

ARGAN INC  
Form 10-Q  
September 07, 2017

**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 July 31, 2017**

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**

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(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation)

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

Emerging growth company

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If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 15,543,719 shares as of September 5, 2017.

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**ARGAN, INC. AND SUBSIDIARIES**

**FORM 10-Q QUARTERLY REPORT**

**JULY 31, 2017**

**INDEX**

	<b>Page No.</b>	
<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>	<b>3</b>
Item 1.	Financial Statements.	3
	Condensed Consolidated Statements of Earnings for the Three and Six Months Ended July 31, 2017 and 2016	3
	Condensed Consolidated Balance Sheets as of July 31, 2017 and January 31, 2017	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 31, 2017 and 2016	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.	27
Item 4.	Controls and Procedures.	27
<b>PART II.</b>	<b>OTHER INFORMATION</b>	<b>28</b>
Item 1.	Legal Proceedings.	28
Item 1A.	Risk Factors.	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	28
Item 3.	Defaults upon Senior Securities.	28
Item 4.	Mine Safety Disclosures (not applicable to the Registrant).	
Item 5.	Other Information.	28
Item 6.	Exhibits.	28
<b>SIGNATURES</b>		<b>29</b>
<b>CERTIFICATIONS</b>		

## ARGAN, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2017	2016	2017	2016
<b>REVENUES</b>	\$ 259,803	\$ 162,495	\$ 490,292	\$ 292,843
Cost of revenues	208,396	118,483	398,789	220,529
<b>GROSS PROFIT</b>	51,407	44,012	91,503	72,314
Selling, general and administrative expenses	10,799	7,534	20,289	14,581
Impairment loss		1,979		1,979
<b>INCOME FROM OPERATIONS</b>	40,608	34,499	71,214	55,754
Other income, net	1,311	556	2,529	593
<b>INCOME BEFORE INCOME TAXES</b>	41,919	35,055	73,743	56,347
Income tax expense	14,601	11,756	25,676	18,928
<b>NET INCOME</b>	27,318	23,299	48,067	37,419
Net income attributable to non-controlling interests	179	3,625	303	5,515
<b>NET INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>	<b>27,139</b>	<b>19,674</b>	<b>47,764</b>	<b>31,904</b>
Foreign currency translation adjustments, net of tax	789	(511)	893	134
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>	<b>\$ 27,928</b>	<b>\$ 19,163</b>	<b>\$ 48,657</b>	<b>\$ 32,038</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>				
Basic	\$ 1.75	\$ 1.32	\$ 3.08	\$ 2.14
Diluted	\$ 1.72	\$ 1.29	\$ 3.03	\$ 2.09
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
Basic	15,514	14,939	15,491	14,899
Diluted	15,787	15,278	15,788	15,231

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

**ARGAN, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)

	July 31, 2017 (Unaudited)	January 31, 2017 (Note 1)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 153,225	\$ 167,198
Short-term investments	403,925	355,796
Accounts receivable	72,517	54,836
Costs and estimated earnings in excess of billings	8,194	3,192
Prepaid expenses and other current assets	4,766	6,927
<b>TOTAL CURRENT ASSETS</b>	<b>642,627</b>	<b>587,949</b>
Property, plant and equipment, net	14,821	13,112
Goodwill	34,913	34,913
Intangible assets, net	7,663	8,181
Deferred taxes	434	241
Other assets	514	92
<b>TOTAL ASSETS</b>	<b>\$ 700,972</b>	<b>\$ 644,488</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 131,001	\$ 101,944
Accrued expenses	33,116	39,539
Billings in excess of costs and estimated earnings	190,581	209,241
<b>TOTAL CURRENT LIABILITIES</b>	<b>354,698</b>	<b>350,724</b>
Deferred taxes	1,206	1,195
<b>TOTAL LIABILITIES</b>	<b>355,904</b>	<b>351,919</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)</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; 15,541,952 and 15,461,452 shares issued at July 31, 2017 and January 31, 2017, respectively; 15,538,719 and 15,458,219 shares outstanding at July 31, 2017 and January 31, 2017, respectively	2,331	2,319
Additional paid-in capital	140,182	135,426
Retained earnings	202,413	154,649
Accumulated other comprehensive income (loss)	131	(762)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>345,057</b>	<b>291,632</b>
Non-controlling interests	11	937
<b>TOTAL EQUITY</b>	<b>345,068</b>	<b>292,569</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 700,972</b>	<b>\$ 644,488</b>

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



## ARGAN, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended July 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 48,067	\$ 37,419
Adjustments to reconcile net income to net cash provided by operating activities		
Stock option compensation expense	2,315	1,270
Depreciation	1,210	918
Amortization of purchased intangible assets	518	521
Deferred income tax benefit	(153)	(11)
Impairment loss		1,979
Other	(78)	(202)
Changes in operating assets and liabilities		
Accounts receivable	(17,726)	31,484
Prepaid expenses and other assets	2,600	(993)
Accounts payable and accrued expenses	21,485	24,029
Billings in excess of costs and estimated earnings, net	(23,662)	16,293
Net cash provided by operating activities	34,576	112,707
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of short-term investments	(357,500)	(220,000)
Maturities of short-term investments	310,000	114,000
Purchases of property, plant and equipment	(2,802)	(1,612)
Loans made under notes receivable	(200)	
Net cash used in investing activities	(50,502)	(107,612)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the exercise of stock options	2,453	4,217
Distributions to joint venture partners	(1,229)	(7,500)
Net cash provided by (used in) financing activities	1,224	(3,283)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH</b>	729	134
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(13,973)	1,946
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	167,198	160,909
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 153,225	\$ 162,855
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for income taxes	\$ 19,754	\$ 13,939

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



**ARGAN, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JULY 31, 2017**

**(Tabular dollar amounts in thousands, except per share data)**

**(Unaudited)**

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

**Description of the Business**

The condensed consolidated financial statements include the accounts of Argan, Inc. ( Argan ), its wholly owned subsidiaries and its financially controlled joint ventures. Argan conducts operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates ( GPS ), which provided 89% and 84% of consolidated revenues for the six months ended July 31, 2017 and 2016, respectively; The Roberts Company, Inc. ( TRC ); Atlantic Projects Company Limited and affiliates ( APC ) and Southern Maryland Cable, Inc. ( SMC ). Argan and these consolidated subsidiaries are hereinafter cumulatively referred to as the Company.

Through GPS and APC, the Company provides a full range of engineering, procurement, construction, commissioning, operations management, maintenance, development, technical and consulting services to the power generation and renewable energy markets for a wide range of customers, including independent power project owners, public utilities, power plant equipment suppliers and global energy plant construction firms. GPS, including its consolidated joint ventures, and APC represent our power industry services reportable segment. Through TRC, the industrial fabrication and field services reportable segment provides on-site services that support maintenance turnarounds, shutdowns and emergency mobilizations for industrial plants primarily located in the southern United States and that are based on its expertise in producing, delivering and installing fabricated steel components such as pressure vessels, heat exchangers and piping systems. Through SMC, conducting business as SMC Infrastructure Solutions, 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**

In Note 14, the Company has provided certain financial information relating to the operating results and assets of its reportable segments based on the manner in which management disaggregates the Company's financial reporting for purposes of making internal operating decisions. All significant inter-company balances and transactions have been eliminated in consolidation. The deferred tax amounts included in the comparative balance sheet were reclassified to conform to the current year presentation. The Company's fiscal year ends on January 31 of each 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 ( US GAAP ) have been condensed or omitted pursuant to those

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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 for the fiscal year ended January 31, 2017.

The condensed consolidated balance sheet as of July 31, 2017, the condensed consolidated statements of earnings for the three and six months ended July 31, 2017 and 2016, and the condensed consolidated statements of cash flows for the six months ended July 31, 2017 and 2016 are unaudited. The condensed consolidated balance sheet as of January 31, 2017 ha