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ARGAN INC
Form 10QSB
June 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2005 Commission File Number 001-31756

Argan, Inc.

(Exact name of small business issuer as specified in its charter)

DELAWARE

13-1947195

(State or other jurisdiction of incorporation (IRS Employer identification No.)
or organization)

One Church Street, Suite 302, Rockville MD

20850

(Address of principal executive offices)

(ZIP Code)

Issuer's telephone number, including area code: (301) 315-0027

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Securities registered pursuant to Section 12(b) of the Act:

Common Stock
Common Stock, \$.15 Par Value

Shares outstanding
2,758,845 as of June __, 2005

Transitional Small Business Disclosure Format (Check One): Yes No

ARGAN, INC.

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INDEX

	Page No.
PART I. FINANCIAL INFORMATION.....	3
Item 1. Financial Statements.....	3
Condensed Consolidated Balance Sheets - April 30, 2005 and January 31, 2005....	3
Condensed Consolidated Statements of Operations for the Three Months Ended April 30, 2005 and 2004.....	4
Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 30, 2005 and 2004.....	5
Notes to Condensed Consolidated Financial Statements.....	6
Item 2. Management's Discussion and Analysis or Plan of Operation.....	13
Item 3. Controls and Procedures.....	23
PART II. OTHER INFORMATION.....	23
Item 1. Legal Proceedings.....	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	23
Item 3. Defaults Upon Senior Securities.....	23
Item 4. Submission of Matters to a Vote of Security Holders.....	24
Item 5. Other Information.....	24
Item 6. Exhibits.....	24
SIGNATURES.....	25

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ARGAN, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

April 30, 2005	January 31, 2005
=====	=====

ASSETS

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CURRENT ASSETS:		
Cash and cash equivalents	\$ 107,000	\$ 167,000
Accounts receivable, net	3,751,000	2,951,000
Receivable from affiliated entity, net	134,000	112,000
Escrowed cash	300,000	604,000
Estimated earnings in excess of billings	365,000	323,000
Inventories, net	3,259,000	3,465,000
Prepaid expenses and other current assets	680,000	622,000
	-----	-----
TOTAL CURRENT ASSETS	8,596,000	8,244,000
	-----	-----
Property and equipment, net	2,644,000	2,703,000
Other assets	35,000	35,000
Contractual customer relationships, net	539,000	564,000
Trade name	224,000	224,000
Proprietary formulas, net	1,944,000	2,153,000
Non-contractual customer relationships, net	1,733,000	1,833,000
Non-compete agreement, net	1,560,000	1,650,000
Goodwill	12,461,000	7,532,000
	-----	-----
TOTAL ASSETS	\$ 29,736,000	\$ 24,938,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,990,000	\$ 1,803,000
Billings in excess of cost and earnings	6,000	--
Due to affiliates	--	47,000
Accrued expenses	1,230,000	1,187,000
Deferred income tax liability	119,000	144,000
Line of credit	1,661,000	1,659,000
Current portion of long-term debt	557,000	662,000
	-----	-----
TOTAL CURRENT LIABILITIES	5,563,000	5,502,000
	-----	-----
Deferred income tax liability	2,556,000	2,520,000
Deferred rent	12,000	--
Long-term debt	362,000	481,000
Long-term subordinated debt due to former owner of Vitarich Laboratories, Inc.	4,788,000	--
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.10 per share - 500,000 shares authorized- issued - none		
Common stock, par value \$.15 per share - 12,000,000 shares authorized -2,762,078 shares issued at April 30, 2005 and January 31, 2005 and 2,758,845 shares outstanding at April 30, 2005 and January 31, 2005	414,000	414,000
Warrants outstanding	849,000	849,000
Additional paid-in capital	20,121,000	20,121,000
Accumulated deficit	(4,896,000)	(4,916,000)
Treasury stock at cost: 3,233 shares at April 30, 2005 and January 31, 2005	(33,000)	(33,000)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	16,455,000	16,435,000
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 29,736,000	\$ 24,938,000
	=====	=====

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See Accompanying Notes.

3

ARGAN, INC. Condensed Consolidated Statements of Operations (Unaudited)

	Three months ended April 30, 2005	2004
	=====	=====
Net sales	\$ 7,156,000	\$ 1,807,000
Cost of goods sold	5,181,000	1,608,000
	-----	-----
Gross profit	1,975,000	199,000
Selling, general and administrative expenses	1,891,000	791,000
	-----	-----
Income (loss) from operations	84,000	(592,000)
Interest expense	56,000	7,000
Other income, net	(4,000)	(29,000)
	-----	-----
Income (loss) from operations before income taxes	32,000	(570,000)
Income tax provision (benefit)	12,000	(218,000)
	-----	-----
Net income (loss)	\$ 20,000	(\$ 352,000)
	=====	=====
Income (loss) per share:		
- Basic	\$ 0.01	\$ (0.20)
	=====	=====
- Diluted	\$ 0.01	\$ (0.20)
	=====	=====
Weighted average number of shares outstanding:		
- Basic	2,992,000	1,803,000
	=====	=====
- Diluted	3,460,000	1,803,000
	=====	=====

See Accompanying Notes.

4

ARGAN, INC. Consolidated Statements of Cash Flows (unaudited)

Three Months Ended April 30,	
2005	2004
=====	=====

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CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 20,000	\$ (352,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	195,000	95,000
Amortization of purchase intangibles	424,000	61,000
Deferred income taxes	11,000	(222,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	(800,000)	640,000
Receivable from affiliated entity, net	(22,000)	--
Escrowed cash	304,000	--
Estimated earnings in excess of billings	(42,000)	10,000
Inventories, net	206,000	--
Prepaid expenses and other current assets	(58,000)	(117,000)
Accounts payable and accrued expenses	60,000	(522,000)
Billings in excess of estimated earnings	6,000	8,000
Due to affiliates	(47,000)	--
Other	23,000	5,000
	-----	-----
Net cash provided by (used in) operating activities	280,000	(394,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	--	(19,500,000)
Redemptions of investments	--	17,000,000
Purchases of property and equipment	(118,000)	(22,000)
	-----	-----
Net cash used in investing activities	(118,000)	(2,522,000)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt	600,000	--
Proceeds from long-term debt	8,000	--
Payments on line of credit	(598,000)	--
Principal payments on term debt	(232,000)	(123,000)
	-----	-----
Net cash used in financing activities	(222,000)	(123,000)
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	167,000	5,212,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(60,000)	(3,039,000)
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 107,000	\$ 2,173,000
	=====	=====

See Accompanying Notes.

ARGAN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

NATURE OF OPERATIONS

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Argan, Inc. (AI or the Company) conducts its operations through its wholly owned subsidiaries Vitarich Laboratories, Inc. (VLI) which it acquired in August 2004 and Southern Maryland Cable, Inc. (SMC) which it acquired in July 2003. Through VLI, the Company develops, manufactures and distributes premium nutritional supplements, whole-food dietary supplements and personal care products. Through SMC, the Company provides telecommunications infrastructure services including project management, construction and maintenance to the Federal Government, telecommunications and broadband service providers, as well as electric utilities primarily in the Mid-Atlantic region.

AI was organized as a Delaware corporation in May 1961.

The Company operates in two reportable segments. (See Note 7)

MANAGEMENT'S PLANS, LIQUIDITY AND BUSINESS RISKS

As of April 30, 2005, the Company had an accumulated deficit of \$4.9 million. Further, as a result of recurring losses, the Company has historically experienced negative cash flows from operations. At April 30, 2005, the Company had \$2.5 million available under its revolving line of credit with the Bank of America, N.A. (the Bank). The Company operates in two distinct markets. The market for nutritional products is highly competitive and the telecom and infrastructure services industry is fragmented and also very competitive. The successful execution of the Company's business plan is dependent upon the Company's ability to integrate acquired businesses and acquired assets into its operations, its ability to increase and retain its customers, the ability to maintain compliance with significant government regulation, the ability to attract and retain key employees and the Company's ability to manage its growth and expansion, among other factors.

On January 28, 2005, the Company raised approximately \$1 million through the issuance of 129,032 shares of common stock to an Investor. Such proceeds were used by the Company to pay down certain of its existing obligations. Pursuant to the Agreement, the Company has agreed to issue additional shares of common stock to the Investor upon the earlier of (i) the Company's issuance of additional shares of common stock having an aggregate purchase price of at least \$2.5 million at a price per share less than that paid by the Investor, subject to certain exclusions; or (ii) July 31, 2005. (See Notes 4 and 6)

The Company also entered into an agreement with the former owner of VLI, Kevin J. Thomas (Thomas) to delay the timing of the payment of contingent cash consideration to the earlier of August 1, 2006 or the Company's issuance of additional equity having an aggregate purchase price of more than \$1 million. Thomas would be paid the remaining contingent consideration up to the excess over that amount provided that such payment would not put the Company in default of its current financing arrangement with the Bank. (See Notes 3 and 9)

On April 8, 2005, the Company renewed its line of credit with the Bank, extending the maturity date to May 31, 2006. The availability under the line of credit was increased to \$4.25 million and the Bank released \$304,000 in cash to the Company which it was holding in escrow as collateral. (See Note 5)

6

During the three months ended April 30, 2005, the Company had positive cash flows from operations of \$280,000.

Management believes that capital resources available under its renewed line of credit combined with cash generated from the Company's operations is adequate to meet the Company's future operating cash needs. Accordingly, the carrying value

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of the assets and liabilities in the accompanying balance sheet do not reflect any adjustments should the Company be unable to meet its future operating cash needs in the ordinary course of business. The Company continues to take various actions to align its cost structure to appropriately match its expected revenues, including limiting its operating expenditures and controlling its capital expenditures. Any future acquisitions, other significant unplanned costs or cash requirements may require the Company to raise additional funds through the issuance of debt and equity securities. There can be no assurance that such financing will be available on terms acceptable to the Company, or at all. If additional funds are raised by issuing equity securities, significant dilution to the existing stockholders may result.

BASIS OF PRESENTATION

The condensed consolidated balance sheet as of April 30, 2005 and the condensed consolidated statements of operations and cash flows for the three months ended April 30, 2005 and 2004, respectively, are unaudited. In the opinion of management, the accompanying financial statements contain all adjustments, which are of a normal and recurring nature, considered necessary to present fairly the financial position of the Company as of April 30, 2005 and the results of its operations and its cash flows for the periods presented. The Company prepares its interim financial information using the same accounting principles as it does for its annual financial statements.

These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the footnotes contained in the Company's consolidated financial statements for the year ended January 31, 2005, together with the independent registered public accounting firm's report, included in the Company's Annual Report on Form 10-KSB, as filed with the Securities and Exchange Commission. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Inventories - Inventories are stated at the lower of cost or market (net realizable value). Cost is determined on the first-in, first-out (FIFO) method. Appropriate consideration is given to obsolescence, excessive inventory levels, product deterioration, and other factors in evaluating net realizable value. Inventories at April 30, 2005 consist of the following:

Raw materials	\$ 2,735,000
Work-in process	154,000
Finished goods	370,000

	\$ 3,259,000
	=====

Income Per Share - Income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income per share reflects the maximum dilution that would have resulted from contingently issuable shares. Diluted income per share is computed by dividing net income by the weighted average number of common shares and all dilutive securities.

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Outstanding stock options and warrants were antidilutive during the three months ended April 30, 2005 and 2004. The option and warrant exercise prices exceeded the average market price per share for the three months ended April 30, 2005 and 2004.

	Earnings Per Share	For the Three Months Ended April 30, 2005 Net Shares		Income
	-----	-----		-----
Basic	\$ 0.01	2,992,000	\$	2
Effect of estimated contingently issuable shares	--	468,000		
Diluted	\$ 0.01	3,460,000	\$	2
	=====	=====		=====

The contingently issuable shares represent additional shares the Company estimates it will issue in connection with the acquisition of VLI and the sale and issuance of common stock to MSRI SBIC, L.P.

Seasonality - The Company's telecom infrastructure services operations are expected to have seasonally weaker results in the first and fourth quarters of the year, and may produce stronger results in the second and third quarters. This seasonality is primarily due to the effect of winter weather on outside plant activities as well as reduced daylight hours and customer budgetary constraints. Certain customers tend to complete budgeted capital expenditures before the end of the year, and postpone additional expenditures until the subsequent fiscal period.

Stock Issued to Employees -The Company follows Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, to account for stock option plans, which generally does not require income statement recognition of options granted at the market price on the date of issuance.

The Pro Forma disclosures required by Statement of Financial Accounting Standards No. 148 "Accounting for Stock Based Compensation" are reflected below:

	2005	2004
	-----	-----
Net income (loss), as reported	\$ 20,000	\$ (352,000)
Add: Stock based compensation recorded in the financial statements	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based methods	20,000	18,000
Pro forma net loss	--	\$ (370,000)
	=====	=====
Basic and diluted per share:		
Basic and diluted - as reported	--	\$ (0.20)
	=====	=====
Basic and diluted - pro forma	--	\$ (0.21)

IMPACT OF CHANGES IN ACCOUNTING STANDARDS

In December 2004, the Financing Accounting Standards Board issued FASB Statement No. 123 (revised 2004). Share-Based Payment ("SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and amends FASB Statement of Cash Flows. SFAS 123(R) requires all share-based

8

payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company will adopt SFAS 123(R) on February 1, 2006. The Company has not determined the impact of adopting the new standards and is continuing its analysis of the impact.

NOTE 3- ACQUISITION OF VITARICH LABORATORIES, INC.

On August 31, 2004, the Company acquired, by merger, all of the common stock of VLI, a developer, manufacturer and distributor of premium nutritional supplements, whole-food dietary supplements and personal care products. The Company's purchase of VLI was focused on acquiring VLI's long-standing customer and exclusive vendor relationships and its well established position in the fast growing global nutrition industry, each of which supports the premium paid over the fair value of the tangible assets acquired.

The results of operations of the acquired company are included in the consolidated results of the Company from August 31, 2004, the date of acquisition.

The estimated purchase price was approximately \$6.7 million in cash, including expenses, and 825,000 shares of the Company's common stock with fair value of \$5,132,000 or \$6.22 per share utilizing the quoted market price two days before and after the acquisition date. The Company also assumed approximately \$1.6 million in debt. The merger agreement contains provisions for payment of additional consideration ("Additional Consideration") by the Company to the former VLI shareholder to be satisfied in the Company's common stock and cash if certain Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) thresholds for the twelve months ended February 28, 2005 are met. To meet the EBITDA thresholds, VLI must have adjusted EBITDA in excess of \$2.3 million. Results in excess of the adjusted EBITDA threshold serve as the basis to determine the amount of additional payment.

The Company's preliminary estimate of the Additional Consideration is approximately \$2.7 million in cash and approximately 350,000 shares of AI common stock with an estimated value of \$2.1 million. The Company is in the process of reviewing and finalizing the calculation of the amount of Additional Consideration.

On January 31, the Company entered into a debt subordination agreement with Thomas, the former owner of VLI, SMC and the Bank, to reconstitute the cash portion of the Additional Consideration as subordinated debt payable on August 1, 2006 unless such payment would put the Company in default of its financing arrangements with the Bank.

The merger agreement also provides that, if between the closing date and the additional consideration payment date, the Company raises additional capital by issuance of stock pursuant to a public or private offering for a price less than

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\$7.75 per share (the Additional Capital Subscription Price), then the number of shares of the Company's common stock issued to Thomas as initial consideration will be adjusted to the number of common shares that would have been issued at the closing of the merger had the value of each share of the Company's common stock been the Additional Capital Subscription Price. Any additional payments earned under the terms of the purchase agreement will be recorded as an increase in goodwill.

The Company's preliminary accounting for the acquisition of VLI and the preliminary estimate of the Additional Consideration uses the purchase method of accounting whereby the excess of cost over the net amounts assigned to assets acquired and liabilities assumed is allocated to goodwill and intangible assets

9

based on their estimated fair values. Such intangible assets identified by the Company include \$11,521,000, \$2,500,000, \$2,000,000 and \$1,800,000, respectfully, allocated to goodwill, Proprietary Formulas (PF), Non-Contractual Customer Relationships (NCR) and a Non-Compete Agreement (NCA). The Company is amortizing PF over three years and NCR and NCA over five years. Accumulated amortization is \$556,000, \$267,000 and \$240,000 at April 30, 2005 for PF, NCR and NC, respectively.

The following unaudited pro forma statement of operations of the Company for the three months ended April 30, 2004 does not purport to be indicative of the results that would have actually been obtained if the aforementioned acquisition had occurred on February 1, 2004, or that may be obtained in the future. VLI previously reported its results of operations using a calendar year-end. No material events occurred subsequent to this reporting period that would require adjustment to our unaudited pro forma statement of operations. The number of shares outstanding used in calculating pro forma earnings per share assume that the shares issued in connection with the acquisition of VLI were outstanding since February 1, 2004.

	Three Months Ended April 30, 2004
Pro Forma Statement of Operations	
Net sales	\$ 5,386,000
Cost of goods sold	4,264,000

Gross profit	1,122,000
Selling, general and administrative expenses	1,689,000

Loss from operations	(567,000)
Other income, net	10,000

Loss before income tax benefit	(557,000)
Income tax benefit	213,000

Net loss	(\$ 344,000)
	=====
Loss per share	(\$ 0.13)
	=====
Weighted average shares outstanding	2,628,000
	=====

NOTE 4 - RELATED PARTY TRANSACTIONS

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On January 28, 2005, the Company sold and issued to MSR I SBIC, L.P., a Delaware limited partnership ("Investor"), 129,032 shares (the "Shares") of common stock of the Company pursuant to a Subscription Agreement dated as of January 28, 2005 between the Company and Investor (the "Subscription Agreement"). The Shares were issued at a purchase price of \$7.75 per share ("Share Price"), yielding aggregate proceeds of \$999,998. The Shares were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended. The Investor is an entity controlled by Daniel Levinson, a director of the Company.

Pursuant to the Subscription Agreement, the Company has agreed to issue additional shares of Common Stock to Investor in accordance with the Subscription Agreement under certain conditions upon the earlier of (i) the Company's issuance of additional shares of Common Stock having an aggregate purchase price of at least \$2,500,000 for a consideration per share less than the Share Price, subject to certain exclusions; and (ii) July 31, 2005. Shares would be issued in amounts determined by reference to the prevailing thirty-day average stock price. The number of additional shares to be issued would effectively reduce the Investor's purchase price per common share as set forth in the Subscription Agreement.

The Company leases administrative, manufacturing and warehouse facilities from individuals who are officers of SMC and VLI. The total expense under these arrangements were \$69,000 and \$18,000 for the three months ended April 30, 2005 and 2004, respectively.

The Company also entered into a supply agreement with an entity owned by the former shareholder of VLI whereby the supplier committed to sell to the Company and the Company committed to purchase on an as-needed basis, certain organic products. VLI made \$24,000 in purchases under the supply agreement during the

10

three months ended April 30, 2005. The Company also sells its products in the normal course of business to an entity in which the former owner of VLI has an ownership interest. The pricing on such transactions is consistent with VLI's general customer pricing for nonaffiliated entities. VLI had approximately \$149,000 in sales with this entity for three months ended April 30, 2005. At April 30, 2005, the affiliated entity owed \$134,000 to VLI, net of an allowance for doubtful accounts of \$75,000.

NOTE 5 - DEBT

In August 2003, the Company entered into a financing arrangement with the Bank aggregating \$2,950,000 in available financing in two facilities - a revolving line of credit with \$1,750,000 in availability, having an initial expiration of July 31, 2004 and bearing interest at LIBOR plus 2.75%, and a three year term note with an original outstanding balance of \$1,200,000, expiring July 31, 2006 and bearing interest at LIBOR plus 2.95%.

In August 2004 and April 2005, the Company agreed to amend the existing financing arrangements with the Bank whereby the revolving line of credit was initially increased to \$3.5 million and ultimately to \$4.3 million in maximum availability. The latest amendment extended the expiration of the revolving line of credit to May 31, 2006. Under the amended financing arrangements, amounts outstanding under the revolving line of credit and the three year term note bear interest at LIBOR plus 3.25% and 3.45%, respectively. Availability on a monthly basis under the revolving line is determined by reference to accounts receivable and inventory on hand which meet certain Bank criteria. The aforementioned three year term note remains in effect and the final monthly scheduled payment of \$33,000 is due on July 31, 2006. As of April 30, 2005, the Company had \$500,000

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outstanding under the term note and \$1,661,000 outstanding under the revolving line of credit.

The financing arrangements amended on April 8, 2005, waives the April 30, 2005 measurement of certain financial covenants including requiring that the ratio of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA) not exceed 2.5 to 1 (with the next test date being July 31, 2005) and requiring pro forma fixed charge coverage ratio not less than 1.25 to 1 (with the next test date being July 31, 2005). However, at April 30, 2005, the Company was in compliance with the financial and non financial covenants of the financing arrangement that would have been in place at that date. Bank consent continues to be required for acquisitions and divestitures. The Company continues to pledge the majority of the Company's assets to secure the financing arrangements. In conjunction with the amendment, the Bank also released to the Company \$304,000, which it was holding in escrow as collateral.

NOTE 6 - PRIVATE OFFERING OF COMMON STOCK

On January 28, 2005, the Company sold and issued to MSR I SBIC, L.P., a Delaware limited partnership ("Investor"), 129,032 shares (the "Shares") of the Company's common stock, pursuant to a Subscription Agreement dated as of January 28, 2005 between the Company and Investor. The Shares were issued at a purchase price of \$7.75 per share ("Share Price"), yielding aggregate proceeds of \$999,998. The Shares were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended. The Investor is an entity controlled by Daniel Levinson, a director of the Company. (See Note 4)

11

NOTE 7 - SEGMENT REPORTING

Effective with the acquisition of VLI on August 31, 2004, the Company has two reportable operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assessing performance.

The Company's two operating segments are nutraceutical products and telecom infrastructure services. The Company conducts its operations through its wholly owned subsidiaries - VLI and SMC. The "Other" column includes the Company's corporate and unallocated expenses.

The Company's operating segments are organized in separate business units with different management, customers, technology and services. The respective segments account for the respective businesses using the accounting policies in Note 1 to the Company's Form 10-KSB and Note 2 in this filing. Summarized financial information concerning the Company's operating segments is shown in the following tables:

	For the Three Months Ended April 30, 2005			
	Nutraceutical Products	Telecom Infrastructure Services	Other	Consol
	-----	-----	-----	-----
Net sales	\$ 4,728,000	\$ 2,428,000	\$ --	\$ 7,

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Cost of goods sold	3,274,000	1,907,000	--	5,
	-----	-----	-----	-----
Gross profit	1,454,000	521,000	--	1,
Selling, general and administrative expenses	1,137,000	354,000	400,000	1,
	-----	-----	-----	-----
Income (Loss) from operations	317,000	167,000	(400,000)	
Interest expense (income)	58,000	11,000	(13,000)	
Other income, net	--	2,000	2,000	
	-----	-----	-----	-----
Income (loss) before income taxes	\$ 259,000	\$ 158,000	\$ (385,000)	
	=====	=====	=====	-----
Income tax provision				

Net income				\$
				=====
Depreciation and amortization	\$ 77,000	\$ 98,000	\$ 20,000	\$
	=====	=====	=====	=====
Amortization of intangibles	\$ 399,000	\$ 25,000	--	\$
	=====	=====	=====	=====
Goodwill	\$ 11,521,000	\$ 940,000	--	\$ 12,
	=====	=====	=====	=====
Total Assets	\$ 24,105,000	\$ 5,204,000	\$ 427,000	\$ 29,
	=====	=====	=====	=====

NOTE 8 - WESTERN FILTER CORPORATION LITIGATION

During the twelve months ended January 31, 2005, WFC asserted in writing that the Company breached certain representations and warranties under the Stock Purchase Agreement. WFC asserts damages in excess of the \$300,000 escrow which is being held by a third party in connection with the Stock Purchase Agreement.

On March 22, 2005, WFC filed a complaint in Los Angeles Superior Court alleging the Company and its executive officers, individually, committed breach of contract, intentional misrepresentation, concealment and non-disclosure, negligent misrepresentation and false promise. WFC seeks declaratory relief and

compensatory and punitive damages in an amount to be proven at trial as well as the recovery of attorney's fees. The Company has reviewed WFC's claim and believes that substantially all of the claims are without merit. The Company will vigorously contest WFC's claim.

During the twelve months ended January 31, 2005, the Company recorded an accrual related to this matter of \$260,000 for losses and legal fees related to WFC's claim that it considers to be probable and that can be reasonably estimated. Although the ultimate amount of liability at April 30, 2005, that may result from this matter for which the Company has recorded an accrual is not ascertainable, the Company believes that any amounts exceeding the aforementioned accrual should not materially affect the Company's financial condition. It is possible, however, that the ultimate resolution of WFC's claim could result in a material adverse effect on the Company's results of operations for a particular reporting period.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Form 10-QSB contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbor created thereby. These statements relate to future events or our future financial performance, including statements relating to our products, customers, suppliers, business prospects, financings, investments and effects of acquisitions. In some cases, forward looking statements can be identified by terminology such as "may," "will," "should," "expect," "anticipate," "intend," "plan," "believe," "estimate," "potential," or "continue," the negative of these terms or other comparable terminology. These statements involve a number of risks and uncertainties, including preliminary information; the effects of future acquisitions and/or investments; competitive factors; business and economic conditions generally; changes in government regulations and policies, our dependence upon third-party suppliers; continued acceptance of our products in the marketplace; technological changes; and other risks and uncertainties that could cause actual events or results to differ materially from any forward-looking statement.

GENERAL

We conduct our operations through our wholly owned subsidiaries, Vitarich Laboratories, Inc. (VLI) that we acquired in August 2004 and Southern Maryland Cable, Inc. (SMC) that we acquired in July 2003. Through VLI, we develop, manufacture and distribute premium nutritional products. Through SMC, we provide telecommunications infrastructure services including project management, construction and maintenance to the Federal Government, telecommunications and broadband service providers as well as electric utilities.

We were organized as a Delaware corporation in May 1961.

RECENT EVENTS

Private Sale of Stock

On January 28, 2005, the Company sold and issued to MSR I SBIC, L.P., a Delaware limited partnership ("Investor"), 129,032 shares (the "Shares") of our common stock, pursuant to a Subscription Agreement dated as of January 28, 2005 between the Company and Investor (the "Subscription Agreement"). The Shares were issued at a purchase price of \$7.75 per share ("Share Price"), yielding aggregate proceeds of \$999,998. The Shares were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended. The Investor is an entity controlled by Daniel Levinson, a director of the Company.

Pursuant to the Subscription Agreement, the Company has agreed to issue additional shares of our common stock to Investor in accordance with the Subscription Agreement under certain conditions upon the earlier of (i) the Company's issuance of additional shares of our common stock generating aggregate proceeds of at least \$2,500,000 for a consideration per share less than the

13

Share Price, subject to certain exclusions; and (ii) July 31, 2005. Shares would be issued in amounts determined by reference to the Company's prevailing thirty-day average stock price. The number of additional shares to be issued would effectively reduce the Investor's purchase price per share of our common stock as set forth in the Subscription Agreement.

Subordination of Certain Debt

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On January 31, 2005, the Company entered into a Debt Subordination Agreement ("Subordination Agreement") with Kevin J. Thomas ("Thomas"), Southern Maryland Cable, Inc., a wholly owned subsidiary of the Company ("SMC," and together with the Company, the "Debtor") and Bank of America, N.A. ("Lender") to reconstitute as subordinated debt certain additional cash consideration ("Additional Cash Consideration") that Debtor will owe to Thomas in connection with the Merger Agreement.

Debtor entered into a certain Financing and Security Agreement dated as of August 19, 2003, as amended, with Lender whereby Lender extended to Debtor certain loans. On August 31, 2004, with the consent of Lender, the Debtor entered into an Agreement and Plan of Merger (the "Merger Agreement"), whereby the Company acquired all of the common stock of Vitarich Laboratories, Inc. ("Vitarich") by way of merger of Vitarich with and into a wholly-owned subsidiary of the Company, with Vitarich (now VLI) as the surviving company. Pursuant to the Merger Agreement, Thomas (who was a shareholder of Vitarich) is entitled to receive from Debtor, subject to certain conditions, Additional Cash Consideration as provided in the Merger Agreement.

Pursuant to the Subordination Agreement, Debtor and Thomas have agreed to reconstitute the Additional Cash Consideration as subordinated debt and in furtherance thereof, the Company has agreed to execute and deliver to Thomas a Subordinated Promissory Note in an amount equal to the amount that would otherwise be due Thomas as Additional Cash Consideration under the Merger Agreement. Accordingly, under the Subordination Agreement, Debtor subordinated all of the Junior Debt (as such term is defined in the Subordination Agreement) to the full extent provided in the Subordination Agreement, and Thomas transferred and assigned to Lender all of his rights, title and interest in the Junior Debt and appointed Lender as his attorney-in-fact for the purchases provided in the Subordination Agreement for as long as any of the Superior Debt remains outstanding. Except as otherwise provided in the Subordination Agreement and until such time that the Superior Debt is satisfied in full, Debtor shall not, among other things, directly or indirectly, in any way, satisfy any part of the Junior Debt, nor shall Thomas, among other things, enforce any part of the Junior Debt or accept payment from Debtor or any other person for the Junior Debt or give any subordination in respect of the Junior Debt.

Amendment of Financing Arrangements

On April 8, 2005, the Company agreed to amend the existing financing arrangements with the Bank of America, N.A. ("the Bank") whereby the revolving line of credit was increased to \$4.25 million in maximum availability, expiring May 31, 2006. The amended financing arrangements waives the January 31, 2005 and April 30, 2005 measurement of certain financial covenants including requiring the ratio of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA) not to exceed 2.5 to 1 (with the next test date being July 31, 2005) requiring pro forma fixed charge coverage ratio not less than 1.25 to 1 (with the next test date being July 31, 2005). Bank consent continues to be required for acquisitions and divestitures. The Company continues to pledge the majority of the Company's assets to secure the financing arrangements. The Bank has released to the Company \$304,000 which it was holding in escrow as collateral.

Western Filter Corporation Litigation

On October 31, 2003, we completed the sale of Puroflow Incorporated (a wholly-owned subsidiary) to Western Filter Corporation (WFC) for approximately \$3.5 million in cash, of which \$300,000 is held in escrow to indemnify WFC from

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losses resulting from a breach of the representations and warranties made by us in connection with that sale. During the twelve months ended January 31, 2005, WFC notified the Company in writing, asserting that the Company breached certain representations and warranties under the Stock Purchase Agreement. WFC asserts damages in excess of the \$300,000 escrow which is being held by a third party.

On March 22, 2005, WFC filed a complaint in Los Angeles Superior Court alleging the Company and its executive officers, individually, committed breach of contract, intentional misrepresentation, concealment and non-disclosure, negligent misrepresentation and false promise. WFC seeks declaratory relief and compensatory and punitive damages in an amount to be proven at trial as well as the recovery of attorney's fees. The Company has reviewed WFC's claim and believes that the claims are substantially without merit. The Company will vigorously contest WFC's claims.

During the twelve months ended January 31, 2005, the Company recorded an accrual for loss and legal expenses related to this matter of \$260,000 with respect to this claim.

HOLDING COMPANY STRUCTURE

We intend to make additional acquisitions and/or investments. We intend to have more than one industrial focus and to identify those companies that are in industries with significant potential to grow profitably both internally and through acquisitions. We expect that companies acquired in each of these industrial groups will be held in separate subsidiaries that will be operated in a manner that best provides cashflow and value for the Company.

We are a holding company with no operations other than our investments in VLI and SMC. At April 30, 2005, there were no restrictions with respect to dividends or other payments from VLI and SMC to the Company.

NUTRITIONAL PRODUCTS

We are dedicated to the research, development, manufacture and distribution of premium nutritional supplements, whole-food dietary supplements and personal care products. Several have garnered honors including the National Nutritional Foods Association's prestigious Peoples Choice Awards for best products of the year in its respective category.

We provide nutrient-dense, super-food concentrates, vitamins and supplements. Our customers include health food store chains, mass merchandisers, network marketing companies, pharmacies and major retailers.

We intend to enhance our position in the fast growing global nutrition industry through our innovative product development and research. We believe that we will be able to expand our distribution channels by providing continuous quality assurance and by focusing on timely delivery of superior nutraceutical products.

We are focused on efficiently utilizing the strong cash flow potential from manufacturing nutritional products. To ensure that working capital is effectively allocated, we closely monitor our inventory turns as well as the number of days sales that we have in our accounts receivable.

TELECOM INFRASTRUCTURE SERVICES

We currently provide inside plant, premise wiring services to the Federal Government and have plans to expand that work to commercial customers who regularly need upgrades in their premise wiring systems to accommodate

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improvements in security, telecommunications and network capabilities.

We continue to participate in the expansion of the telecommunications industry by working with various telecommunications providers. We provide maintenance and upgrade services for their outside plant systems that increase the capacity of existing infrastructure. We also provide outside plant services to the power industry by providing maintenance and upgrade services to utilities.

We intend to emphasize our high quality reputation, outstanding customer base and highly motivated work force in competing for larger and more diverse contracts. We believe that our high quality and well maintained fleet of vehicles and construction machinery and equipment is essential to meet customers' needs for high quality and on-time service. We are committed to invest in our repair and maintenance capabilities to maintain the quality and life of our equipment. Additionally, we invest annually in new vehicles and equipment.

Critical Accounting Policies

Management is required to make judgments, assumptions and estimates that affect the amounts reported when we prepare financial statements and related disclosures in conformity with generally accepted accounting principles. Note 1 contained in the Company's consolidated financial statements for the year ended January 31, 2005 included in the Company's Annual Report contained in Form 10-KSB, as filed with the Securities and Exchange Commission describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. Estimates are used for, but not limited to our accounting for revenue recognition, allowance for doubtful accounts, inventory valuation, long-lived assets and deferred income taxes. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Vitarich Laboratories, Inc.

We manufacture products for our customers based on their orders. We typically ship the orders immediately after production keeping relatively little on-hand as finished goods inventory. We recognize customer sales at the time title and the risks and rewards of ownership pass to our customer. Cost of goods and finished goods inventory sold include materials and direct labor as well as other direct costs combine with allocations of indirect operational costs.

Southern Maryland Cable, Inc.

We generate revenue under various arrangements, including contracts under which revenue is based on a fixed price basis and on a time and materials basis. Revenues from time and materials contracts are recognized when the related service is provided to the customer. Revenues from fixed price contracts, including a portion of estimated profit, are recognized as services are provided, based on costs incurred and estimated total contract costs using the percentage of completion method.

The timing of billing to customers varies based on individual contracts and often differs from the period of revenue recognition. Estimated earnings in excess of billings and billings in excess of estimated earnings totaled \$365,000 and \$6,000, respectively, at April 30, 2005.

Contract costs are recorded when incurred and include direct labor and other

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direct costs combined with allocations of operational indirect costs. Management periodically reviews the costs incurred and revenue recognized from contracts and adjusts recognized revenue to reflect current expectations. Provisions for estimated losses on incomplete contracts are provided in full in the period in which such losses become known.

16

Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined on the weighted average first-in first-out (FIFO) method. Appropriate consideration is given to obsolescence, excessive inventory levels, product deterioration and other factors in evaluating net realizable value.

Impairment of Long-Lived Assets

Long-lived assets, consisting primarily of property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be assessed pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We determine impairment by comparing the carrying value of these long-lived assets to the undiscounted future cash flows expected to result from the use of these assets. In the event we determine that an impairment exists, a loss would be recognized based on the amount by which the carrying value exceeds the fair value of the assets, which is generally determined by using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models as appropriate.

Impairment of Goodwill

In accordance with SFAS No. 142, we will conduct annually on November 1, a review of our goodwill and intangible assets with an indefinite useful life to determine whether their carrying value exceeds their fair market value. Should this be the case, a detailed analysis will be performed to determine if the goodwill and other intangible assets are impaired. We will also review the finite intangible assets when events or changes in circumstances indicate that the carrying amount may not be recovered.

We will test for impairment of Goodwill and indefinite lived intangible assets more frequently if events or changes in circumstances indicate that the asset might be impaired.

Contractual Customer Relationships ("CCR's")

The fair value of the Contractual Customer Relationships (CCR's) was determined at the time of the acquisition of SMC by discounting the cash flows expected from SMC's continued relationships with three customers - General Dynamics Corp., Verizon Communications and Southern Maryland Electric Cooperative. Expected cash flows were based on historical levels, current and anticipated projects and general economic conditions. In some cases, the estimates of future cash flows reflect periods beyond those of the current contracts in place. The expected cash flows were discounted based on a rate that reflects the perceived risk of the CCR's, the estimated weighted average cost of capital and SMC's asset mix. We are amortizing the CCR's over a seven year weighted average life given the long standing relationships SMC has with Verizon and SMECO.

Trade Name

The fair value of the SMC Trade Name was estimated using a relief-from-royalty

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methodology. We determined that the useful life of the Trade Name was indefinite since it is expected to contribute directly to future cash flows in perpetuity. The Company has also considered the effects of demand and competition including its customer base. While SMC is not a nationally recognized Trade Name, it is a regionally recognized name in Maryland and the Mid-Atlantic region, SMC's primary region of operations.

We are using the relief-from-royalty method described above to test the Trade Name for impairment annually on November 1 and on an interim basis if events or changes in circumstances between annual tests indicate the Trade Name might be impaired. Based on the annual impairment test, no impairment was recorded.

17

Proprietary Formulas

The Fair Value of the Proprietary Formulas (PF's) was determined at the time of the acquisition of VLI by discounting the cash flows expected from developed formulations based on relative technology contribution and estimates regarding product lifecycle and development costs and time. The expected cash flows were discounted based on a rate that reflects the perceived risk of the PF's, the estimated weighted average cost of capital and VLI's asset mix. We are amortizing the PF's over a three year life based on the estimated contributory life of the proprietary formulations utilizing estimated historical product lifecycles and changes in technology.

Non-Contractual Customer Relationships

The fair value of the Non-Contractual Customer Relationships (NCR's) was determined at the time of acquisition of VLI by discounting the net cash flows expected from existing customer revenues. Although VLI does not operate using long-term contracts, historical experience indicates that customer repeat orders due to the costs associated with changing suppliers. VLI has had a relationship of five years or more with most of its currently significant customers. The expected cash flows were discounted based on a rate that reflects the perceived risk of the NCR's, the estimated weighted average cost of capital and VLI's asset mix. We are amortizing the NCR's over a five year life based on the length of VLI's significant customer relationships.

Non-Compete Agreement

The fair value of the Non-Compete Agreement (NCA) was determined at the time of acquisition of VLI by discounting the estimated reduction in the cash flows expected if one key employee, the former sole shareholder of VLI, were to leave. The key employee signed a non-compete clause prohibiting the employee from competing directly or indirectly for five years. The estimated reduced cash flows were discounted based on a rate that reflects the perceived risk of the NCA, the estimated weighted average cost of capital and VLI's asset mix. We are amortizing the NCA over five years, the length of the non-compete agreement.

Deferred Tax Assets and Liabilities

We account for income taxes under the asset and liability method. The approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in Federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets.

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At April 30, 2005, we have cumulatively recorded a net operating loss carry forward aggregating \$161,000 which expires in 2024 and 2025.

ACQUISITION OF VITARICH LABORATORIES, INC.

On August 31, 2004, pursuant to an Agreement and Plan of Merger ("Merger Agreement"), the Company acquired all of the common stock of Vitarich Laboratories, Inc. (Vitarich) by way of a merger of Vitarich with and into a wholly-owned subsidiary of the Company (VLI), with VLI as the surviving company of the Merger. Vitarich (now VLI) is a developer, manufacturer and distributor of premium nutritional supplements, whole-food dietary supplements and personal care products.

In connection with the Merger Agreement, the Company paid Kevin J. Thomas (Thomas), the former shareholder of Vitarich, initial consideration consisting of (i) \$6.1 million in cash; and (ii) 825,000 shares of the Company's common

18

stock which was valued at \$5,132,000 or \$6.22 per share utilizing the quoted market price two days before and after the acquisition date. These 825,000 shares were registered on Form S-3 under the Securities Act of 1933, as amended, on February 25, 2005.

Pursuant to the Merger Agreement, in addition to the initial consideration paid at closing, the Company shall pay Thomas additional consideration equal to (a) 5.5 times the Adjusted EBITDA of Vitarich (as defined in the Merger Agreement) for the 12 months ended February 28, 2005 (b) less the initial consideration paid at closing (provided, however, that in no event shall the additional consideration be less than zero or require repayment by Thomas of any portion of the initial consideration paid at closing) ("Additional Cash Consideration"). Such Additional Cash Consideration shall be paid 50% in the form of a subordinated note and 50% through issuance of additional common stock of the Company.

The Merger Agreement also provides that, if between the closing date and the payment date of the Additional Cash Consideration, the Company raises additional capital by issuance of stock pursuant to a public or private offering for a price less than \$7.75 per share (the Additional Capital Subscription Price), then the number of shares of the Company's common stock issued to Thomas as initial consideration in the merger shall be adjusted to the number of shares of the Company's common stock that would have been issued at the closing of the merger had the value of each share of the Company's common stock been the Additional Capital Subscription Price.

In connection with the Merger Agreement, the Company assumed approximately \$1.6 million of Vitarich indebtedness (including approximately \$1.1 million of equipment leases and working capital credit lines and approximately \$507,000 that was due to Thomas by Vitarich at the time of the merger) as well as Vitarich accounts payable and accrued liabilities. The Company also assumed certain real property leases and other obligations of Vitarich in connection with the merger. The Company paid the \$507,000 that was due to Thomas at the closing of the merger and paid approximately \$714,000 of the assumed equipment leases and working capital credit lines following the closing of the merger.

In connection with the Merger Agreement, VLI and Thomas entered into an employment agreement, pursuant to which VLI agreed to employ Thomas as its Senior Operating Executive for an initial term of 3 years, subject to successive automatic one-year renewal terms after the initial term unless either party

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provides notice of its election not to renew; and the Company entered into a supply agreement with a supply company majority owned by Thomas, pursuant to which the supply company committed to sell to the Company, and the Company committed to purchase on an as-needed basis, certain organic agriculture products produced by the supply company.

Pursuant to the Subordination Agreement, Debtor and Thomas have agreed to reconstitute the Additional Cash Consideration as subordinated debt and in furtherance thereof, the Company has agreed to execute and deliver to Thomas a Subordinated Promissory Note in an amount equal to the amount that would otherwise be due Thomas as Additional Cash Consideration under the Merger Agreement. Accordingly, under the Subordination Agreement, Debtor subordinated all of the Junior Debt (as such term is defined in the Subordination Agreement) to the full and final payment of all the Superior Debt (as such term is defined in the Subordination Agreement) to the extent provided in the Subordination Agreement, and Thomas transferred and assigned to Lender all of his rights, title and interest in the Junior Debt and appointed Lender as his attorney-in-fact for the purposes provided in the Subordination Agreement for as long as any of the Superior Debt remains outstanding. Except as otherwise provided in the Subordination Agreement and until such time that the Superior Debt is satisfied in full, Debtor shall not, among other things, directly or indirectly, in any way, satisfy any part of the Junior Debt, nor shall Creditor, among other things, enforce any part of the Junior Debt or accept payment from

19

Debtor or any other person for the Junior Debt or give any subordination in respect of the Junior Debt.

Results of Operations for the Three Months Ended April 30, 2005 Compared to the Pro Forma Results of Operations for the Three Months ended April 30, 2004

The following summarizes the results of our operations for the three months ended April 30, 2005 compared to the pro forma results for the three months ended April 30, 2004, as if the acquisition of VLI was completed on February 1, 2004. The unaudited statements of operations do not purport to be indicative of the results that would have actually been obtained if the aforementioned acquisition had occurred on February 1, 2004, or that may be obtained in the future. VLI previously reported its results of operations using a calendar year-end. No material events occurred subsequent to the reporting period that would require adjustment to our unaudited pro forma results in the statements of operations.

Statements of Operations	Three Months Ended April 30,	
(Pro forma)	2005	2004
	-----	-----
Net sales	\$ 7,156,000	\$ 5,386,000
Cost of goods sold	5,181,000	4,264,000
	-----	-----
Gross profit	1,975,000	1,122,000
Selling general and administrative expenses	1,891,000	1,689,000
	-----	-----
Income (loss) from operations	84,000	(567,000)
Other (expense) income	(52,000)	10,000

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	-----	-----
Income (loss) from operations		
before income taxes	32,000	(557,000)
Income tax provision (benefit)	12,000	(213,000)
	-----	-----
Net income (loss)	\$ 20,000	(\$ 344,000)
	=====	=====

Net sales

Net sales were \$7,156,000 for the three months ended April 30, 2005 compared to pro forma net sales of \$5,386,000 for the three months ended April 30, 2004. The increase of \$1,770,000 or 33% is due primarily to an increase of \$1,149,000 in sales volume at VLI. Sales increased to VLI's largest customer as well as substantial sales to a new customer provided most of the sales increase. In addition, SMC experienced an increase of \$504,000 in sales volume from infrastructure services provided to SMC's customers under fixed-priced contracts.

Cost of goods sold

For the three months ended April 30, 2005, cost of goods sold was \$5,181,000 or 72% of net sales compared to \$4,264,000 or 79% of pro forma net sales for the three months ended April 30, 2004. Decreased costs as a percent of net sales is due to efficiencies experienced as SMC's volume and number of fixed-priced contracts increased during the three months ended April 30, 2005. In addition, VLI had a decreased cost of goods sold as a percentage of net sales due to increased pricing which it passed onto its customer base.

20

Selling general and administrative expenses

Selling, general and administrative expenses were \$1,891,000 or 26% of net sales for the three months ended April 30, 2005 compared to \$1,689,000 or 31% of pro forma net sales for the three months ended April 30, 2004, an increase of \$202,000. SMC reduced its selling, general and administrative expenses by \$76,000 due to the streamlining its support staff. In addition, corporate expenses as a percentage of net sales decreased from 20% to 6% due to corporate costs increasing at a slower rate than the overall growth of net sales.

Other expense, net

We had other expense, net of \$52,000 for the three months ended April 30, 2005 compared to pro forma other income, net of \$10,000 for the three months ended April 30, 2004. The Company's interest expense is due to the funding of VLI's increased inventory to support increased net sales.

Income tax (benefit) provision

The Company's effective income tax rate was 38% for the three months ended April 30, 2005 compared to a 38% pro forma income tax rate for the three months ended April 30, 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash Position and Indebtedness

We had \$3 million in working capital at April 30, 2005, including \$107,000 of cash and cash equivalents. In addition we had \$2 million available under credit facilities.

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Working capital increased by \$300,000 to \$3 million at April 30, 2005 from \$2.7 million at January 31, 2005. This increase was primarily due to the strong operating performances of VLI and SMC. The Company had income before taxes of \$32,000. The Company's non-cash expenses included in the determination of income before income taxes included \$424,000 for amortization of purchase intangibles and \$195,000 for depreciation and other amortization.

Cash Flows

Net cash provided by operations for the three months ended April 30, 2005 was \$280,000 compared with \$394,000 of cash used in operations for the three months ended April 30, 2004.

During the three months ended April 30, 2005, the Bank released \$304,000 in escrows to us (see discussion below). Net cash used for investing activities was \$118,000 and \$2,522,000 for the three months ended April 30, 2005 and 2004, respectively. During the three months ended April 30, 2005, we had cash of \$118,000 used in the purchase of property and equipment. During the three months ended April 30, 2004, we had cash of \$2,500,000 used in the net purchase of investments and cash used in purchase of property and equipment of \$22,000.

Net cash used by financing activities was \$222,000 and \$123,000 for the three months ended April 30, 2005 and 2004, respectively. During the three months ended April 30, 2005, we used cash of \$232,000 to pay down term-debt.

In August 2003, we entered into a financing arrangement with the Bank aggregating \$2,950,000 in available financing in two facilities - a revolving line of credit with \$1,750,000 in availability, expiring July 31, 2004 and bearing interest at LIBOR plus 2.75%, and a three year term note with an original outstanding balance of \$1,200,000, expiring July 31, 2006 and bearing interest at LIBOR plus 2.95%.

In August 2004 and April 2005, we agreed to amend the existing financing arrangements with the Bank whereby the revolving line of credit was initially increased to \$3.5 million and ultimately to \$4.3 million in maximum availability. Under the latest amendment the line of credit is extended to May 31, 2006. Availability on a monthly basis under the revolving line is determined by reference to accounts receivable and inventory on hand which meet certain Bank criteria. The aforementioned three-year term note remains in effect with its last monthly payment of \$33,000 due July 31, 2006. As of April 30, 2005, the

21

Company had \$1,661,000 outstanding under the revolving line of credit. Under the amended financing arrangements, amounts outstanding under the revolving line of credit and the three-year term note bear interest at LIBOR plus 3.25% and 3.45%, respectively.

The amended financing arrangements waives the April 30, 2005 measurement of certain financial covenants including requiring the ratio of debt to pro forma earnings before interest, taxes, depreciation and amortization (EBITDA) not to exceed 2.5 to 1 (with the next test date being July 31, 2005) requiring pro forma fixed charge coverage ratio not less than 1.25 to 1 (with the next test date being July 31, 2005). Bank consent continues to be required for acquisitions and divestitures. At April 30, 2005, the Company was in compliance with the covenants under the amended financing arrangements. The Company continues to pledge the majority of the Company's assets to secure the financing arrangements. The Bank has released \$304,000 to the Company which it was holding in escrow as collateral.

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Management believes that cash generated from the Company's operations combined with capital resources available under its renewed line of credit is adequate to meet the Company's future operating cash needs. Any future acquisitions, other significant unplanned costs or cash requirements may require the Company to raise additional funds through the issuance of debt and equity securities. There can be no assurance that such financing will be available on terms acceptable to the Company, or at all. If additional funds are raised by issuing equity securities, significant dilution to the existing stockholders may result.

Customers

During the three months ended April 30, 2005, we provided nutritional and whole-food supplements as well as personal care products to customers in the global nutrition industry and services to telecommunications and utilities customers as well as to the Federal Government, through a contract with General Dynamics Corp. ("GD"). Certain of our more significant customer relationships are with TriVita Corporation (TVC), Rob Reiss Companies (RRC), Southern Maryland Electrical Cooperative (SMECO), GD, and CyberWize.com, Inc. (C). TVC, RRC and C are VLI customers. SMC's significant customers are SMECO and GD. TVC, RRC and C accounted for approximately 23%, 14% and 6% of consolidated net sales during the three months ended April 30, 2005. SMECO and GD accounted for approximately 12% and 9% of consolidated net sales during the three months ended April 30, 2005. Combined TVC, RRC, SMECO, GD, and C accounted for approximately 64% of consolidated net sales during the three months ended April 30, 2005.

Seasonality

The Company's telecom infrastructure services operations are expected to have seasonally weaker results in the first and fourth quarters of the year, and may produce stronger results in the second and third quarters. This seasonality is primarily due to the effect of winter weather on outside plant activities as well as reduced daylight hours and customer budgetary constraints. Certain customers tend to complete budgeted capital expenditures before the end of the year, and postpone additional expenditures until the subsequent fiscal period.

IMPACT OF CHANGES IN ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board issued FASB Statement No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and amends FASB Statement No. 95, Statement of Cash Flows. SFAS 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. Pro forma disclosure is no longer an alternative. We will adopt SFAS 123(R) on February 1, 2006. We have not determined the impact of adopting the new standard and are still evaluating the impact.

22

ITEM 3. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as of the end of the period covered by this report. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information required to be included in the Company's periodic SEC reports. There have been

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no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART 11

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the twelve months ended January 31, 2005, Western Filter Corporation (WFC) notified the Company in writing that the Company breached certain representations and warranties under the Stock Purchase Agreement in connection with the sale of Puroflow Incorporated to WFC. WFC asserts damages in excess of the \$300,000 escrow which is being held by a third party in connection with the Stock Purchase Agreement.

The Company has reviewed WFC's claim and believes that substantially all of the claims are without merit. The Company will vigorously contest WFC's claim.

On March 22, 2005, WFC filed a complaint in Los Angeles Superior Court alleging the Company and its executive officers, individually, committed breach of contract, intentional misrepresentation, concealment and non-disclosure, negligent misrepresentation and false promise. WFC seeks declaratory relief and compensatory and punitive damages in an amount to be proven at trial as well as the recovery of attorneys' fees.

During the twelve months ended January 31, 2005, the Company recorded an accrual for a loss related to this matter of \$260,000 for losses and legal expenses related to WFC's claim that it considers to be probable and that can be reasonably estimated. Although the ultimate amount of liability at January 31, 2005 that may result from this matter for which the Company has recorded an accrual is not ascertainable, the Company believes that any amounts exceeding the aforementioned accrual should not materially affect the Company's financial condition. It is possible, however, that the ultimate resolution of WFC's claim could result in a material adverse effect on the Company's results of operations for a particular reporting period.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

23

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

a) Exhibits:

Exhibit No. -----	Title -----
Exhibit: 31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934
Exhibit: 31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934
Exhibit: 32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
Exhibit: 32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

24

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto, duly authorized.

ARGAN, INC.

June 10, 2005 By: /s/ Rainer Bosselmann

Rainer Bosselmann
Chairman of the Board and Chief Executive Officer

June 10, 2005 By: /s/ Arthur F. Trudel

Arthur F. Trudel
Chief Financial Officer

25