

ARGAN INC  
Form 10-Q  
December 09, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended October 31, 2014**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT**

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-31756**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**  
(State or Other Jurisdiction)

**13-1947195**  
(I.R.S. Employer

of Incorporation)

Identification No.)

**One Church Street, Suite 201, Rockville, Maryland 20850**

(Address of Principal Executive Offices) (Zip Code)

**(301) 315-0027**

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed since Last Report)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 ☒

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common stock, \$0.15 par value: 14,531,201 shares as of December 4, 2014.



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**FORM 10-Q QUARTERLY REPORT**  
**OCTOBER 31, 2014**  
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**Table of Contents****ARGAN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>October 31, 2014 (Unaudited)</b>	<b>January 31, 2014 (Note 1)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 361,021,000	\$ 272,209,000
Accounts receivable, net of allowance for doubtful accounts	22,905,000	23,687,000
Costs and estimated earnings in excess of billings	314,000	527,000
Prepaid expenses	1,977,000	1,754,000
Notes receivable and accrued interest	1,711,000	204,000
Deferred income tax assets	517,000	178,000
<b>TOTAL CURRENT ASSETS</b>	<b>388,445,000</b>	<b>298,559,000</b>
Property, plant and equipment, net of accumulated depreciation (including \$1,617,000 in costs related to a variable interest entity as of October 31, 2014)	5,551,000	4,183,000
Goodwill	18,476,000	18,476,000
Intangible assets, net of accumulated amortization	1,906,000	2,088,000
<b>TOTAL ASSETS</b>	<b>\$ 414,378,000</b>	<b>\$ 323,306,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 44,941,000	\$ 22,589,000
Dividends payable	10,166,000	
Accrued expenses	15,228,000	7,912,000
Billings in excess of costs and estimated earnings	156,159,000	134,736,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>226,494,000</b>	<b>165,237,000</b>
Deferred income tax liabilities	295,000	292,000
<b>TOTAL LIABILITIES</b>	<b>226,789,000</b>	<b>165,529,000</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.10 per share 500,000 shares authorized; no shares issued and outstanding		
Common stock, par value \$0.15 per share 30,000,000 shares authorized; 14,532,434 and 14,289,134 shares issued at October 31 and January 31, 2014, respectively; 14,529,201 and 14,285,901 shares outstanding at October 31 and January 31, 2014, respectively	2,180,000	2,143,000

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Additional paid-in capital	107,223,000	100,863,000
Retained earnings	67,616,000	53,335,000
Treasury stock at cost 3,233 shares at October 31 and January 31, 2014	(33,000)	(33,000)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>176,986,000</b>	<b>156,308,000</b>
Noncontrolling interests (Note 2)	10,603,000	1,469,000
<b>TOTAL EQUITY</b>	<b>187,589,000</b>	<b>157,777,000</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 414,378,000</b>	<b>\$ 323,306,000</b>

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

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[Table of Contents](#)**ARGAN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>				
Power industry services	\$ 125,660,000	\$ 61,103,000	\$ 275,902,000	\$ 160,392,000
Telecommunications infrastructure services	1,904,000	2,349,000	4,883,000	7,572,000
Revenues	127,564,000	63,452,000	280,785,000	167,964,000
<b>COST OF REVENUES</b>				
Power industry services	95,863,000	38,012,000	215,174,000	104,062,000
Telecommunications infrastructure services	1,388,000	1,564,000	3,684,000	5,741,000
Cost of revenues	97,251,000	39,576,000	218,858,000	109,803,000
<b>GROSS PROFIT</b>	<b>30,313,000</b>	<b>23,876,000</b>	<b>61,927,000</b>	<b>58,161,000</b>
Selling, general and administrative expenses	5,473,000	3,545,000	13,332,000	8,589,000
<b>INCOME FROM OPERATIONS</b>	<b>24,840,000</b>	<b>20,331,000</b>	<b>48,595,000</b>	<b>49,572,000</b>
Gains on the deconsolidation of variable interest entities				2,444,000
Other income, net	99,000	261,000	162,000	827,000
<b>INCOME BEFORE INCOME TAXES</b>	<b>24,939,000</b>	<b>20,592,000</b>	<b>48,757,000</b>	<b>52,843,000</b>
Income tax expense	8,180,000	8,143,000	15,177,000	19,531,000
<b>NET INCOME</b>	<b>16,759,000</b>	<b>12,449,000</b>	<b>33,580,000</b>	<b>33,312,000</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>4,337,000</b>	<b>521,000</b>	<b>9,133,000</b>	<b>2,351,000</b>
<b>NET INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>	<b>\$ 12,422,000</b>	<b>\$ 11,928,000</b>	<b>\$ 24,447,000</b>	<b>\$ 30,961,000</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>				
Basic	\$ 0.86	\$ 0.85	\$ 1.70	\$ 2.21
Diluted	\$ 0.84	\$ 0.83	\$ 1.66	\$ 2.16

**WEIGHTED AVERAGE NUMBER OF  
SHARES OUTSTANDING**

Basic	14,470,000	14,093,000	14,390,000	14,022,000
Diluted	14,795,000	14,365,000	14,761,000	14,302,000

**CASH DIVIDEND DECLARED, PER  
COMMON SHARE (Note 3)**

\$	0.70	\$	0.75	\$	0.70	\$	0.75
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Table of Contents**ARGAN, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine Months Ended October 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 33,580,000	\$ 33,312,000
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Stock option compensation expense	1,489,000	1,152,000
Depreciation	423,000	407,000
Amortization of purchased intangibles	182,000	182,000
Deferred income tax (benefit) expense	(336,000)	1,482,000
Gains on the deconsolidation of variable interest entities		(2,444,000)
Changes in operating assets and liabilities:		
Accounts receivable, net	546,000	4,372,000
Costs and estimated earnings in excess of billings	213,000	973,000
Prepaid expenses and other assets	(308,000)	(1,110,000)
Accounts payable and accrued expenses	30,172,000	(12,124,000)
Billings in excess of costs and estimated earnings	21,423,000	1,856,000
Net cash provided by operating activities	87,384,000	28,058,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(1,842,000)	(925,000)
Net cash used in investing activities	(1,842,000)	(925,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from the exercise of stock options	3,884,000	2,506,000
Increase in notes receivable from project development entities	(614,000)	(2,326,000)
Payments received on loans made to Moxie Liberty		4,294,000
Deconsolidation of the cash of variable interest entities		(399,000)
Net cash provided by financing activities	3,270,000	4,075,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>88,812,000</b>	<b>31,208,000</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>272,209,000</b>	<b>175,142,000</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 361,021,000</b>	<b>\$ 206,350,000</b>

**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for income taxes	\$ 11,022,000	\$ 18,294,000
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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**ARGAN, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**OCTOBER 31, 2014**

**(Unaudited)**

**NOTE 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

**Description of the Business**

Argan, Inc. ( Argan ) conducts operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and its consolidated affiliates ( GPS ), which provide the substantial portion of consolidated revenues, and Southern Maryland Cable, Inc. ( SMC ). Argan and its consolidated subsidiaries are hereinafter referred to as the Company. Through GPS, the Company provides a full range of engineering, procurement, construction, commissioning, operations management, maintenance and consulting services to the power generation and renewable energy markets for a wide range of customers including public utilities and independent power project owners. Including its consolidated joint ventures and variable interest entities (see Note 2), GPS represents our power industry services business segment. Through SMC, the telecommunications infrastructure services segment provides project management, construction, installation and maintenance services to commercial, local government and federal government customers primarily in the mid-Atlantic region.

**Basis of Presentation**

The consolidated financial statements include the accounts of Argan, its wholly-owned subsidiaries, its majority-controlled joint ventures and any variable interest entities for which GPS is deemed to be the primary beneficiary (see Note 2). The Company's fiscal year ends on January 31. All significant inter-company balances and transactions have been eliminated in consolidation. In Note 14, the Company has provided certain financial information relating to the operating results and assets of its industry segments based on the manner in which management disaggregates the Company's financial reporting for purposes of making internal operating decisions.

The condensed consolidated balance sheet as of October 31, 2014, the condensed consolidated statements of operations for the three and nine months ended October 31, 2014 and 2013, and the condensed consolidated statements of cash flows for the nine months ended October 31, 2014 and 2013 are unaudited. The condensed consolidated balance sheet as of January 31, 2014 has been derived from audited financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, considered necessary to present fairly the financial position of the Company as of October 31, 2014 and the results of its operations and its cash flows for the interim periods presented. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements,

the notes thereto (including the summary of significant accounting policies), and the independent registered public accounting firm's report thereon that are included in the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended January 31, 2014 on April 15, 2014.

**Fair Values**

The carrying value amounts presented in the condensed consolidated balance sheets for the Company's cash and cash equivalents, accounts receivable, notes receivable and accounts payable are reasonable estimates of their fair values due to the short-term nature of these instruments. The fair value amounts of business segments (as needed for purposes of determining indications of impairment to the carrying value of goodwill) are determined using an average of valuations based on market multiples and discounted cash flows, and consideration of the Company's market capitalization.

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**Table of Contents****Revenues**

The following present revenues for the two categories of power industry services provided during the periods ended October 31, 2014 and 2013. Core services represent primarily the ongoing activities conducted pursuant to engineering, procurement and construction contracts for energy plant project owners. The revenues associated with project development services include additional amounts earned upon the success of activities performed by project developers including the closing of permanent financing.

Category of Service	Three Months Ended October 31,		Nine Months Ended October 31,	
	2014	2013	2014	2013
Core services	\$ 125,660,000	\$ 46,858,000	\$ 275,902,000	\$ 146,147,000
Project development services		14,245,000		14,245,000
Total Revenues	\$ 125,660,000	\$ 61,103,000	\$ 275,902,000	\$ 160,392,000

**Recently Issued Accounting Pronouncements**

On May 28, 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), in an effort to create a new, principles-based revenue recognition framework that may affect nearly every revenue-generating entity. In addition to superseding and replacing nearly all existing professional guidance, including industry-specific guidance, ASU 2014-09 does the following:

- 1) Establishes a new control-based revenue recognition model,
- 2) Changes the basis for deciding when revenue is recognized over time or at a point in time,
- 3) Provides new and more detailed guidance on specific aspects of revenue recognition, and
- 4) Expands and improves disclosures about revenue.

The new guidance is effective for public business entities, including the Company, for reporting periods beginning after December 15, 2016. In general, it appears that the Company will be entitled to use the percentage-of-completion method for its determination of substantial amounts of revenues earned on its construction contracts as it does currently. However, the ability to recognize revenues over time, and to satisfy the identified performance obligation(s) of a contract, will depend on whether the applic