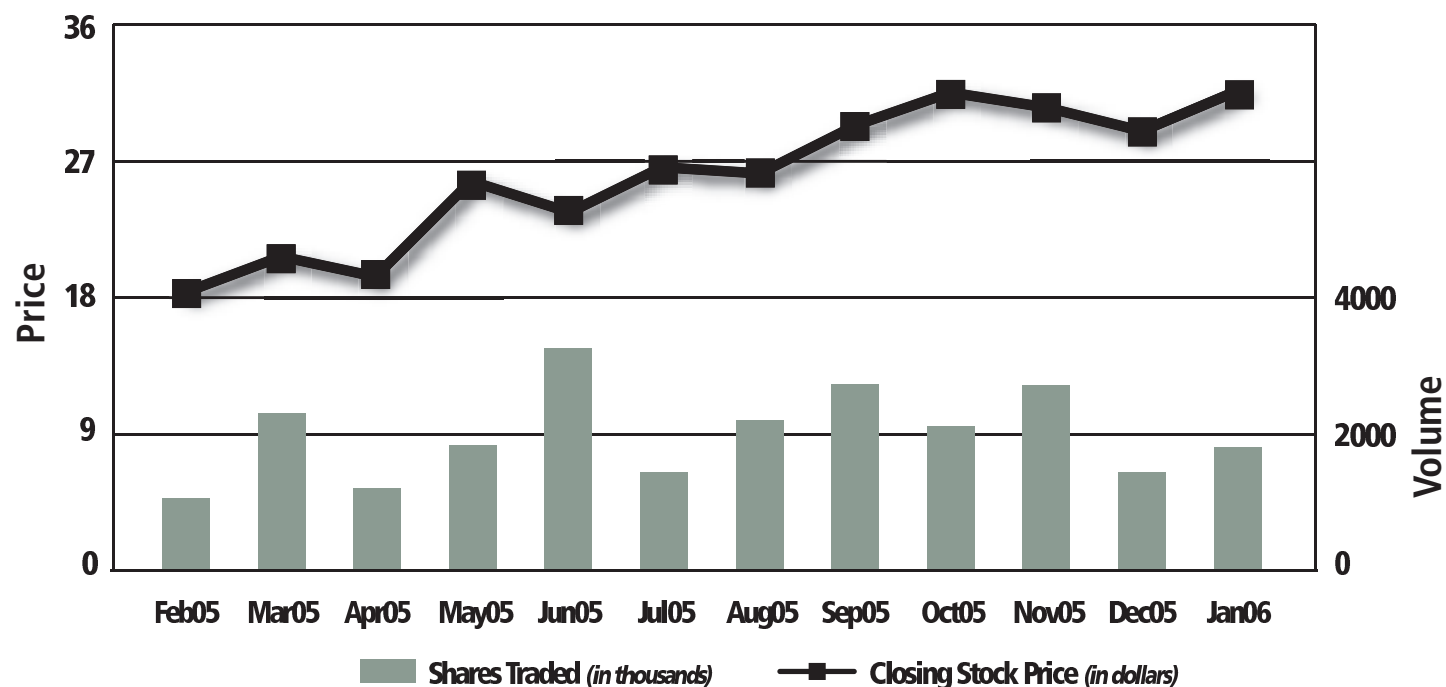
NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (Revised 2004), *Share-Based Payment*, or SFAS No. 123(R), which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) 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. 123(R) is effective for the company beginning February 1, 2006. 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. Beginning February 1, 2006, the company will change its cash flow presentation in accordance with SFAS 123(R) which requires the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows, instead of operating cash flows. The company expects to provide certain disclosures required by SFAS 123(R) but are not required by SFAS 123, beginning in the first quarter of fiscal 2007.

In May 2005, the FASB issued FASB Statement No. 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have an effect on the company's consolidated results of operations or financial position.

In June 2005, the FASB Emerging Issues Task Force (EITF) reached a final consensus on EITF 05-6, *Determining the Amortization Period for Leasehold Improvements*. EITF 05-6 addresses the determination of the amortization period for leasehold improvements in operating leases that are either (a) purchased subsequent to the inception of the lease or (b) acquired in a business combination. The provisions of EITF 05-6 are effective for periods beginning after June 30, 2005, and are not expected to have an effect on the company's consolidated results of operations or financial position.

MONTHLY CLOSING STOCK PRICE AND VOLUME



QUARTERLY INFORMATION (UNAUDITED)

<i>Dollars in thousands, except per-share data</i>	Net Sales	Gross Profit	Operating Income	Pretax Income	Net Income	Net Income Per Share ^{(a)(b)}		Common Stock Market Price ^(b)		Cash Dividends Per Share ^(b)
						Basic	Diluted	High	Low	
FISCAL 2006										
First Quarter	\$ 50,704	\$15,161	\$11,136	\$11,098	\$7,157	\$0.40	\$0.39	\$22.28	\$16.54	\$0.070
Second Quarter	45,304	10,882	7,299	7,391	4,774	0.26	0.26	27.78	18.68	0.070
Third Quarter	54,135	14,213	10,568	10,635	6,869	0.38	0.37	31.99	21.75	0.070
Fourth Quarter	54,385	12,975	8,281	8,370	5,462	0.30	0.30	33.15	26.75	0.070
Total Year	\$204,528	\$53,231	\$37,284	\$37,494	\$24,262	\$1.34	\$1.32	\$33.15	\$16.54	\$0.280
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

(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 two-for-one stock split.

(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 5).

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, 2006, 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, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 43 of this Annual Report.



Ronald M. Moquist
President & Chief Executive Officer

March 23, 2006



Thomas Iacarella
Vice President & Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

	As of January 31		
	2006	2005	2004
<i>Dollars in thousands, except per-share data</i>			
ASSETS			
Current assets			
Cash and cash equivalents	\$ 9,409	\$ 6,619	\$14,442
Short-term investments	2,000	3,000	4,000
Accounts receivable, net	29,290	25,370	18,454
Inventories, net	27,819	23,315	16,763
Deferred income taxes	1,746	1,465	1,313
Prepaid expenses and other current assets	1,081	1,823	738
Total current assets	71,345	61,592	55,710
Property, plant and equipment, net	25,602	19,964	15,950
Goodwill	6,401	5,933	6,776
Other assets, net	2,809	1,020	1,072
Total assets	\$106,157	\$88,509	\$79,508
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term debt	\$ 7	\$ 57	\$ 72
Accounts payable	8,179	10,322	3,666
Accrued liabilities	11,147	9,716	7,784
Customer advances	717	855	373
Total current liabilities	20,050	20,950	11,895
Long-term debt, less current portion	9	—	57
Other liabilities, primarily compensation and benefits	1,709	1,477	1,085
Commitments and contingencies			
Shareholders' equity	84,389	66,082	66,471
Common shares, par value \$1.00 per share			
Authorized — 100,000,000			
Outstanding — 2006: 18,072,369; 2005: 17,999,468			
2004: 18,041,088 (9,020,544 pre-split)			
Total liabilities and shareholders' equity	\$106,157	\$88,509	\$79,508

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

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended January 31		
	2006	2005	2004
<i>Dollars in thousands, except per-share data</i>			
Net sales	\$204,528	\$168,086	\$142,727
Cost of goods sold	151,297	124,886	108,968
Gross profit	53,231	43,200	33,759
Selling, general and administrative expenses	15,868	14,056	11,960
Loss on disposition of businesses and assets, net	79	1,282	173
Operating income	37,284	27,862	21,626
Interest expense	35	35	70
Other income, net	(245)	(128)	(160)
Income before income taxes	37,494	27,955	21,716
Income taxes	13,232	10,064	7,880
Net income	\$ 24,262	\$ 17,891	\$ 13,836
Net income per common share			
– basic	\$ 1.34	\$ 0.99	\$ 0.77
– diluted	\$ 1.32	\$ 0.97	\$ 0.75

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	\$1 Par Common Stock	Paid-in Capital	Treasury stock		Retained Earnings	Accumulated Other Comprehensive	Total
			Shares	Cost		Income	
<i>Dollars in thousands, except per-share data</i>							
Balance January 31, 2003	\$ 15,856	\$ 340	(6,789,268)	\$ (35,113)	\$ 77,153	\$—	\$ 58,236
Net 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 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
Net income	—	—	—	—	24,262	—	24,262
Change in cumulative foreign currency translation adjustment	—	—	—	—	—	13	13
Cash dividends (\$.280 per share)	—	—	—	—	(5,056)	—	(5,056)
Purchase of stock	—	—	(67,800)	(1,689)	—	—	(1,689)
Purchase and retirement of stock	(27)	(689)	—	—	—	—	(716)
Employees' stock options exercised	168	410	—	—	—	—	578
Stock compensation expense	—	485	—	—	—	—	485
Tax benefit from exercise of stock options	—	430	—	—	—	—	430
Balance January 31, 2006	\$32,194	\$1,401	(14,121,186)	\$(43,389)	\$94,170	\$13	\$84,389

(a) Reflects the October 2004 two-for-one stock split.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended January 31		
	2006	2005	2004
<i>Dollars in thousands</i>			
Cash flows from operating activities			
Net income	\$24,262	\$17,891	\$13,836
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,684	3,410	3,674
Amortization of intangible assets	467	431	471
Provision for losses on accounts receivable, net of recoveries	78	34	67
Loss on disposition of businesses and assets	79	1,282	173
Deferred income taxes	(809)	(31)	254
Stock compensation expense	485	309	282
Change in operating assets and liabilities, net of effects from acquisition and disposition of businesses and assets	(8,086)	(4,669)	850
Other operating activities, net	29	214	125
Net cash provided by operating activities	<u>21,189</u>	<u>18,871</u>	<u>19,732</u>
Cash flows from investing activities			
Capital expenditures	(10,358)	(7,541)	(3,330)
Purchase of short-term investments	(4,500)	(3,000)	(4,000)
Sale of short-term investments	5,500	4,000	4,000
Acquisition of businesses	(2,828)	(414)	(1,038)
Sales of businesses and assets, net of cash sold	—	—	257
Sale of (investment in) unconsolidated affiliate	650	(650)	—
Other investing activities, net	101	(26)	(241)
Net cash used in investing activities	<u>(11,435)</u>	<u>(7,631)</u>	<u>(4,352)</u>
Cash flows from financing activities			
Proceeds from borrowing under line of credit	4,500	—	—
Repayment on borrowing under line of credit	(4,500)	—	—
Long-term debt principal payments	(63)	(72)	(141)
Dividends paid	(5,056)	(15,298)	(3,075)
Purchase of treasury stock	(1,689)	(3,519)	(3,068)
Other financing activities, net	(138)	(174)	129
Net cash used in financing activities	<u>(6,946)</u>	<u>(19,063)</u>	<u>(6,155)</u>
Effect of exchange rate changes on cash	(18)	—	—
Net increase (decrease) in cash and cash equivalents	2,790	(7,823)	9,225
Cash and cash equivalents at beginning of year	6,619	14,442	5,217
Cash and cash equivalents at end of year	<u>\$ 9,409</u>	<u>\$ 6,619</u>	<u>\$14,442</u>

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

NOTES TO 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 two wholly owned subsidiaries, Aerostar International, Inc. (Aerostar) and Raven Industries Canada, Inc. (Raven Canada). All significant intercompany balances and transactions have been eliminated in consolidation. The company sold its 50% ownership in Zip City Partners, LLC in fiscal 2006. The equity method was 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.

FOREIGN CURRENCY

The Canadian dollar is considered the functional currency of the Canadian operations. The balance sheet of the Canadian subsidiary is translated into U.S. dollars at period-end exchange rates, while the statement of income is translated at average rates. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in accumulated other comprehensive income (loss) within shareholders’ equity. Foreign currency transaction gains or losses are recognized in the period incurred and are included in other income (expense) in the Consolidated Statements of Income.

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 certificates of deposit with varying maturities, all less than 12 months from the balance sheet date. Rates on the deposits at January 31, 2006, are 4.10%.

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 probable 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 and are presented 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 and liabilities assumed, as goodwill. Goodwill is 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. Additional accruals are made for any significant, discrete warranty issues.

RESEARCH AND DEVELOPMENT

Research and development expenditures of \$2.5 million in fiscal 2006, \$2.0 million in fiscal 2005, and \$1.7 million in fiscal 2004 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. 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 is treated as a "special deduction." As such, the special deduction has no effect on deferred tax assets and liabilities. Rather, the impact of this deduction is reported in the period in which the deduction is claimed on the company's tax return.

STOCK SPLITS

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

NOTES TO FINANCIAL STATEMENTS (continued)

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (Revised 2004), *Share-Based Payment*, or SFAS No. 123(R), which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) 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. 123(R) is effective for the company beginning February 1, 2006. 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. Beginning February 1, 2006, the company will change its cash flow presentation in accordance with SFAS 123(R) which requires the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows, instead of operating cash flows. The company expects to provide certain disclosures required by SFAS 123(R) but are not required by SFAS 123, beginning in the first quarter of fiscal 2007.

In May 2005, the FASB issued FASB Statement No. 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have an effect on the company's consolidated results of operations or financial position.

In June 2005, the FASB Emerging Issues Task Force (EITF) reached a final consensus on EITF 05-6, *Determining the Amortization Period for Leasehold Improvements*. EITF 05-6 addresses the determination of the amortization period for leasehold improvements in operating leases that are either (a) purchased subsequent to the inception of the lease or (b) acquired in a business combination. The provisions of EITF 05-6 are effective for periods beginning after June 30, 2005, and are not expected to have an effect on the company's consolidated results of operations or financial position.

Note 2. Selected Balance Sheet Information

Following are the components of selected balance sheet items:

Dollars in thousands	As of January 31		
	2006	2005	2004
Accounts receivable, net:			
Trade accounts	\$29,547	\$25,635	\$18,719
Allowance for doubtful accounts	(257)	(265)	(265)
	\$29,290	\$25,370	\$18,454
Inventories, net:			
Finished goods	\$ 3,504	\$ 3,538	\$ 2,500
In process	3,652	2,820	2,120
Materials	20,663	16,957	12,143
	\$27,819	\$23,315	\$16,763
Property, plant and equipment, net:			
Land	\$ 1,084	\$ 1,084	\$ 1,110
Building and improvements	16,662	15,184	13,049
Machinery and equipment	43,256	36,486	32,479
Accumulated depreciation	(35,400)	(32,790)	(30,688)
	\$25,602	\$19,964	\$15,950
Other assets, net:			
Amortizable assets:			
Purchased technology	\$ 3,380	\$ 1,080	\$ 1,250
Other intangibles	1,265	946	1,136
Accumulated amortization	(2,300)	(1,831)	(1,494)
	2,345	195	892
Investment in unconsolidated affiliate	—	650	—
Deferred income taxes	318	—	—
Other, net	146	175	180
	\$ 2,809	\$ 1,020	\$ 1,072
Accrued liabilities:			
Salaries and benefits	\$ 2,167	\$ 1,992	\$ 1,875
Vacation	2,119	1,852	1,638
401(k) contributions	1,049	980	906
Insurance obligations	1,632	1,541	524
Income taxes	808	567	267
Profit sharing	1,168	900	544
Warranty	569	452	263
Other	1,635	1,432	1,767
	\$11,147	\$ 9,716	\$ 7,784

Note 3. Supplemental Cash Flow Information

<i>Dollars in thousands</i>	For the years ended January 31		
	2006	2005	2004
Changes in operating assets and liabilities, net of effects from the acquisition and sale of businesses:			
Accounts receivable	\$ (3,821)	\$(6,950)	\$(2,072)
Inventories	(4,356)	(6,704)	4,603
Prepaid expenses and other assets	(103)	150	(16)
Accounts payable	(2,688)	6,576	(1,625)
Accrued and other liabilities	3,021	1,777	187
Customer advances	(139)	482	(227)
	\$ (8,086)	\$(4,669)	\$ 850
Cash paid during the year for:			
Interest	\$ 35	\$ 77	\$ 50
Income taxes	\$12,806	\$ 9,596	\$ 7,014

Note 4. Montgomery Industries Acquisition

On February 17, 2005, the company acquired substantially all of the assets of Montgomery Industries, Inc., a privately held Canadian corporation, for \$2.7 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 payment 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. Of the purchase price, \$289,000 was allocated to current assets, \$82,000 was allocated to property, plant and equipment, \$2.560 million was allocated to amortizable intangible assets (to be amortized over approximately seven years), \$539,000 to current liabilities assumed and \$285,000 to goodwill, which is deductible for tax purposes.

For the year ended January 31, 2006, the earn-out on the sales of Montgomery products was \$183,000, which was recorded as an increase in goodwill.

The operation is a component of the Flow Controls segment. The results of operations for the acquired business have been included in the consolidated financial statements since the date of acquisition. Pro forma earnings are not presented due to the immateriality of the effect of the acquisition to the company's consolidated operations.

Note 5. 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 was 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 effect of the acquisition to the company's 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 6. Divestitures and Other Repositioning Activities

A \$79,000 pretax loss was incurred during fiscal 2006 from increased liabilities for environmental issues related to the company's fiscal 2000 sale of its Glasstite subsidiary. 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 estimated liabilities for environmental and legal issues related to previously sold operations. At January 31, 2006, the company had an undiscounted accrual remaining of \$151,000 for environmental monitoring and clean-up costs of sold operations.

Note 7. Goodwill and Other Intangibles

Goodwill

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

<i>Dollars in thousands</i>	Flow	Engineered Electronic		Aerostar	Total
	Controls	Films	Systems		
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
Goodwill acquired during year	285	—	—	—	285
Acquisition earn-outs	183	—	—	—	183
Balance at January 31, 2006	\$5,408	\$96	\$433	\$464	\$6,401

Intangible Assets

Estimated future amortization expense based on the current carrying value of amortizable intangible assets for fiscal periods 2007 through 2011 is \$433,000, \$377,000, \$366,000, \$365,000 and \$351,000, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

Note 8. 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 \$892,000, \$836,000 and \$817,000 for fiscal 2006, 2005 and 2004, 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 accumulated benefit obligation for these benefits is shown below:

<i>Dollars in thousands</i>	For the years ended January 31		
	2006	2005	2004
Benefit obligation at beginning of year	\$2,722	\$2,607	\$2,235
Service cost	80	58	36
Interest cost	259	186	162
Actuarial loss	2,014	27	380
Retiree benefits paid	(147)	(156)	(206)
Benefit obligation at end of year	4,928	2,722	2,607
Less: unrecognized actuarial losses	(3,045)	(1,275)	(1,395)
Ending liability balance	\$1,883	\$1,447	\$1,212

The liability and expense reflected in the balance sheet and income statement are as follows:

<i>Dollars in thousands</i>	For the years ended January 31		
	2006	2005	2004
Beginning liability balance	\$1,447	\$1,212	\$1,102
Employer expense	583	391	316
Retiree benefits paid	(147)	(156)	(206)
Ending liability balance	1,883	1,447	1,212
Current portion	(174)	(180)	(200)
Long-term portion	\$1,709	\$1,267	\$1,012
Assumptions used:			
Discount rate	5.75%	7.00%	7.00%
Wage inflation rate	4.00%	4.00%	4.00%

The discount rate is based on matching rates of return on high-quality fixed-income investments with the timing and amount of expected benefit payments. No material fluctuations in retiree benefit payments are expected in future years.

The assumed health care cost trend rate for fiscal 2006 was 9.39% as compared to 7.00% assumed for fiscal 2005 and 2004. The impact of a one-percentage-point change in assumed health care rates would not be significant to the company's income statement or balance sheet. The rate to which the fiscal 2006 health care cost trend rate is assumed to decline to is 4.25%, which is the ultimate trend rate. The fiscal year that the rate reaches the ultimate trend rate is expected to be fiscal 2026.

Note 9. Warranties

Changes in the warranty accrual were as follows:

<i>Dollars in thousands</i>	As of January 31		
	2006	2005	2004
Beginning balance	\$452	\$263	\$156
Accrual for warranties	958	932	863
Settlements made (in cash or in kind)	(841)	(743)	(756)
Ending balance	\$569	\$452	\$263

Note 10. 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		
	2006	2005	2004
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of U.S. federal benefit	1.1	0.9	0.9
Tax deduction on qualified production activities	(1.0)	—	—
Other, net	0.2	0.1	0.4
	35.3%	36.0%	36.3%

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

<i>Dollars in thousands</i>	For the years ended January 31		
	2006	2005	2004
Income taxes:			
Currently payable	\$14,041	\$10,095	\$7,626
Deferred	(809)	(31)	254
	\$13,232	\$10,064	\$7,880

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

<i>Dollars in thousands</i>	As of January 31		
	2006	2005	2004
Current deferred tax assets:			
Accounts receivable	\$ 88	\$ 93	\$ 93
Inventories	220	237	182
Accrued vacation	680	591	532
Insurance obligations	282	161	183
Other accrued liabilities	476	383	323
	1,746	1,465	1,313
Non-current deferred tax assets (liabilities):			
Accrued compensation and benefits	598	443	354
Depreciation and amortization	(439)	(771)	(502)
Other	159	118	75
	318	(210)	(73)
Net deferred tax asset	\$2,064	\$1,255	\$1,240

Pre-tax book income for the U.S. companies was \$37,380,000 and \$114,000 for the Canadian subsidiary. As of January 31, 2006, undistributed earnings of the Canadian subsidiary were considered to have been reinvested indefinitely and, accordingly, the company has not provided United States income taxes on such earnings.

Note 11. Financing Arrangements

The company has an uncollateralized credit agreement providing a line of credit of \$8.0 million with a maturity date of June 1, 2006 bearing interest at 0.25% under the prime rate. 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, 2006, 2005 or 2004, and \$6.0 million was available at January 31, 2006. 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, 2006, 2005 and 2004 at 7.25%, 5.25% and 4.00%, respectively. The weighted-average interest rate for borrowing under the short-term credit line in fiscal 2006 was 5.63%. There were no borrowings under the credit line in fiscal years 2005 or 2004. The debt of the company consists of a capital lease utilized by the Raven Canada operation and is scheduled to be repaid by fiscal 2008.

Wells Fargo Bank, N.A. provides the company's line of credit and holds the company's cash and cash equivalents. 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 vehicles, equipment and facilities under operating leases. Total rent and lease expense was \$381,000, \$305,000, and \$355,000 in fiscal 2006, 2005 and 2004, respectively. Future minimum lease payments under non-cancelable operating leases for fiscal periods 2007 to 2010 are \$272,000, \$228,000, \$51,000, and \$6,000 with all leases scheduled to expire by fiscal 2010.

Note 12. 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 580,500 shares of the company's common stock reserved for future option grants under the plan at January 31, 2006. 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.

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		
	2006	2005	2004
Risk-free interest rate	4.36%	3.51%	3.02%
Expected dividend yield	0.90%	1.07%	1.33%
Expected volatility factor	39.25%	34.92%	35.89%
Expected option term (in years)	4.25	4.50	4.50
Weighted average grant date fair value	\$ 10.90	\$ 5.91	\$ 4.11
Stock compensation expense	\$485,000	\$309,000	\$282,000

Information regarding option activity is as follows:

	For the years ended January 31					
	2006		2005		2004	
	options	weighted average exercise price	options	weighted average exercise price	options	weighted average exercise price
Outstanding at beginning						
of year	612,176	\$ 9.02	723,676	\$ 5.89	872,112	\$ 3.72
Granted	76,500	31.05	86,600	22.00	129,000	13.50
Exercised	(167,962)	3.44	(184,600)	2.77	(274,436)	2.61
Forfeited	(1,300)	17.93	(13,500)	9.79	(3,000)	2.65
Outstanding at end of year	519,414	\$ 14.05	612,176	\$ 9.02	723,676	\$ 5.89
Options exercisable at end of year	282,383	\$ 8.66	323,076	\$ 5.27	326,608	\$ 3.57

The following table contains information about stock options outstanding at January 31, 2006:

Exercise Price	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
\$ 4.38	0.75	91,489	91,489
7.00	1.75	146,075	109,556
13.50	2.75	120,000	60,000
22.00	3.75	85,350	21,338
31.05	4.75	76,500	—
		519,414	282,383

NOTES TO FINANCIAL STATEMENTS (continued)

Note 13. 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, two-for-one stock split. 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 2006, 2005 and 2004, 19,125, 21,650, and 32,250 options, respectively, were excluded from the diluted net income per-share calculation. Details of the computation are presented below.

Dollars in thousands, except per-share amounts	For the years ended January 31		
	2006	2005	2004
Net income	\$ 24,262	\$ 17,891	\$ 13,836
Weighted-average common shares outstanding	18,055,439	18,066,223	18,081,712
Dilutive impact of stock options	259,104	344,104	407,868
Weighted-average common and common-equivalent shares outstanding	18,314,543	18,410,327	18,489,580
Net income per common share:			
— basic	\$ 1.34	\$ 0.99	\$ 0.77
— diluted	\$ 1.32	\$ 0.97	\$ 0.75

Note 14. Comprehensive Income

Pursuant to the provisions of SFAS No. 130, *Reporting Comprehensive Income*, comprehensive income includes all changes to shareholders' equity during a period, except those resulting from investment by and distributions to shareholders. Components of comprehensive income for the company include net income and changes in foreign currency translation adjustments. Total comprehensive income was as follows:

Dollars in thousands	As of January 31		
	2006	2005	2004
Net Income	\$24,262	\$17,891	\$13,836
Foreign currency translation adjustments	13	—	—
Total comprehensive income	\$24,275	\$17,891	\$13,836

Note 15. 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 the three Raven divisions, each with a Divisional Vice President, and its Aerostar subsidiary. Raven Canada is consolidated with the Flow Controls Division.

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 2006, 2005 or 2004.

The company had sales of \$16.8 million for the year ended January 31, 2006, to countries outside the United States, primarily to Canada. These sales were included in the Flow Controls, Engineered Films, Electronic Systems and Aerostar segments and totaled \$6.7 million, \$1.3 million, \$8.0 million and \$779,000, respectively.

Market and segment information for 2006, 2005 and 2004 is presented on pages 1 and 18 of this annual report.

Note 16. Subsequent Event

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 February 1, 2006, the company purchased the building for \$1.8 million.

Note 17. Quarterly Information (Unaudited)

The company's quarterly information is presented on page 30.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of Raven Industries, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of January 31, 2006, and an audit of its 2004 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2006 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 31 of the 2006 Annual Report to Shareholders, that the Company maintained effective internal control over financial reporting as of January 31, 2006 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, 2006, 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
Minneapolis, Minnesota
March 23, 2006

BOARD OF DIRECTORS

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



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



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



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



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



Cynthia H. Milligan
Dean, College of Business Administration, University of Nebraska, Lincoln, NE; Director since: 2001

The Raven Board held four regular meetings and one special meeting in Fiscal Year 2006. In April 2005, it increased the quarterly dividend for the 19th consecutive year.

Audit Committee

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

The Audit Committee held two 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 standards.

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: 60, Service 30 years*
Thomas Iacarella *Vice President & Chief Financial Officer, Age: 52, Service 14 years*

Senior Management

David R. Bair *Division Vice President & General Manager—Electronic Systems Division, Age: 49, Service 7 years*
James D. Groninger *Division Vice President & General Manager—Engineered Films Division, Age: 47, Service 19 years*
Barbara K. Ohme *Vice President—Administration, Age: 58, Service 18 years*
Daniel A. Rykhus *Executive Vice President, General Manager—Flow Controls Division, Age: 41, Service 16 years*
Mark L. West *President—Aerostar International, Inc., Age: 52, Service 24 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

South 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, 2006, 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 23, 2006, 9:00 a.m.

Ramkota Hotel and Conference Center

3200 W. Maple 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

Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future. Without limiting the foregoing, the words "anticipates," "believes," "expects," "intends," "may," "plans" and similar expressions are intended to identify forward-looking statements. The Company intends that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act. Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, there is no assurance that such assumptions are correct or that these 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, as well as other risks described in the Company's 10-K under Item 1A. 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.

Raven Industries
P.O. Box 5107
Sioux Falls, SD 57117-5107

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