

ARGAN INC  
Form 10-K  
April 24, 2008

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

**FORM 10-K**

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

For the Fiscal Year Ended January 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-31756

**ARGAN, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or  
Organization) 13-1947195  
(IRS. Employer Identification No.)

One Church Street, Suite 401, Rockville, Maryland 20850  
(Address of Principal Executive Offices) (Zip Code)

301-315-0027  
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.15 par value	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No .

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

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The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$31,620,000 on July 31, 2007 (the last business day of the Registrant's second fiscal quarter), based upon the closing price on the NASDAQ Electronic Bulletin Board System reported on that date. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of April 21, 2008: 11,120,026 shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2008 Annual Meeting of Stockholders to be held on June 18, 2008 are incorporated by reference in Part III.

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**ARGAN, INC.**

**2008 FORM 10-K ANNUAL REPORT**

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS.

Argan, Inc. (“Argan,” the “Company” or “we”) provides (1) a broad range of engineering, procurement and construction services to the power industry, (2) telecommunications infrastructure installation and maintenance services to utilities, government agencies and other commercial customers, and (3) manufacturing and distribution services to marketers of nutritional supplement products. Accordingly, we operate in three distinct business segments - Power Industry Services, Telecommunications Infrastructure Services and Nutritional Products - and we conduct our operations through our wholly owned subsidiaries, Gemma Power Systems, LLC (“GPS LLC”), Gemma Power, Inc., (“GPI”) and Gemma Power Systems California, Inc. (“GPS-California”) (collectively referred to as “GPS”), Southern Maryland Cable, Inc. (“SMC”) and Vitarich Laboratories, Inc. (“VLI”), respectively. We acquired SMC, VLI and GPS in July 2003, August 2004 and December 2006, respectively.

The revenues of GPS, VLI and SMC represented approximately 87%, 8% and 5% of the Company’s consolidated net sales for the fiscal year ended January 31, 2008.

#### **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 for the Company and value for our stockholders.

We are a holding company with no operations other than our investments in GPS, SMC and VLI. At January 31, 2008, there were no restrictions with respect to intercompany payments from GPS, SMC and VLI to Argan.

We were organized as a Delaware corporation in May 1961. On October 23, 2003, our stockholders approved a plan providing for the internal restructuring of the Company whereby we became a holding company, and our operating assets and liabilities relating to our Puroflow Incorporated (“Puroflow”) business were transferred to a newly-formed, wholly owned subsidiary. The subsidiary then changed its name to “Puroflow Incorporated” and we changed our name from Puroflow Incorporated to “Argan, Inc.”

On October 31, 2003, pursuant to a certain Stock Purchase Agreement (the “Stock Purchase Agreement”), we completed the sale of Puroflow to Western Filter Corporation (“WFC”) for approximately \$3.5 million in cash, of which \$300,000 is being held in escrow to indemnify WFC from losses if a breach of the representations and warranties made by us pursuant to that sale should occur. During the twelve months ended January 31, 2005, WFC asserted that the Company and its executive officers breached certain representations and warranties under the Stock Purchase Agreement. On March 15, 2007, the District Court granted the Company and its executive officers’ motion for summary judgment, thereby dismissing WFC’s lawsuit against the Company and its executive officers in its entirety. WFC has appealed this decision (this matter is discussed in Item 3 below).

#### **Merger of Gemma Power Systems, LLC and its affiliates**

Pursuant to Agreements and Plans of Merger, Argan acquired GPS on December 8, 2006. The results of operations for GPS have been included in the Company’s consolidated financial statements since the date of the acquisition.

The acquisition purchase price was \$33.1 million, consisting of \$12.9 million in cash and \$20.2 million from the issuance of 3,666,667 shares of Argan common stock. The purchase price was funded by a new \$8.0 million, secured,

4-year term loan which carries an interest rate of LIBOR plus 3.25% (as discussed below). In addition, the Company raised \$10.7 million through the private offering of 2,853,335 shares of Argan common stock at a purchase price of \$3.75 per share (as discussed below). Pursuant to the acquisition agreement, \$12.0 million was deposited into an escrow account. Of this amount, \$10.0 million secures a letter of credit to support the issuance of bonding (as discussed below). The remaining amount of \$2.0 million was deposited at the closing of the acquisition with payment to the former owners of GPS dependent on the financial performance of GPS for the twelve months ended December 31, 2007. Subsequent to January 31, 2008, payment of the remaining \$2.0 million was made as the earnings before interest, taxes, depreciation and amortization ("EBITDA") of GPS for the twelve months ended December 31, 2007, as defined in the acquisition agreement, was more than the required amount of \$12.0 million.

### **Private Sales of Stock in 2006**

On December 8, 2006, the Company completed a private offering of 2,853,335 shares of common stock at a price of \$3.75 per share for aggregate proceeds of \$10.7 million. The proceeds were used towards the purchase of GPS. Two of the investors, MSRI SBIC, L.P. ("MSRI") and MSR Fund II, L.P., which acquired 92,793 and 440,540 shares in the offering, respectively, are controlled by Daniel Levinson, a director of the Company. Two other investors, Allen & Company LLC and Allen SBH Investments, LLC ("Allen SBH") which acquired 80,000 and 266,667 shares in the offering, respectively, are affiliates of James Quinn, a director of the Company. In addition, Mr. Quinn acquired 26,667 shares for his own account.

On May 4, 2006, the Company completed a private offering of 760,000 shares of common stock at a price of \$2.50 per share for aggregate proceeds of \$1.9 million. The Company used \$1.8 million of the proceeds to pay down an equal amount of the subordinated note due Kevin Thomas, the former owner of VLI. The remainder of the proceeds was used for general corporate purposes. Allen SBH and James Quinn acquired 120,000 and 40,000 shares in the offering, respectively. In addition, MSRI acquired 240,000 shares in the offering.

### **Amendment of Financing Arrangements**

On December 11, 2006, Argan amended its financing arrangements with the Bank of America (the "Bank"). The new financing arrangement reduced the interest rate on the 3-year term loan for VLI to LIBOR plus 3.25%. The principal balance of this loan on the amendment date was approximately \$1.4 million. The original term loan was in the amount of \$1.5 million with interest at LIBOR plus 3.45%. On August 31, 2006, the Company used the \$1.5 million in borrowed funds to pay the remaining principal and interest due on the subordinated note with Mr. Thomas. The amended financing arrangements also provided for a new 4-year term loan used in the acquisition of GPS in the amount of \$8.0 million with interest at LIBOR plus 3.25% (\$2.0 million of this loan was deposited into an escrow account at the Bank as discussed above) and a revolving loan with a maximum borrowing amount of \$4.25 million that is available until May 31, 2010, with interest at LIBOR plus 3.25%.

The Company may obtain standby letters of credit from the Bank in the ordinary course of business not to exceed \$10.0 million for surety bonding. On December 11, 2006, the Company pledged \$10.0 million to the Bank to secure a standby letter of credit issued by the Bank on behalf of Argan for the benefit of Travelers Casualty and Surety Company of America in connection with the \$200.0 million bonding facility provided to GPS.

The financing arrangements require at the Company's fiscal year-end and at each of the Company's fiscal quarter-ends (using a rolling 12-month period) that the Company comply with certain financial covenants including covenants that (1) the ratio of total funded debt to EBITDA not exceed 2 to 1, (2) the fixed charge coverage ratio be not less than 1.25 to 1, and (3) the ratio of senior funded debt to EBITDA not exceed 1.50 to 1. The Bank's 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 amended financing arrangements contain an acceleration clause which allows the Bank to declare amounts outstanding under the financing arrangements due and payable if it determines in good faith that a material adverse change has occurred in the financial condition of the Company or any of its subsidiaries. We believe that the Company will continue to comply with its financial covenants under the financing arrangements. If the Company's performance does not result in compliance with any of its financial covenants, or if the Bank seeks to exercise its rights under the acceleration clause referred to above, we would seek to modify the financing arrangements, but there can be no assurance that the Bank would not exercise their rights and remedies under the financing arrangements including accelerating payments of all outstanding senior debt due and payable. At January 31, 2008, the Company was in compliance with the financial covenants of its amended financing arrangements.



**Power Industry Services**

Through GPS, we provide a full range of development, consulting, engineering, procurement, construction, commissioning, operating and maintenance services to the energy market serving a wide range of customers, managing the completion of projects for public utilities, independent power project owners, municipalities, public institutions and private industry.

The extensive design, construction, start-up and operating experience of GPS has grown with the completion of projects for more than 70 facilities representing over 9,000 megawatts (“MW”) of power-generating capacity. Power projects have included combined-cycle cogeneration facilities, emergency peaking plants, boiler plant construction and renovation efforts and utility system maintenance. In the current year, we substantially completed the construction of a natural gas-fired power plant in California and an electricity peaking facility in Connecticut.

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We have broadened our experience into the rapidly growing alternative fuels industry by providing engineering, procurement and construction services to the owners of wood-fired power plants, wind plants and other alternative power energy facilities.

Climate change concerns combined with oil prices at unprecedented levels are driving an increase in renewable energy legislation, government incentives and commercialization. Certain European countries and certain states in the US are requiring that upwards of 20% of future energy be produced from renewable energy sources in efforts to reduce carbon dioxide emissions that are blamed, in part, for global warming. In addition, the annual amount of investment capital flowing into renewable energy projects has climbed. Very large corporations as well as venture capital and other investment firms are directing funds to the renewable energy sector.

In the current year, we substantially completed projects for a large biodiesel facility near Houston, Texas, and have projects underway for a biofuels production facility in Port Neches, Texas.

We substantially completed the construction of an energy plant during the fiscal year ended January 31, 2008 where we incurred a total project loss of approximately \$10.8 million, including \$12.0 million that was recorded in the current fiscal year. We incurred unexpected costs in connection with the completion of this work. Unexpected costs included labor productivity being below expectations and previous experience, labor rate increases due to overtime requirements to meet the completion date, equipment defects and engineering issues resulting in considerable rework and additional materials.

At January 31, 2008, GPS had a construction project which was in suspension pending the efforts of the customer to obtain financing to complete the construction of an ethanol facility. Under the terms of the amended engineering, procurement and construction agreement with the customer (the "EPC Agreement"), March 19, 2008 was the deadline for the customer to obtain financing for the project. If such financing was not obtained, GPS would be allowed to terminate the EPC Agreement at that time. GPS has served termination notice but the customer has not acknowledged the termination or released the construction bond. GPS continues to cooperate with the customer in its efforts to obtain financing. GPS is uncertain as to the ultimate resolution of this matter, but does not anticipate any losses to arise from the resolution of this EPC Agreement.

In December 2007, we announced that GPS has received an interim notice to proceed from Pacific Gas & Electric Company ("PG&E") on an approximately \$340 million contract to design and build a natural gas-fired, combined cycle, power plant in Colusa, California. The Colusa facility will have a capacity of 640 MW with a planned completion date of August 1, 2010. GPS brings specific expertise in the management and construction of this combined cycle power plant, having completed five facilities of this type to date. We expect to complete the engineering, procurement and construction contract negotiations and receive the full notice to proceed in the near term.

## **Materials**

Concurrent with the engineering and construction of traditional power energy systems, biodiesel plants, ethanol production facilities and other power energy systems, we procure materials on behalf of our customers. Although we are not dependent upon any one source for materials that we use to complete the project, we may experience pricing and availability pressures with respect to key components of the project. In the rapidly growing alternative energy industry as well as in the traditional power energy systems industry, materials are becoming increasingly expensive and not always available when needed. We are not currently experiencing difficulties in procuring the necessary materials for our contracted projects. However, we cannot guarantee that in the future there will not be unscheduled delays in the delivery of ordered materials and equipment.

## **Competition**

GPS competes with numerous, well capitalized private and public firms in the construction and engineering services industry. Competitors include SNC-Lavalin Group, Inc., a diversified Canadian construction and engineering firm with over 12,000 employees generating over \$5.0 billion in annual revenues; Emcor Group, Inc., a provider of mechanical and electrical construction and facilities services internationally with over 27,000 employees and over \$5.0 billion in annual revenues; Fluor Corporation, an international engineering, procurement, construction and maintenance company with over 37,000 employees and over \$14 billion in annual revenues; and Shaw Group Inc., a diversified firm with over 27,000 employees providing consulting, engineering, construction and facilities management services and annual revenues exceeding \$5.0 billion. Other large competitors in this industry include Washington Group International, Inc., Granite Construction Incorporated, Foster Wheeler Ltd. and Perini Corporation.

In order to compete with these firms, we intend to emphasize our expertise in the alternative fuel industry as well as our proven track record developing facilities and services for traditional power energy systems. We believe that we are uniquely positioned to assist in the development and delivery of innovative renewable energy solutions as world energy needs grow and efforts to combat global warming increase.

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## **Customers**

The most significant customers of GPS for the fiscal year ended January 31, 2008 were four power industry services customers, Altra Biofuels Nebraska, LLC (“ALTRA”), Renewable Bio-Fuels Port Neches LLC (“RBF”), Green Earth Fuels of Houston LLC (“GEF”), and the Connecticut Municipal Electrical Energy Cooperative (“CMEEC”). In total, GPS recognized approximately 90% of its revenues for the fiscal year ended January 31, 2008 under contracts with these customers. The annual revenues for these four customers represented approximately 26%, 22%, 18% and 13% of the Company’s consolidated revenues for the fiscal year ended January 31, 2008, respectively.

## **Contract Backlog**

Contract backlog represents the total accumulated value of new work awarded less the amount of revenue recognized to date on contracts at a specific point in time. We believe contract backlog is an indicator of future earnings potential. Although contract backlog reflects business that we consider to be firm, cancellations or reductions may occur and may reduce contract backlog and the future revenues of GPS.

At January 31, 2008, the Company had entered into power industry service contracts for the construction of seven facilities, including four that were substantially completed in fiscal year 2008, representing a total contract backlog of \$122 million compared to a total contract backlog of \$171 million at January 31, 2007.

As described above, the Company has also received an interim notice to proceed on a power plant project that it estimates will provide approximately \$340 million in revenue over a two and one-half (2 ½) year period. The final notice to proceed is subject to the parties signing a definitive engineering, procurement and construction contract. The estimated value of this contract is not included in the contract backlog amount at January 31, 2008.

At January 31, 2008, GPS had a construction project which was in suspension pending the efforts of the customer to obtain financing to complete the construction of an ethanol facility. Under the terms of the amended engineering, procurement and construction agreement with the customer (the “EPC Agreement”), March 19, 2008 was the deadline for the customer to obtain financing for the project. If such financing was not obtained, GPS would be allowed to terminate the EPC Agreement at that time. GPS has served termination notice but the customer has not acknowledged the termination or released the construction bond. GPS continues to cooperate with the customer in its efforts to obtain financing. GPS is uncertain as to the ultimate resolution of this matter, but does not anticipate any losses to arise from the resolution of this EPC Agreement.

## **Regulation**

Our power industry service operations are subject to various federal, state and local laws and regulations including: licensing for contractors; building codes; permitting and inspection requirements applicable to construction projects; regulations relating to worker safety and environmental protection; and special bidding, procurement and security clearance requirements on government projects. Many state and local regulations governing construction require permits and licenses to be held by individuals who have passed an examination or met other requirements. We believe that we have all the licenses required to conduct our operations and that we are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses.

## **Telecommunication Infrastructure Services**

Through SMC, we provide telecommunication infrastructure services to our regional customers. The services include the structuring, cabling, terminations and connectivity that provide the physical transport for high speed data, voice, video and security networks. We provide both inside plant and outside plant cabling services.

We provide a wide range of inside plant and premises wiring services to our customers including AutoCAD design; cable installation; equipment room and telecom closet design and build-out; data rack and cabinet installation; raceway design and installation; and cable identification, testing, labeling and documentation. These services are provided primarily to federal government facilities on a direct and subcontract basis. Such facilities require regular upgrades to their wiring systems in order to accommodate improvements in security, telecommunications and network capabilities.

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Services provided to our outside premises customers include trenchless directional boring and other underground services, aerial cabling services, and the installation of buried cable and wire communication and electric lines. Our sophisticated directional boring system is electronically guided and can place underground networks of various sizes with little or no restoration required. We utilize aerial bucket trucks, digger derrick trucks and experienced personnel to complete a variety of aerial projects. We also use our equipment and experienced personnel to perform trenching, plowing and back-hoeing for underground communication and power networks, to install a variety of network structures, and to restore work sites. These services are primarily provided to regional communications service providers, electric utilities and other commercial customers.

SMC may have seasonally weaker results in the first and fourth quarters of the fiscal year, and may produce stronger results in the second and third fiscal quarters. This seasonality may be due to the effect of winter weather on construction and 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.

### **Raw Materials**

Generally, our telecommunication infrastructure services customers supply most or all of the materials required for a particular job and we provide the personnel, tools and equipment to perform the installation services. However, with respect to a portion of our contracts, we may supply part or all of the materials required. In these instances, we are not dependent upon any one source for the materials that we customarily utilize to complete the project. We are not presently experiencing, nor do we anticipate experiencing, any difficulties in procuring an adequate supply of materials.

### **Competition**

SMC operates in the fragmented and competitive telecommunication and infrastructure services industry. We compete with service providers ranging from small regional companies, which service a single market, to larger firms servicing multiple regions, as well as large national and multi-national contractors. We believe that we compete favorably with the other companies in the telecommunication and utility infrastructure services industry.

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.

### **Customers**

The most significant customers of SMC for the fiscal year ended January 31, 2008 were Southern Maryland Electrical Cooperative ("SMECO"), Verizon Communications, Inc. ("Verizon") and Electronic Data Systems Corporation ("EDS"). In total, SMC recognized approximately 82% of its revenues for the fiscal year ended January 31, 2008 under contracts with these customers. Revenues provided by these customers represented approximately 32%, 27% and 23% of SMC's revenues for the fiscal year ended January 31, 2008, and together represented approximately 3.9% of the Company's consolidated revenues for the current year.

Since December 31, 2007, SMC has been operating without a contract renewal with Verizon. SMC continues to perform services for Verizon at a reduced level of activity while it attempts to work with local Verizon management in negotiating a contract renewal. In April 2008, SMC received an extension of the expiring contract until June 30, 2008. Verizon has been a customer of SMC for more than twenty years.

**Contract Backlog**

A major share of SMC's revenue-producing activity is performed pursuant to work orders authorized by customers under master agreements. For example, projects completed for Verizon, Southern Maryland Electrical Cooperative ("SMECO") and EDS are completed under the terms of master agreements that include pre-negotiated labor rates. At January, 31, 2008 and 2007, the value of unfulfilled work orders and other customer orders that we believe to be firm was approximately \$3.6 million and \$6.5 million, respectively.

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## **Regulation**

Our telecommunication infrastructure services operations are also subject to various federal, state and local laws and regulations including: licensing for contractors; building codes; permitting and inspection requirements applicable to construction projects; regulations relating to worker safety and environmental protection; and special bidding, procurement and security clearance requirements on government projects. Many state and local regulations governing construction require permits and licenses to be held by individuals who have passed an examination or met other requirements. We believe that SMC has all the licenses required to conduct its operations and that we are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses.

## **Nutritional Products**

Through VLI, we provide research, development and contract manufacturing services focused on producing premium nutritional supplements, vitamins, and whole-food dietary supplements. These products, included in a separate category of foodstuffs called nutraceuticals, provide health benefits beyond standard nutrition such as positive physiological effects or the prevention or amelioration of chronic disease.

Customers include brand merchandisers; network marketers; and catalog, internet, and infomercial distributors. These customers market VLI's products under various brand names directly to consumers, distributor networks or through vitamin/health food stores, pharmacies, mass merchandisers, and major retailers. Sales to five customers of VLI represented approximately 75% of VLI's total revenues for the current year. The loss of any one of these customers could have a material adverse effect on this business. However, none of VLI's customers accounted for revenues in excess of 10% of the Company's consolidated revenues for the fiscal year ended January 31, 2008.

VLI has received an "A" rating from the Natural Products Association ("NPA") for its compliance with Good Manufacturing Practices (GMP), a certification that has been awarded to only 58 of the 7,500 members of NPA. Our manufacturing capabilities include high speed encapsulation and tableting, full liquid production, powder production and blending, and softgel and bilingual supplement production. We believe that we are also one of the few vitamin manufacturers to offer homeopathic manufacturing and pasteurization, a capability added in the current fiscal year. Our quality assurance program extends to all of our manufacturing processes including raw material selection, testing, FDA label compliance, and the maintenance of clinical lab conditions and advanced climate control. Quality control practices include a variety of techniques including in-process sampling, finished product inspections, stability studies and certified ingredient analyses.

We intend to enhance our position in the growing global nutrition industry through 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.

## **Competition**

Our direct competition consists primarily of publicly and privately owned companies which tend to be highly fragmented in terms of both geographical market coverage and product categories. These companies compete with us on different levels in the development, manufacture, and marketing of nutritional supplements. Many of these companies have broader product lines and larger sales volume, are significantly larger than we are, have greater name recognition, financial, personnel, distribution, and other resources than we do, and may be better able to withstand volatile market conditions. There can be no assurance that our customers and potential customers will regard our products as sufficiently distinguishable from competitive products. Our inability to compete successfully would have a material adverse effect on our business.



We believe our competitive advantages include our highly rated manufacturing processes, our capability to produce products in a variety of forms, our record of delivering quality products with minimum lead times, and our ability to assist the customer with product research, development and design; the evaluation of packaging options; and marketing. We also believe that we are an efficient manufacturer of the products that are ordered. However, the market for nutritional products is highly competitive. As a result, we often encounter customers making buy decisions that are based, in large part, on price thus creating strong adverse pressure on VLI's gross margin percentages.

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## **Customers**

Net sales of nutritional products were approximately \$16.7 million for the year ended January 31, 2008, representing 8% of consolidated net sales. Net sales of nutritional products were approximately \$20.8 million for the year ended January 31, 2007. The decrease in net sales of nutritional products between years of approximately \$4.2 million, or 20%, was caused primarily by the loss of one of VLI's largest customers, the Rob Reiss Companies, which represented approximately 20% of this segment's net sales in the prior-year, and a 34% reduction in the level of net sales made to VLI's largest customer, TriVita Corporation ("TriVita"). Net sales to TriVita comprised approximately 25% of VLI's net sales for the current year. Despite an extremely competitive business environment, this business increased its sales to three of VLI's largest customers, CyberWize, Renew Life and Market America, during the current year.

VLI is primarily a contract manufacturer of nutritional products. The ability to quickly replace lost customers or to increase the product offerings sold to existing customers is hampered by the long sales cycle inherent in our type of business. The length of time between the beginning of contract negotiation and the first sale to a new customer could exceed six months including extended periods of product testing and acceptance.

## **Raw Materials**

Raw materials used in VLI's products consist of adaptogen extracts, herbal botanicals, minerals, nutrients, and flavorings in dry powder and/or liquid form, capsules, finished pills and tablets and packaging components necessary for distribution of finished products. We purchase the raw materials and components from manufacturers in the United States and foreign countries. Although we purchase materials from reputable suppliers, we continuously evaluate and test samples, obtain certificates of analysis, material safety data sheets, and supporting research and documentation of active and inactive ingredients. We have not experienced difficulty in obtaining adequate sources of supply, and generally a number of suppliers are available for most raw materials. However, we do obtain most of our adaptogen ingredient from a single overseas supplier. Due to the long lead-time associated with this ingredient, VLI typically issues large purchase orders that schedule product deliveries 3 to 6 months from the order date. In addition, VLI is required to make purchase deposits with the supplier that cover 25% to 50% of the initial purchase order amount. Although we cannot assure that adequate sources will continue to be available, we believe we should be able to secure sufficient raw materials in the future.

## **Research and Development Activities**

Research and development is a key component of VLI's business development efforts. VLI develops product formulations in conjunction with and for its customers. VLI focuses its research and development capabilities particularly on new and emerging raw materials and products. Research and development expenses relate primarily to VLI's proprietary formulations and are expensed as incurred. VLI recorded \$66,000 and \$153,000 of research and development expenses during the years ended January 31, 2008 and 2007, respectively.

## **Order Backlog**

Customers submit purchase orders to VLI that schedule the delivery of certain quantities of specified products at pre-negotiated prices. Typically, the product deliveries are scheduled for dates that are within 3 to 4 months from the date of the order. At January 31, 2008 and 2007, the value of unfulfilled purchase orders that we believe to be firm was approximately \$2.0 million and \$4.3 million, respectively.

## **Regulation**

The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of our nutraceutical products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (FDA), the

Federal Trade Commission (FTC), the Consumer Product Safety Commission, the U.S. Department of Agriculture, the Environmental Protection Agency, and also by various agencies of the states, localities and foreign countries in which our products are sold. In particular, the FDA, pursuant to the Federal Food, Drug and Cosmetic Act (FDCA), regulates the formulation, manufacturing, packaging, labeling, distribution and sale of dietary supplements, including vitamins, minerals and herbs, and of over-the-counter (OTC) drugs, while the FTC has jurisdiction to regulate advertising of these products, and the Postal Service regulates advertising claims with respect to such products sold by mail order. The FDCA has been amended several times with respect to dietary supplements, most recently by the Nutrition Labeling and Education Act of 1990 and the Dietary Supplement Health and Education Act of 1994. Our inability to comply with these federal regulations may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions.

In addition, our nutraceutical products are also subject to regulations under various state and local laws that include provisions governing, among other things, the formulation, manufacturing, packaging, labeling, advertising, and distribution of dietary supplements and OTC drugs.

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### **Safety, Risk Management, Insurance and Performance Bonds**

We are committed to ensuring that the employees of each of our businesses perform their work in a safe environment. We regularly communicate with our employees to promote safety and to instill safe work habits. GPS and SMC each have an experienced full time safety director committed to ensuring a safe work place, compliance with applicable contracts, insurance and local and environmental laws.

Contracts in the power and telecommunication infrastructure services industries may require performance bonds or other means of financial assurance to secure contractual performance. If we are unable to obtain surety bonds or letters of credit in sufficient amounts or at acceptable rates, we might be precluded from entering into additional contracts with certain of our customers. We have a \$10.0 million irrevocable letter of credit in place as collateral to support a \$200.0 million bonding requirement. See further discussion in Note 5 of the accompanying consolidated financial statements.

### **Employees**

At January 31, 2008, we had approximately 424 employees, all of whom were full-time. We believe that our employee relations are good. We did not have any unionized employees at January 31, 2008.

### **Materials Filed with the Securities and Exchange Commission**

The public may read any materials that we file with the Securities and Exchange Commission (the "SEC") at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. We maintain a website on the Internet at [www.arganinc.com](http://www.arganinc.com). Information on our website is not incorporated by reference into this annual report.

Copies of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission are available without charge upon written request to:

Corporate Secretary  
Argan, Inc.  
Suite 401  
One Church Street  
Rockville, Maryland 20850  
(301) 315-0027

### **ITEM 1A. RISK FACTORS**

Investing in our securities involves a high degree of risk. Our business, financial position and future results of operations may be impacted in a materially adverse manner by risks associated with the execution of our strategic plan and the creation of a profitable and cash-flow positive business, our ability to obtain capital or to obtain capital on terms acceptable to us, the successful integration of acquired companies into our consolidated operations, our ability to successfully manage diverse operations remotely located, our ability to successfully compete in highly competitive industries, the successful resolution of ongoing litigation, our dependence upon key managers and employees and our ability to retain them, and potential fluctuations in quarterly operating results, among other risks. Before investing in our securities, please consider the risks summarized in this paragraph and those risks discussed below. Our future results may also be impacted by other risk factors listed from time to time in our future filings with the SEC, including, but not limited to, our Quarterly Reports on Form 10-Q.

**General Risks Relating to our Company**

**Further economic downturn may lead to less demand for our products and services.**

If the general level of economic activity continues to slow, our customers may delay or cancel new projects or products. For example, economic downturns in the past have led to increased bankruptcies and pricing pressures. These factors contribute to the delay and cancellation of projects and the introduction of new products, and could impact our operations and ability to continue to grow at expected levels. A number of other factors, including financing conditions for the industries we serve, could further adversely affect our customers and their ability or willingness to fund capital expenditures in the future, establish new supply relationships or pay for past services. In addition, consolidation, competition or capital constraints in the industries of our customers may result in reduced spending by such customers. If general economic conditions do not improve, the demand for our products and services may be adversely affected.

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**We have incurred losses in the past; we may experience additional losses in the future.**

The Company has historically incurred losses. The Company's accumulated deficit at January 31, 2008 was approximately \$18.4 million resulting primarily from operating losses in prior years. In addition, we incurred a loss of approximately \$3.2 million for the fiscal year ended January 31, 2008. Future losses may occur in this or other segments of our business. If net losses were to continue, we could experience cash flow and liquidity shortfalls having adverse affects on our ability to successfully execute our business plan.

**We may be unsuccessful at generating internal growth which could result in an overall decline in our business.**

Although the Company reported a significant increase in consolidated net sales for the year ended January 31, 2008 compared with the prior year, from \$68.9 million to \$206.8 million, our ability to expand by achieving overall organic growth of the Company will be affected by, among other factors, our success in:

- expanding the range of services and products we offer to customers to address their evolving needs;
- attracting new customers;
- hiring and retaining employees; and
- reducing operating and overhead expenses.

Many of the factors affecting our ability to generate internal growth may be beyond our control. Our strategies may not be successful and we may not be able to generate cash flow sufficient to fund our operations and to support internal growth. Our inability to achieve internal growth could materially and adversely affect our business, financial condition and results of operations.

**Our results of operations could be adversely affected as a result of impairment adjustments to goodwill and other purchased intangible assets.**

When we acquire a business, we record an asset called "goodwill" equal to the excess amount paid for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business acquired. In 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" which requires that all business combinations be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination be recognized as assets apart from goodwill. FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement 142") provides that goodwill and other intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. Statement 142 also provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. Statement 142 requires management to make certain estimates and assumptions to allocate goodwill to reporting units and to determine the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Fair value is determined using discounted estimated future cash flow. Absent any impairment indicators, we perform impairment tests annually each November 1. The aggregate amount of goodwill and other purchased intangible assets with indefinite lives carried in our consolidated balance sheet as of January 31, 2008 was approximately \$20.6 million, or approximately 14% of total assets.

Long-lived assets, including purchased intangible assets with finite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be assessed pursuant to FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." At January 31, 2008, our consolidated balance sheet included an aggregate balance of \$5.1 million in purchased intangible assets with finite lives, including amounts related to customer contracts and relationships, trade names and non-compete agreements.

This aggregate amount represented approximately 3% of total assets as of January 31, 2008. We determine whether any impairment exists by comparing the carrying values of these long-lived assets to the undiscounted future cash flows expected to result from the use of these assets. In the event that we determine that an impairment of an intangible asset exists, a loss would be recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as the present value of expected future cash flows, appraisals, or other pricing models as appropriate.

The declining financial performance of VLI caused us to record impairment losses in the current year related to goodwill and other purchased intangible assets of VLI in the total amount of \$6.8 million that are reflected in the reported net loss in the statement of operations for the year ended January 31, 2008. Should the operating results of VLI continue to deteriorate, or should the operating results of any of our other acquired companies experience unexpected deterioration, the Company could be required to record additional impairment losses related to purchased intangible assets. Impairment adjustments, if any, would be recognized as operating expenses and would adversely affect profitability.

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**Future acquisitions and/or investments may not occur which could limit the growth of our business.**

We completed our acquisition of GPS in December 2006. Prior to our acquisition of GPS, we acquired VLI in August 2004 and SMC in July 2003. Argan, Inc. is a holding company with no operations other than our investments in SMC, VLI and GPS. The successful execution of our overall business plan could be based, in part, on our making additional acquisitions and/or investments that would provide positive cash flow to the Company and value to the stockholders. Additional companies that meet these criteria, that provide products and/or services to growth industries, and that are available for purchase at attractive prices may be difficult to find. Accordingly, there can be no assurance that future acquisitions will occur, or if they occur, will be beneficial to us and our stockholders.

**The integration of acquired companies may not be successful.**

We may not be able to successfully integrate companies that we acquire with our other operations without substantial costs, delays or other operational or financial problems. Integrating acquired companies involves a number of special risks which could materially and adversely affect our business, financial condition and results of operations, including:

- failure of acquired companies to achieve the results we expect;
- diversion of management's attention from operational matters;
- difficulties integrating the operations and personnel of acquired companies;
- inability to retain key personnel of acquired companies;
- risks associated with unanticipated events or liabilities;
- the potential disruption of our business; and
- the difficulty of maintaining uniform standards, controls, procedures and policies.

If one of our acquired companies suffers customer dissatisfaction or performance problems, the reputation of our entire company could be materially and adversely affected. In addition, future acquisitions could result in issuances of equity securities that would reduce our stockholders' ownership interest, the incurrence of debt, contingent liabilities, deferred stock based compensation or expenses related to the valuation of goodwill or other intangible assets and the incurrence of large, immediate write-offs.

**We may not be able to raise additional capital and, as a result, may not be able to successfully execute our business plan.**

We will need to raise additional capital to finance future business acquisitions and/or investments. Additional financing may not be available on terms that are acceptable to us or at all. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders would be reduced. Additionally, these securities might have rights, preferences and privileges senior to those of our current stockholders. If adequate funds are not available on terms acceptable to us, our ability to finance future business acquisitions and/or investments and to otherwise pursue our business plan would be significantly limited.

We cannot readily predict the timing, size and success of our acquisition efforts and therefore the capital we will need for these efforts. Using cash for acquisitions limits our financial flexibility and makes us more likely to seek additional capital through future debt or equity financings. When we seek additional debt or equity financings, we cannot be certain that additional debt or equity will be available to us at all or on terms acceptable to us.

**We may not be able to comply with certain of our debt covenants which may interfere with our ability to successfully execute our business plan.**

We have borrowed funds from our bank. Substantial portions of this debt are outstanding currently in the form of multi-year installment term loans relating to VLI and GPS that are due on August 31, 2009 and December 31, 2010,



respectively, and that had principal amounts payable at January 31, 2008 in the amounts of \$792,000 and \$5,833,000, respectively.

The debt arrangements require that the Company maintain compliance with certain financial covenants at each fiscal quarter-end and include an acceleration clause which allows the bank to declare amounts outstanding under the debt arrangements due and payable if it determines in good faith that a material adverse change has occurred in the financial condition of the Company or any of its subsidiaries.

We are currently in compliance with our debt covenants, but there can be no assurance that we will continue to be in compliance. If the Company's performance does not result in compliance with any of its financial covenants, or if the bank seeks to exercise its rights under the acceleration clause referred to above, we would seek to modify the financing arrangements, but there can be no assurance that the bank would not exercise its rights and remedies under the debt arrangements including accelerating payments of all outstanding senior debt due and payable. Such payments would have a significantly adverse impact on our liquidity and our ability to obtain additional capital thereby jeopardizing our ability to successfully execute our business plan.

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**Our officers and directors have limited experience in managing our business and may be unsuccessful in doing so.**

In April 2003, Rainer H. Bosselmann became Chairman and Chief Executive Officer, H. Haywood Miller, III became Executive Vice President and Arthur F. Trudel became our Senior Vice President and Chief Financial Officer. Upon consummation of the private placement in April 2003, four of our directors resigned and were replaced by Mr. Bosselmann and three new directors designated by Mr. Bosselmann (DeSoto S. Jordan, James W. Quinn and Daniel A. Levinson). In addition, W.G. Champion Mitchell was elected to our Board of Directors at our 2003 Annual Meeting in October 2003 and William F. Leimkuhler was elected to our Board of Directors at our 2007 Annual Meeting in June 2007. On April 7, 2006, Mr. Miller resigned his position with us. Although Messrs. Bosselmann, Trudel, Jordan, Quinn, Levinson, Mitchell and Leimkuhler have experience as executive officers and directors of other public companies, they have limited experience in managing our business and, as a result, may be unsuccessful in doing so.

**Our business growth could outpace the capability of our corporate management infrastructure which could adversely affect our ability to complete the execution of our business plan.**

We cannot be certain that our current management team will be adequate to support our operations as they expand. Future growth could impose significant additional responsibilities on members of our senior management, including the need to recruit and integrate new senior level managers and executives. We cannot be certain that we can recruit and retain such additional managers and executives. To the extent that we are unable to attract and retain additional qualified management members in order to manage our growth effectively, we may not be able to expand our operations or execute our business plan. Our financial condition and results of operations could be materially and adversely affected as a result.

**Loss of key personnel could prevent us from effectively managing our business.**

Our ability to maintain productivity and profitability will be limited by our ability to employ, retain and train skilled personnel necessary to meet our requirements. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of these skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our revenues.

We depend on the continued efforts of our executive officers and on senior management of the businesses we acquire. We cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

**Specific Risks Relating to Our Power Industry Services**

**Failure to successfully operate our power industry services business will adversely affect our Company.**

We acquired GPS in December 2006. Consequently, we do not have significant experience in the engineering, procurement and construction of alternative energy and traditional power energy plants. Moreover, the operations of GPS represent a significant portion of our Company's net sales and profits. For the year ended January 31, 2008, the revenues of GPS represented 87% of consolidated net sales and provided approximately \$10.8 million in income before income taxes. Our inability to successfully develop, manage and provide our power industry services will adversely affect our overall business operations and financial condition.

**Intense competition in the engineering and construction industry could reduce our market share and profits.**

We serve markets that are highly competitive and in which a large number of multinational companies compete. Among our competitors are U.S. companies, such as Fluor Corporation, EMCOR Group, Inc., The Shaw Group Inc., Washington Group International, Inc., and Perini Corporation, and international companies, such as SNC Lavalin Group, Inc. and Foster Wheeler Ltd. In particular, the engineering and construction markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Competition also places downward pressure on our contract prices and profit margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable profit margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our profits.

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**The cyclical nature of the markets we serve may adversely affect future operating results.**

The demand for our services and products is dependent upon the existence of projects with engineering, procurement, construction and management needs. Although downturns can impact our business, our power markets exemplify businesses that are cyclical in nature. The power markets have historically been and will continue to be vulnerable to general downturns and are cyclical in nature. As a result, our past results have varied considerably and may continue to vary depending upon the demand for future projects in these industries.

**Our inability to attract and retain qualified management and personnel would adversely affect the growth of this business.**

Our future success is substantially dependent on the continued services and on the performance of the Vice Chairmen of GPS. Joel M. Canino and William F. Griffin, Jr., the founding executive officers of GPS, have extended the terms of their employments agreements to June 2009. In addition, GPS hired Timothy Curran in November 2007 to serve as the president and chief executive officer of GPS under an employment contract that expires on October 31, 2008 with automatic one-year extensions. There can be no assurance that Mr. Canino, Mr. Griffin or Mr. Curran will renew his employment agreement upon expiration of its term. The loss of the services of any one of these executives could materially and adversely affect our business. Our ability to achieve our development will also depend on our ability to attract and retain additional qualified and skilled personnel. Recruiting personnel in the energy power industry is competitive. We do not know whether we will be able to attract or retain additional qualified personnel. Our inability to attract and retain qualified personnel, or the departure of key employees, could materially and adversely affect our development and, therefore, our business, prospects, results of operations and financial condition.

**Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an uncertain indicator of our future earnings.**

As of January 31, 2008, our construction backlog was approximately \$122 million. We expect that our performance of the work contemplated by this contract backlog will earn a substantial portion of this revenue in the fiscal year ending January 31, 2009. However, projects may remain in our backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog and could reduce the dollar amount of our backlog and the revenue and profits that we actually earn. Project terminations, suspensions or scope adjustments may occur from time to time with respect to contracts in our backlog. Finally, poor project or contract performance could also impact our backlog and profits. As a result, we cannot guarantee that the revenue projected in our backlog will be realized or profitable.

**If financing for alternative energy plants is unavailable, construction of such plants may not occur.**

Traditional coal-fired and gas-fired power plants have been constructed typically by large utility companies. However, to a large extent, the financing for the construction of alternative energy plants is being provided by private investment groups. For example, investors in Green Earth Fuels of Houston, LLC, the owner of the bio diesel plant completed by GPS in the current fiscal year, include The Carlyle Group and Goldman Sachs.

As of January 31, 2008, the contract backlog of GPS included approximately \$47 million related to an ethanol-production facility under construction in Nebraska. However, construction activity has been suspended pursuant to an agreement between the parties as the owner of the plant is currently conducting a search for financing necessary to complete the project. We believe that the increase in the price of corn used to make ethanol has adversely affected the financial viability of this project. Further, we believe that the challenge of securing financing in light of this development is being exacerbated by the general state of uncertainty in the bond markets.

Should debt financing for the construction of alternative or renewable energy plants not be available, investors may not be able to invest in such projects, thereby adversely affecting the likelihood that GPS will obtain contracts to construct such plants.

**Failure to negotiate a definitive contract to build the Colusa power plant would adversely affect future results of operations.**

In December 2007, we announced that GPS received an interim notice to proceed from Pacific Gas & Electric Company (“PG&E”) on a \$340 million contract to design and build a natural gas-fired, combined cycle, power plant in Colusa, California with a planned completion date of August 1, 2010. We expect to complete the negotiation of the definitive contract for the construction of this power plant on favorable terms.

This contract is expected to comprise a significant portion of our revenues for the fiscal year ending January 31, 2009. Therefore, in the event that we do not consummate this contract, our results of operations for fiscal year 2009 may be materially and adversely affected.

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**If the development of renewable energy sources does not occur, the demand for our construction services could decline.**

Over half of the states have passed legislation requiring that utilities include a percentage of renewable energy in the mix of power they generate and buy. These future percentages may be as high as 10%-20%, and the requirements are contributing to the increased momentum of efforts to develop sources of renewable energy, including wind, solar, water, geothermal and biofuels.

Should these government requirements be extended or repealed, the pace of the development of alternative or renewable energy sources may slow, thereby reducing the future opportunities for GPS to construct such plants.

**If tax credits are repealed, the development of alternative energy power plants may not be economical.**

Current legislation offers tax credits and incentives to those utilizing alternative sources of energy. For example, federal legislation passed in 2005 established a tax credit that is intended to lower the cost of wind-powered energy for developers to equal the cost of energy produced by coal-fired power plants. However, this credit is set to expire at the end of 2008. Previous tax credits for wind power expired after one year. Tax incentives for the development of renewable energy sources are expected to be extended. However, in the event that new legislation is enacted which decreases or cancels such credits or incentives, the construction and use of alternative energy sources may not be economically viable. A decrease in the construction of alternative energy power plants will adversely affect our business operations.

**Future work delays and cost overruns could adversely affect our completion of construction projects.**

The engineering and construction of plants for the generation of electric power or the production of alternative sources of energy such as ethanol and bio-diesel will be subject to the risks of delay or cost overruns resulting from numerous factors, including, but not limited to, the following:

- shortages of skilled labor, materials and energy plant equipment including power turbines;
- unscheduled delays in the delivery of ordered materials and equipment;
- engineering problems, including those relating to the commissioning of newly designed equipment;
  - work stoppages;
  - weather interference;
- cost increases, such as increases in the price of commodities such as corn or soybean or increases in or the availability of land at reasonable prices to grow corn and soybean;
  - price decreases for a barrel of oil;
- inability to develop or non-acceptance of new technologies to produce alternative fuel sources; and
  - difficulty in obtaining necessary permits or approvals.

During the year ended January 31, 2008, GPS experienced an unexpected increase in costs related to one of its contracts. Unexpected costs included labor productivity being below expectations and previous experience, labor rate increases due to overtime requirements to meet the completion date, equipment defects and engineering issues resulting in considerable rework and additional materials. The Company recorded a loss of approximately \$12.0 million on this contract in the current year (including the reversal of approximately \$1.2 million of profit on this contract initially recorded in the prior year).

Although management believes that the loss on this GPS contract was due to very unusual circumstances, and that no such loss will be incurred related to current contracts, there can be no assurance that unexpected losses will not be incurred and recorded related to current and future contracts.

**As we bear the risk of cost overruns in the dollar-value of our contracts, we may experience reduced profits or, in some cases, losses under these contracts if costs increase above our estimates.**

We conduct our business under various types of contractual arrangements. We bear a significant portion of the risk for cost overruns. Under fixed price contracts, contract prices are established in part on cost and scheduling estimates which are based on a number of assumptions, including assumptions about future economic conditions, prices and availability of labor, equipment and materials, and other exigencies. If these estimates prove inaccurate, or circumstances change such as unanticipated technical problems, changes in local laws or labor conditions, weather delays, costs of raw materials or our suppliers' or subcontractors' inability to perform, cost overruns may occur and we could experience reduced profits, or in some cases, a loss for that project. From time to time, we may also assume a project's technical risk, which means that we may have to satisfy certain technical requirements of a project despite the fact that at the time of project award, we may not have previously produced the system or product in question.

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As described elsewhere in this report, during the year ended January 31, 2008, GPS experienced an unexpected increase in costs related to one of its contracts. Because the form of contract for this project was fixed-price, GPS had to absorb the full amount of the cost overrun resulting in the Company incurring a total loss of approximately \$10.8 million on this contract.

**If we guarantee the timely completion or performance standards of a project, we could incur additional costs to cover our guarantee obligations.**

In some instances and in many of our fixed price contracts, we guarantee a customer that we will complete a project by a scheduled date. We sometimes provide that the project, when completed, will also achieve certain performance standards. If we subsequently fail to complete the project as scheduled, or if the project subsequently fails to meet guaranteed performance standards, we may be held responsible for cost impacts to the customer resulting from any delay or modifications to the plant in order to achieve the performance standards, generally in the form of contractually agreed-upon liquidated damages. If these events would occur, the total costs of the project would exceed our original estimate, and we could experience reduced profits or a loss for that project.

**Our use of the percentage-of-completion method of accounting could result in a reduction or reversal of previously recorded revenues or profits.**

Under our accounting procedures, we measure and recognize a large portion of our profits and revenues under the percentage-of-completion accounting methodology. This methodology allows us to recognize revenues and profits ratably over the life of a contract by comparing the amount of the costs incurred to date against the total amount of costs expected to be incurred. The effect of revisions to revenues and estimated costs is recorded when the amounts are known and can be reasonably estimated, and these revisions can occur at any time and could be material. Given the uncertainties associated with these types of contracts, it is possible for actual costs to vary from estimates previously made, which may result in reductions or reversals of previously recorded revenues and profits. On the loss contract discussed above, approximately \$1.2 million of the loss that was recorded in the year ended January 31, 2008 represented the reversal of profit recognized in the prior year.

**Future bonding requirements may adversely affect our ability to compete for new energy plant construction projects.**

Our construction contracts frequently require that we obtain from surety companies and provide to our customers payment and performance bonds as a condition to the award of such contracts. Such surety bonds secure our payment and performance obligations.

Surety market conditions have in the last few years become more difficult as a result of significant losses incurred by many surety companies, both in the construction industry as well as in certain large corporate bankruptcies. Consequently, less overall bonding capacity is available in the market than in the past, and surety bonds have become more expensive and restrictive. Historically, we have had a strong bonding capacity but, under standard terms in the surety market, surety companies issue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of additional collateral as a condition to issuing any bonds.

Current or future market conditions, as well as changes in our surety's assessment of its own operating and financial risk, could cause our surety company to decline to issue, or substantially reduce the amount of, bonds for our work and could increase our bonding costs. These actions can be taken on short notice. If our surety company were to limit or eliminate our access to bonding, our alternatives would include seeking bonding capacity from other surety companies, increasing business with clients that do not require bonds and posting other forms of collateral for project performance, such as letters of credit, or cash. We may be unable to secure these alternatives in a timely manner, on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in the availability of



bonding capacity, we may be unable to compete for or work on certain projects.

**Our dependence upon third parties to complete many of our contracts may adversely affect our performance under future energy plant construction contracts.**

Much of the work performed under our contracts is actually performed by third-party subcontractors we hire. We also rely on third-party equipment manufacturers or suppliers to provide much of the equipment used for projects. If we are unable to hire qualified subcontractors or find qualified equipment manufacturers or suppliers, our ability to successfully complete a project could be impaired. If the amount we are required to pay for subcontractors or equipment and supplies exceeds what we have estimated, especially in a lump sum or a fixed-price type contract, we may suffer losses on these contracts. If a supplier, manufacturer or subcontractor fails to provide supplies, equipment or services as required under a negotiated contract for any reason, we may be required to source these supplies, equipment or services on a delayed basis or at a higher price than anticipated which could impair contract profitability.

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**The nature of our engineering and construction business exposes us to potential liability claims and contract disputes which may reduce our profits.**

We engage in engineering and construction activities for large facilities where design, construction or systems failures can result in substantial injury or damage to third parties. In addition, the nature of our business results in clients, subcontractors and vendors occasionally presenting claims against us for recovery of cost they incurred in excess of what they expected to incur, or for which they believe they are not contractually liable. We have been and may in the future be named as a defendant in legal proceedings where parties may make a claim for damages or other remedies with respect to our projects or other matters. These claims generally arise in the normal course of our business. When it is determined that we have liability, we may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed our policy limits. Our professional liability coverage is on a “claims-made” basis covering only claims actually made during the policy period currently in effect. In addition, even where insurance is maintained for such exposures, the policies have deductibles resulting in our assuming exposure for a layer of coverage with respect to any such claims. Any liability not covered by our insurance, in excess of our insurance limits or, if covered by insurance but subject to a high deductible, could result in a significant loss for us, which claims may reduce our profits and cash available for operations.

**We could be subject to claims and liabilities under environmental, health and safety laws and regulations that would add costs to our business.**

Our operations are subject to compliance with United States federal, state and local environmental, health and safety laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste, and the cleanup of properties affected by hazardous substances. Certain environmental laws impose substantial penalties for non-compliance and others, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, impose strict, retroactive, joint and several liability upon persons responsible for releases of hazardous substances. We continually evaluate whether we must take additional steps to ensure compliance with environmental laws, however, there can be no assurance that these requirements will not change and that compliance will not adversely affect our operations in the future.

**The failure of our insurance policies to cover all of the risks we face could result in material future losses.**

In accordance with customary industry practices, we maintain insurance coverage against some, but not all, potential losses in order to protect against the risks we face. We may elect not to carry insurance if our management believes that the cost of available insurance is excessive relative to the risks presented. In addition, we cannot insure fully against pollution and environmental risks. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations.

**Specific Risks Relating to Our Telecommunications Infrastructure Business**

**Deterioration of regional economic conditions in our industry could have a material adverse effect on our future operating results.**

We are involved in the telecommunications infrastructure services and construction industries, which can be negatively affected by rises in interest rates, downsizings in the economy and a general downturn in economic conditions. In addition, our activities may be hampered by weather conditions and an inability to plan and forecast activity levels. Adverse economic conditions in the telecommunications infrastructure and construction industries may have a material adverse effect on our future operating results.

**Rapid technological change and/or customer consolidations could reduce the demand for the telecommunication services we provide.**

The telecommunications infrastructure industry is undergoing rapid change as a result of technological advances that could in certain cases reduce the demand for our services or otherwise negatively impact our business. New or developing technologies could displace the wireline systems used for voice, video and data transmissions, and improvements in existing technology may allow telecommunications companies to significantly improve their networks without physically upgrading them. In addition, consolidation, competition or capital constraints in the utility, telecommunications or computer networking industries may result in reduced spending or the loss of one or more of our customers.

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**Various factors could cause the operating results of SMC to vary significantly from quarter to quarter.**

SMC provides telecommunications infrastructure services primarily in the mid-Atlantic region including Maryland, Virginia, Delaware and the District of Columbia. As such, conditions in this region may affect this business. For example, our operations can be 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.

We intend to actively pursue larger infrastructure projects with our customers. The positive impact of major contracts requires that we undertake extensive up front preparations with respect to staffing, training and relocation of equipment. Consequently, we may incur significant period costs in one fiscal period and realize the benefit of contractual revenues in subsequent periods.

Our quarterly results may also be materially affected by:

- variations in the margins or services performed during any particular quarter;
- the budgetary spending patterns of customers, including government agencies;
- the timing and volume of work under our service agreements;
- the timing of our promotional activities;
- losses experienced in our operations not otherwise covered by insurance;
- the change in mix of our customers, contracts and business;
- unexpected increases in construction and design costs.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you can expect for any other quarter or for the entire year.

**Our financial results are dependent on government programs and spending, the termination of which would have a material adverse effect on our business.**

A significant portion of our business relates to structured cabling work for military and other government agencies. As such, our business is reliant upon military and other government programs. Reliance on government programs has certain inherent risks. Among others, contracts, direct or indirect, with United States government agencies are subject to unilateral termination at the convenience of the government, subject only to the reimbursement of certain costs plus a termination fee.

**Our substantial dependence upon fixed price contracts may expose us to losses in the event that we fail to accurately estimate the costs that we will incur to complete such projects.**

We currently generate, and expect to continue to generate, a significant portion of our revenues under fixed price contracts. We must estimate the costs of completing a particular project to bid for these fixed price contracts. Although historically we have been able to estimate costs accurately, the cost of labor and materials may, from time to time, vary from costs originally estimated. These variations, along with other risks inherent in performing fixed price contracts, may cause actual revenue and gross profits for a project to differ from those we originally estimated and could result in reduced profitability or losses on projects. Depending upon the size of a particular project, variations from the estimated contract costs can have a significant impact on our operating results for any fiscal quarter or year.

**The failure to replace contracts as they are completed or expire will adversely affect future operating results.**

Any of the following contingencies may have a material adverse effect on our business:

- our customers cancel a significant number of contracts;
- we fail to win a significant number of our existing contracts upon re-bid; or
- we complete the required work under a significant number of non-recurring projects and cannot replace them with similar projects.

Many of our customers may cancel their contracts on short notice, typically 30 to 90 days, even if we are not in default under the contract. Certain of our customers assign work to us on a project-by-project basis under master service agreements. Under these agreements, the customers often have no obligation to assign work to us. Our operations could be materially and adversely affected if the volume of work we anticipate receiving from these customers is not assigned to us. Many of our contracts, including our master service agreements, are opened to public bid at the expiration of their terms. We may not be the successful bidder on existing contracts that come up for bid.

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**Loss of a significant customer could adversely affect our SMC business.**

Revenues related to our three largest telecom infrastructure services customers, Southern Maryland Electric Cooperative (“SMECO”), Verizon Communications (“Verizon”) and Electronic Data Systems (“EDS”), represented most of our business in this segment during the year ended January 31, 2008. SMECO, Verizon and EDS accounted for approximately 32%, 27% and 23% of SMC’s revenues for the year ended January 31, 2008.

Since December 31, 2007, SMC has been operating without a contract renewal with Verizon. SMC continues to perform services for Verizon at a reduced level of activity while it attempts to work with local Verizon management in negotiating a contract renewal. SMC has experienced interruptions in assigned work levels during prior-year contract renewal periods. Verizon has been a customer of SMC for more than twenty years. In April 2008, SMC received an extension of the expiring contract until June 30, 2008.

The failure to replace any reduction in work performed for Verizon, or the loss of either SMECO or EDS as a significant customer will have a material adverse effect on our business, unless the loss is offset by increases in sales to other customers.

**If we fail to compete successfully against current or future competitors, our business, financial condition and results of operations will be materially and adversely affected.**

We operate in highly competitive markets. We compete with service providers ranging from small regional companies which service a single market, to larger firms servicing multiple regions, as well as large national and multi-national entities. In addition, there are few barriers to entry in the telecommunications infrastructure industry. As a result, any organization that has adequate financial resources and access to technical expertise may become one of our competitors.

Competition in the telecommunications infrastructure industry depends on a number of factors, including price. Certain of our competitors may have lower overhead cost structures than we do and may, therefore, be able to provide their services at lower rates than we can provide the same services. In addition, some of our competitors are larger and have significantly greater financial resources than we do. Our competitors may develop the expertise, experience and resources to provide services that are superior in both price and quality to our services. Similarly, we may not be able to maintain or enhance our competitive position within our industry. We may also face competition from the in-house service organizations of our existing or prospective customers.

A significant portion of our business involves providing services, directly or indirectly as a subcontractor, to the United States government under government contracts. The United States government may limit the competitive bidding on any contract under a small business or minority set-aside, in which bidding is limited to companies meeting the criteria for a small business or minority business, respectively. We are currently qualified as a small business concern, but not a minority business.

We may not be able to compete successfully against our competitors in the future. If we fail to compete successfully against our current or future competitors, our business, financial condition, and results of operations would be materially and adversely affected.

**Compliance with government regulations may increase the costs of our operations and expose us to substantial civil and criminal penalties in the event that we violate applicable law.**

We provide, either directly as a contractor or indirectly as a sub-contractor, products and services to the United States government under government contracts. United States government contracts and related customer orders subject us to various laws and regulations governing United States government contractors and subcontractors, generally which are

more restrictive than for non-government contractors. These include subjecting us to examinations by government auditors and investigators, from time to time, to ensure compliance and to review costs. Violations may result in costs disallowed, and substantial civil or criminal liabilities (including, in severe cases, denial of future contracts).

**If we are unable to obtain surety bonds or letters of credit in sufficient amounts or at acceptable rates, we may be precluded from entering into additional contracts with certain of our customers.**

Contracts in the industries we serve may require performance bonds or other means of financial assurance to secure contractual performance. The market for performance bonds has tightened significantly. If we are unable to obtain surety bonds or letters of credit in sufficient amounts or at acceptable rates, we might be precluded from entering into additional contracts with certain of our customers.

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**Specific Risks Relating To Our Nutritional Products Business**

**The inability to replace lost customer business will continue to adversely affect operating results and financial condition.**

Net sales of nutritional products were approximately \$16.7 million for the year ended January 31, 2008, representing 8% of consolidated net sales. Net sales of nutritional products were approximately \$20.8 million for the year ended January 31, 2007. The decrease in net sales of nutritional products between years of approximately \$4.2 million, or 20%, was caused primarily by the loss of one of VLI's largest customers, representing approximately 20% of this segment's net sales in the prior-year, and a 34% reduction in the level of net sales made to VLI's largest customer. Net sales to this customer comprised approximately 25% of VLI's net sales for the current year. Despite an extremely competitive business environment, this business added one significant new customer this year and increased sales to three other of VLI's largest customers.

However, VLI is primarily a contract manufacturer of nutritional products. The ability to quickly replace lost customers or to increase the product offerings sold to existing customers is hampered by the long sales cycle inherent in our type of business. The length of time between the beginning of contract negotiation and the first sale to a new customer could exceed six months including extended periods of product testing and acceptance.

Accordingly, we do not expect this business to recover quickly despite the existence of new business prospects. Further, the loss of any existing customers or unexpected reductions in the levels of sales to such customers would exacerbate the negative and material effects of the business reductions experienced in the current year.

**Negative publicity about us, our products and/or our industry could cause our business to suffer.**

Our business depends, in part, upon the public's belief in the safety and quality of our products. Although many of the ingredients in our products are vitamins, minerals, herbs and other substances for which there is a long history of human consumption, some of our products contain innovative ingredients or combinations of ingredients. Although we test the formulation and production of our products and we believe that all of our products are safe when used as directed, there may be little long-term experience with human consumption of certain of these product ingredients or combinations thereof. Further, we have not sponsored or conducted clinical studies on the effects of human consumption. Any adverse publicity about the safety or quality of our products or our competitors' products, whether or not accurate, could negatively affect the public's perception of us, our products, and/or our industry, resulting in a significant decline in the demand for our products and our future operating results. Our business and products could be adversely affected by negative publicity regarding, among other things:

- the nutritional supplements industry;
- competitors;
- the safety and quality of our products and ingredients; and
- regulatory investigations of our products or competitors' products.

**Our inability to respond to changing consumers' demands and preferences could adversely affect our business.**

The nutritional industry is subject to rapidly changing consumer demands and preferences. There can be no assurance that customers will continue to favor the products provided and manufactured by us. In addition, products that gain wide acceptance with consumers may result in a greater number of competitors entering the market which could result in downward price pressure which could adversely impact our financial results. We believe that our growth will be materially dependent upon our ability to develop new techniques and processes necessary to meet the needs of our current customers and potential new customers. Our inability to anticipate and respond to these rapidly changing demands could have an adverse effect on our business operations.

**Failure to perform effectively in an intensely competitive industry will harm our business.**



The market for nutritional products is highly competitive. Our direct competition consists primarily of publicly and privately owned companies, which tend to be highly fragmented in terms of both geographical market coverage and product categories. These companies compete with us on different levels in the development, manufacture and marketing of nutritional supplements. Many of these companies have broader product lines and larger sales volume, are significantly larger than us, have greater name recognition, financial personnel, distribution and other resources than we do and may be better able to withstand volatile market conditions. There can be no assurance that our customers and potential customers will regard our products as sufficiently distinguishable from competitive products. Our inability to compete successfully would have a material adverse effect on our business.

**The successful fulfillment of customer orders depends on our ability to obtain the necessary raw materials in a timely manner.**

Although we believe that there are adequate sources of supply for all of our principal raw materials we require, there can be no assurance that our sources of supply for our principal raw materials will be adequate in all circumstances. In the event that such sources are not adequate, we will have to find alternate sources. As a result we may experience delays in locating and establishing relationships with alternate sources which could result in product shortages and backorders for our products, with a resulting loss of revenue to us.

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**Future product liability claims may expose us to unexpected damages and expenses which could adversely affect our results of operation and financial condition.**

We could face financial liability due to product liability claims if the use of our products results in significant loss or injury. To date, we have not been the subject of any product liability claims. However, we can make no assurances that we will not be exposed to future product liability claims. Such claims may include that our products contain contaminants, that we provide consumers with inadequate instructions regarding product use, or that we provide inadequate warnings concerning side effects or interactions of our products with other substances. We believe that we maintain adequate product liability insurance coverage. However, a product liability claim could exceed the amount of our insurance coverage or a product claim could be excluded under the terms of our existing insurance policy, which could adversely affect our future results of operations and financial condition.

**A violation of government regulations or our inability to obtain necessary government approvals for our products could harm our business.**

The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of our products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the U.S. Department of Agriculture, the Environmental Protection Agency, and also by various agencies of the states, localities and foreign countries in which our products are sold. In particular, the FDA, pursuant to the Federal Food, Drug, and Cosmetic Act (FDCA), regulates the formulation, manufacturing, packaging, labeling, distribution and sale of dietary supplements, including vitamins, minerals and herbs, and of over-the-counter (OTC) drugs, while the FTC has jurisdiction to regulate advertising of these products, and the US Postal Service regulates advertising claims with respect to such products sold by mail order. The FDCA has been amended several times with respect to dietary supplements, most recently by the Nutrition Labeling and Education Act of 1990 and the Dietary Supplement Health and Education Act of 1994. In addition, our products are also subject to regulations under various state and local laws that include provisions governing, among other things, the formulation, manufacturing, packaging, labeling, advertising and distribution of dietary supplements and OTC drugs. Our inability to comply with these numerous regulations could harm our business, resulting in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions.

In the future, we may become subject to additional laws or regulations administered by the FDA or by other federal, state, local or foreign regulatory authorities, to the repeal of laws or regulations that we consider favorable, or to more stringent interpretations of current laws or regulations. We can neither predict the nature of such future laws, regulations, repeals or interpretations, nor can we predict what effect additional governmental regulation, when and if it occurs, would have on our business. These regulations could, however, require the reformation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of certain products, additional or different labeling, additional scientific substantiation or other new requirements. Any of these developments could result in sales reductions and/or unanticipated expenses having material adverse effects on our business.

Our inability to adequately protect our products from replication by competitors could have a material adverse effect on our business. We own proprietary formulas for certain of our nutritional products. We regard our proprietary formulas as valuable assets and believe they have significant value in the marketing of our products. Because we do not have patents or trademarks on our products, there can be no assurance that another company will not replicate and market one or more of our products, thereby causing us to lose business.

**Risks Relating to Our Securities**

**Our acquisition strategy may result in dilution to our stockholders.**

Our business strategy calls for strategic acquisition of other businesses. In connection with our acquisition of GPS and VLI, among other consideration, we issued approximately 3,666,667 and 1,785,000, respectively, shares of our common stock. In addition, we issued 2,853,335 shares of our common stock in our December 2006 private placement. We used the proceeds from the December 2006 private placement to fund the cash portion of the acquisition cost of GPS. We anticipate that future acquisitions will require cash and issuances of our capital stock, including our common stock. To the extent we are required to pay cash for any acquisition, we anticipate that we would be required to obtain additional equity and/or debt financing. Equity financing would result in dilution for our then current stockholders. Stock issuances and financing, if obtained, may not be on terms favorable to us and could result in substantial dilution to our stockholders at the time(s) of these stock issuances and financings.

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**Our officers, directors and certain key employees have substantial control over Argan.**

As of January 31, 2008, our executive officers and directors as a group owned approximately 17.5% of our voting shares (giving effect to an aggregate of 360,000 shares of common stock that may be purchased upon exercise of warrants and stock options held by our executive officers and directors and 1,323,270 shares beneficially held in the name of MSR Advisors, Inc. and affiliates for which one of our directors is President) and therefore, may have the power to influence corporate actions such as an amendment to our certificate of incorporation, the consummation of any merger, or the sale of all or substantially all of our assets, and may influence the election of directors and other actions requiring stockholder approval.

In addition, as of January 31, 2008, William F. Griffin, Jr. and Joel M. Canino, executive officers of GPS, own approximately 13.5% and 11.6% of our outstanding voting shares, respectively. Therefore, Messrs. Canino and Griffin, individually, may have the power to influence corporate actions.

**As our common stock is thinly traded, the stock price may be volatile and you may have difficulty disposing of your investment at prevailing market prices.**

In August 2007, our common stock was approved for listing on the American Stock Exchange (“AMEX”) and commenced trading under the symbol AGX. Until August 2007, our common stock traded over-the-counter under the symbol AGAX.OB. Our common stock was also listed on the Boston Stock Exchange under the symbol AGX from August 4, 2003 until its voluntary delisting in September 2007. However, there were no sales of the Company’s securities on the Boston Stock Exchange during the previous two years.

Despite the new listing, our common stock remains thinly and sporadically traded and no assurances can be given that a larger market will ever develop, or if developed, that it will be maintained.

**Availability of significant amounts of our common stock for sale could adversely affect its market price.**

As of January 31, 2008, we had 11,110,301 outstanding shares of common stock. On February 16, 2007, we filed a Form S-3 registration statement for resale of 3,666,667 shares of our common stock issued in connection with the acquisition of GPS. We filed another Form S-3 registration statement on February 20, 2007 for the resale of 2,653,335 shares of our common stock issued in connection with our December 2006 private placement. In June 2006, we registered 1,751,192 shares of our common stock on Form S-3 for resale by the selling shareholders named therein relating to shares issued in connection with our private placement in May 2006 and our acquisition of VLI. In February 2005, we registered 954,032 shares of our common stock on Form S-3 for resale by the selling shareholders named therein consisting of shares issued in connection with (i) the private sale of our common stock and (ii) our acquisition of VLI. If our stockholders sell substantial amounts of our common stock in the public market, including shares registered under any registration statement on Form S-3, the market price of our common stock could fall.

**We may issue preferred stock with rights that are superior to our common stock.**

Our Certificate of Incorporation, as amended, permits our Board of Directors to authorize the issuance of shares of preferred stock and to designate the terms of the preferred stock. The issuance of shares of preferred stock by us could adversely affect the rights of holders of common stock by, among other factors, establishing dividend rights, liquidation rights and voting rights that are superior to the rights of the holders of the common stock.

**Provisions of our certificate of incorporation and Delaware law could deter takeover attempts.**

Provisions of our certificate of incorporation and Delaware law could delay, prevent, or make more difficult a merger, tender offer or proxy contest involving us. Among other things, under our certificate of incorporation, our board of

directors may issue up to 500,000 shares of our preferred stock and may determine the price, rights, preferences, privileges and restrictions, including voting and conversion rights, of these shares of preferred stock. In addition, Delaware law limits transactions between us and persons that acquire significant amounts of our stock without approval of our board of directors.

**We do not expect to pay dividends for the foreseeable future.**

We have not paid cash dividends on our common stock since our inception and intend to retain earnings, if any, to finance the development and expansion of our business. As a result, we do not anticipate paying dividends on our common stock in the foreseeable future. Payment of dividends, if any, will depend on our future earnings, capital requirements and financial position, plans for expansion, general economic conditions and other pertinent factors.

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## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We occupy our corporate headquarters in Rockville, Maryland, under a lease that expires on June 30, 2009 covering 1,495 square feet of office space. The headquarters of GPS, located in Glastonbury, Connecticut, is occupied pursuant to a lease that expires in October 2012 and that covers 8,304 square feet of office space. The operations of VLI are located in Naples, Florida and occupy four leased facilities; one under a monthly lease, another pursuant to a lease that will expire on July 31, 2008 and two others pursuant to leases with terms that will expire on February 28, 2011. One facility is leased from the former owner of VLI. The four buildings of VLI include approximately 26,000 square feet of warehouse space; approximately 10,000 square feet of manufacturing space; approximately 8,000 square feet of office space; and approximately 1,000 square feet of laboratory space. SMC is located in Tracys Landing, Maryland, occupying facilities under a lease that expires on December 31, 2009 and that includes extension options available through January 1, 2020. The SMC facility includes approximately four acres of land, a 2,400 square foot maintenance facility and approximately 3,900 square feet of office space. SMC also leases two storage and staging lots in the nearby St. Mary's and Calvert Counties of Maryland that expire in December 2008 and September 2009, respectively.

The operations of GPS and SMC in the field may require us to occupy facilities on customer premises or job sites. Accordingly, we may rent local construction offices and equipment storage yards under arrangements that are temporary in nature. These costs are expensed as incurred and are included in cost of sales.

## **ITEM 3. LEGAL PROCEEDINGS**

1) On March 22, 2005, WFC filed a civil action against the Company, and its executive officers. The suit was filed in the Superior Court of the State of California for the County of Los Angeles. WFC purchased the capital stock of the Company's wholly owned subsidiary, Puroflow Incorporated, pursuant to the terms of the Stock Purchase Agreement dated October 31, 2003. WFC alleged that the Company and its executive officers breached the Stock Purchase Agreement between WFC and the Company and engaged in misrepresentations and negligent conduct with respect to the Stock Purchase Agreement. WFC sought declaratory relief, compensatory and punitive damages in an amount to be proven at trial as well as the recovery of attorney's fees. This action was removed to the United States District Court for the Central District of California. The Company and its officers deny that any breach of contract or that any misrepresentations or negligence occurred on their part.

The case was scheduled for trial on April 10, 2007. On March 15, 2007, the District Court granted the Company and its executive officers' motion for summary judgment, thereby dismissing WFC's lawsuit against the Company and its executive officers in its entirety. WFC appealed the District Court's decision to the Ninth Circuit Court of Appeals. The parties have filed their appellate briefs and are waiting for a date to be scheduled for oral arguments. We intend to vigorously defend the appeal of this litigation.

2) On August 27, 2007, Kevin Thomas filed a lawsuit against the Company, VLI and our Chief Executive Officer (the "CEO") in the Circuit Court of Florida for Collier County. Mr. Thomas was the former owner of VLI. The Company acquired VLI by way of merger on August 31, 2004. Mr. Thomas alleges that the Company, VLI and our CEO breached various agreements regarding his compensation and employment package that arose from the acquisition of VLI. Mr. Thomas has alleged contractual and tort-based claims arising from his compensation and employment agreements and seeks rescission of his covenant not to compete against VLI. The Company, VLI and our CEO deny that any breach of contract or tortious conduct occurred on their part. The Company and VLI have also asserted four counterclaims against Mr. Thomas for breach of the merger agreement, breach of his employment agreement,

breach of fiduciary duty and tortious interference with contractual relations because Mr. Thomas violated his non-solicitation, confidentiality and non-compete obligations after he left VLI. We intend to vigorously defend this lawsuit and prosecute its counterclaims (the “VLI Merger Litigation”).

3) On March 4, 2008, Vitarich Farms, Inc. (“VFI”) filed a lawsuit against VLI and its current president in the Circuit Court of Florida for Collier County. Mr. Thomas owns VFI which has supplied VLI with certain organic raw materials for manufacturing VLI's products. VFI has asserted a breach of contract claim against VLI and alleges that VLI breached a supply agreement with VFI by acquiring the organic products from a different supplier. VFI also asserted a claim for defamation against VLI's president alleging that he made false statements regarding VFI's organic certification to one of VLI's customers. The deadline for filing a responsive pleading to this complaint is April 18, 2008. The defendants vigorously deny that VLI breached any contract or that VLI's president defamed VLI. We intend to vigorously defend this lawsuit.

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4) Mr. Thomas has also filed a lawsuit against VLI's president for defamation in the Circuit Court of Florida for Collier County. Mr. Thomas alleges that VLI's president made false statements to third-parties regarding Mr. Thomas' conduct that is the subject of counterclaims by the Company and VLI in the VLI Merger Litigation and that these statements have caused him damage to his business reputation. The deadline for filing a responsive pleading to this complaint is April 18, 2008. VLI's president vigorously denies that he defamed Mr. Thomas and intends to vigorously defend this lawsuit.

In the normal course of business, the Company has pending claims and legal proceedings. It is our opinion, based on information available at this time, that none of the other current claims and proceedings will have a material effect on our consolidated financial statements.

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

None.

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**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

In August 2007, our common stock was approved for listing on the American Stock Exchange ("AMEX") and commenced trading under the symbol AGX. The following table sets forth the high and low closing prices for our common stock for the fiscal quarters ended October 31, 2007, January 31, 2008 and April 30, 2008.

	<b>High Close</b>	<b>Low Close</b>
<b>Fiscal Year Ended January 31, 2008</b>		
3rd Quarter (commencing August 22, 2007)	\$ 10.25	\$ 7.55
4th Quarter	13.39	9.94
<b>Fiscal Year Ending January 31, 2009</b>		
1st Quarter (through March 12, 2008)	\$ 12.25	\$ 11.51

Prior to the listing on AMEX, the common stock traded over-the-counter under the symbol AGAX.OB. The following table sets forth the high and low bid quotations for our common stock for the periods indicated. These quotations represent inter-dealer prices and do not include retail markups, markdowns or commissions and may not necessarily represent actual transactions.

	<b>High Bid</b>	<b>Low Bid</b>
<b>Fiscal year Ended January 31, 2006</b>		
1st Quarter	\$ 6.12	\$ 5.70
2nd Quarter	6.15	5.05
3rd Quarter	5.05	1.01
4th Quarter	2.65	1.90
<b>Fiscal year Ended January 31, 2007</b>		
1st Quarter	\$ 2.35	\$ 1.90
2nd Quarter	2.70	1.80
3rd Quarter	6.40	2.00
4th Quarter	7.00	2.95
<b>Fiscal year Ended January 31, 2008</b>		
1st Quarter	\$ 7.20	\$ 6.00
2nd Quarter	8.50	6.20
3rd Quarter (through August 21, 2007)	7.75	7.16

Our common stock was also listed on the Boston Stock Exchange under the symbol AGX from August 4, 2003 until its voluntary delisting in September 2007. However, there were no sales of the Company's securities on the Boston Stock Exchange during the periods presented above.

As of April 4, 2008, we had approximately 234 stockholders of record.

To date, we have not declared or paid cash dividends to our stockholders. We have no plans to declare and pay cash dividends in the near future as we plan to use the Company's working capital on growing our business operations.



## Equity Compensation Plan Information

The following table sets forth certain information, as of January 31, 2008, concerning securities authorized for issuance under warrants and options to purchase our common stock.

	<b>Number of Securities Issuable under Outstanding Warrants and Options</b>	<b>Weighted- Average Exercise Price of Outstanding Warrants and Options</b>	<b>Number of Securities Remaining Available for Future Issuance (2)</b>
Equity Compensation Plans Approved by the Stockholders (1)	425,275	\$ 6.07	206,225
Equity Compensation Plans Not Approved by the Stockholders	—	—	—
<b>Totals</b>	<b>425,275</b>	<b>\$ 6.07</b>	<b>206,225</b>

(1) Approved Plans include the Company's 2001 Stock Option Plan. As of January 31, 2008, a total of 650,000 shares of Common Stock had been authorized for issuance under the Option Plan by the stockholders.

(2) Excludes the number of securities reflected in the first column of this table.

## Stock Options and Warrants

The Company's 2001 Stock Option Plan was established in August 2001 (the "Option Plan"). Under the Option Plan, our Board of Directors may grant stock options to officers, directors and key employees. The Option Plan was amended in June 2007 in order to authorize the grant of options for up to 650,000 shares of common stock. Stock options that are granted may be Incentive Stock Options ("ISOs") or nonqualified stock options ("NSOs"). ISOs granted under the Option Plan have an exercise price per share at least equal to the common stock's fair market value per share at the date of grant, a ten-year term, and typically become fully exercisable one year from the date of grant. NSOs may be granted at an exercise price per share that differs from the common stock's fair market value per share at the date of grant, may have up to a ten-year term, and become exercisable as determined by the Board of Directors.

In connection with the Company's private placement offering of our common stock that occurred in April 2003, we also issued warrants to purchase 230,000 shares of common stock to various parties. Included were (1) warrants to purchase an aggregate of 180,000 shares of common stock that were issued to three individuals (including the current CEO and CFO) who became executive officers of the Company upon completion of the offering, and (2) warrants to purchase 50,000 shares of common stock that were issued to MSR Advisors, Inc. One of the members of our Board of Directors is the President of MSR Advisors, Inc. The purchase price per share of common stock under all of these warrants is \$7.75; the warrants expire in April 2013. As of January 31, 2008, warrants to purchase 226,000 shares of common stock were outstanding.

## Recent Sales of Unregistered Securities

None.

## ITEM 6. SELECTED FINANCIAL DATA

Not required for smaller reporting company.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FININCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion summarizes the financial position of Argan, Inc. and its subsidiaries as of January 31, 2008, and the results of operations for the years ended January 31, 2008 and 2007, and should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in Item 8 of this Annual Report on Form 10-K.

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### **Cautionary Statement Regarding Forward Looking Statements**

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements. We have made statements in this Item 7 and elsewhere in our Annual Report on Form 10-K that may constitute “forward-looking statements”. The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would” and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. These forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions. They are subject to change based upon various factors, including but not limited to the risks and uncertainties described elsewhere in Item 1A of this Annual Report on Form 10-K. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Introduction**

Argan, Inc. (the “Company,” “we,” “us,” or “our”) conducts operations through our wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates (“GPS”) that we acquired in December 2006, Vitarich Laboratories, Inc. (“VLI”) that we acquired in August 2004, and Southern Maryland Cable, Inc. (“SMC”) that we acquired in July 2003. Through GPS, we provide a full range of development, consulting, engineering, procurement, construction, commissioning, operations and maintenance services to the energy market for a wide range of customers including public utilities, independent power project owners, municipalities, public institutions and private industry. 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. Through VLI, we develop, manufacture and distribute premium nutritional products.

### **Critical Accounting Policies**

We consider the accounting policies related to revenue recognition on long-term construction contracts, the valuation of goodwill and other purchased intangible assets, income tax reporting and the reporting of legal matters to be most critical to the understanding of our financial position and results of operations. Critical accounting policies are those related to the areas where we have made what we consider to be particularly subjective or complex judgments in making estimates and where these estimates can significantly impact our financial results under different assumptions and conditions. These estimates, judgments, and assumptions affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

We recognize a significant portion of revenues in connection with performance under long-term construction contracts pursuant to Statement of Position (SOP) No.81-1 “Accounting for Performance of Construction-Type and Certain Production-Type Contracts.” The types of contracts may vary and include agreements under which revenue is based on a fixed price basis and cost-plus-fee. Revenues from cost-plus-fee construction agreements are recognized on the basis of costs incurred during the period plus the fee earned, measured using the cost-to-cost method. Revenues from fixed price construction agreements, 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. Therefore, changes to

the total estimated contract cost of a fixed price contract may affect the amount of profit or the extent of loss. The effect of the change on profit or loss is recorded in the period when the change in estimated total contract cost is determined. We review the estimates of total cost on each significant contract monthly. However, as indicated above, we recorded a loss of approximately \$12.0 million during the current fiscal year in completing an energy plant in California. In the current year, we experienced unexpected costs in connection with the completion of this work caused primarily by labor productivity being below expectations and previous experience, labor rate increases due to overtime requirements to meet the completion date, equipment defects and engineering issues resulting in considerable rework and additional materials. The loss recorded in the current included the reversal of profit on this contract initially recorded in the prior year in the amount of \$1.2 million.

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In connection with the acquisitions of GPS, VLI and SMC, we recorded substantial amounts of goodwill and other purchased intangible assets including contractual and other customer relationships, proprietary formulas, non-compete agreements and trade names. Other than goodwill, most of our purchased intangible assets are determined to have finite useful lives. At February 1, 2007, the beginning of our most recent fiscal year, goodwill and other purchased intangible assets together represented approximately 30% of consolidated total assets. In accordance with FAS No. 142 "Goodwill and Other Intangible Assets," the Company reviews goodwill for impairment at least annually. The Company tests for the impairment of goodwill pursuant to the requirements of FAS No. 142 and of the other purchased intangible assets pursuant to the requirements of FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," more frequently if events or changes in circumstances indicate that an asset value might be impaired. We utilize the assistance of professional appraisal firms in the initial determination of the fair value of these intangible assets using various techniques. Certain techniques require us to make estimates and assumptions about the future financial performance of the acquired businesses that may change in the future. The loss of business experienced by VLI during the current year suggested that the carrying value of VLI's goodwill and other long-lived intangible assets, contractual customer relationships and non-compete agreements, may have been impaired. Accordingly, the Company performed assessments of the carrying values and determined that the net unadjusted carrying values of these assets exceeded the current fair values. Accordingly, we recorded asset impairment losses in the total amount of \$6.8 million for the year ended January 31, 2008.

As of January 31, 2008 and 2007, our consolidated balance sheets included deferred tax assets in the total amounts of \$2,423,000 and \$512,000, respectively, resulting from our future deductible temporary differences. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our ability to realize our deferred tax assets depends primarily upon the generation of sufficient future taxable income to allow for the utilization of our deductible temporary differences and tax planning strategies. If such estimates and assumptions change in the future, we may be required to record valuation allowances against some or all of the deferred tax assets resulting in additional income tax expense in our consolidated statement of operations. At this time, based substantially on the strong earnings performance of our power industry services business segment, we believe that it is more likely than not that we will realize benefit for our deferred tax assets.

As discussed in Note 12 to the consolidated financial statements, we are involved in several legal matters where litigation has been initiated against us. As discussed in Note 12, we deny the alleged wrongdoings and intend to vigorously defend ourselves in each case. We have concluded that the likelihood of an unfavorable outcome in each case is neither probable nor remote as those terms are defined in FAS No. 5, "Accounting for Contingencies." However, we do maintain accrued expense balances for the estimated amounts of legal costs expected to be billed related to each matter. The aggregate amount of the legal fee reserves included in accrued expenses at January 31, 2008 was approximately \$321,000. Should these estimates change, or should our assessments of the outcomes of these cases change, additional costs may be recorded.

In addition to evaluating estimates relating to the items discussed above, we also consider other estimates and judgments, including, but not limited to, those related to our allowances for doubtful accounts and inventory obsolescence. A description of the Company's significant accounting policies, including those discussed above, are described in Note 2 to the accompanying consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

### **New Accounting Pronouncements**

As discussed in the Note 15 to the accompanying consolidated financial statements, we have adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". Other than this change, there have been no significant changes to our critical accounting policies during the year ended January 31, 2008.

On February 1, 2006, we adopted Statement of Financial Accounting Standard No. 123R, "Share-based Payments," which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors using a fair value based option pricing model, and eliminated the alternative intrinsic value method of accounting for share-based payments. We applied the modified prospective transition method; accordingly, the Company recorded compensation expense related to stock options and warrants in the financial statements beginning February 1, 2006 (amounting to \$561,000 and \$237,000 for the years ending January 31, 2008 and 2007, respectively), with no restatement of prior periods. The compensation expense relates to awards that have been granted, modified, repurchased or cancelled on or after February 1, 2006, as well to awards previously granted that were not vested as of February 1, 2006.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141(R), "Business Combinations". FAS No. 141(R) replaces FAS No. 141 and provides greater consistency in the accounting and financial reporting of business combinations. FAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, establishes principles and requirements for how an acquirer recognizes and measures any non-controlling interest in the acquiree and the goodwill acquired, and requires the acquirer to disclose the nature and financial effect of the business combination. Among other changes, this statement also required that "negative goodwill" be recognized in earnings as a gain attributable to the acquisition, that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred and that any deferred tax benefits resulted in a business combination are recognized in income from continuing operations in the period of the combination. For us, FAS 141R will be effective for business combinations occurring subsequent to January 31, 2009. We will assess the impact that SFAS 141R may have on its financial position and results of operations. In December 2007, the FASB also issued FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," that establishes accounting and reporting standards for minority interests in consolidated subsidiaries. This standard will be effective for us on February 1, 2009, and its adoption would not affect our current consolidated financial statements.



In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” FAS No. 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. The provisions of FAS No. 159 will be effective for us beginning February 1, 2008. We do not expect FAS No. 159 to have a significant impact on the consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, “Fair Value Measurements.” This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. We plan to adopt FAS No. 157 on February 1, 2008, as required. The adoption of FAS No. 157 is not expected to have a material impact on our financial condition and results of operations.

**Comparison of the Results of Operations for the Years Ended January 31, 2008 and 2007**

The following schedule compares the results of our operations for the years ended January 31, 2008 and 2007. Except where noted, the percentage amounts represent the percentage of net sales for the corresponding year.

	<b>2008</b>	<b>2007</b>
Net sales		
Power industry services	\$ 180,414,000	87.2%