

ARGAN INC
Form 10-Q
September 09, 2015
Table of Contents

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, 2015

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

Edgar Filing: ARGAN INC - Form 10-Q

(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

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

Edgar Filing: ARGAN INC - Form 10-Q

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: 14,793,469 shares as of September 3, 2015.

Table of Contents

ARGAN, INC. AND SUBSIDIARIES

FORM 10-Q QUARTERLY REPORT

JULY 31, 2015

INDEX

	Page No.	
PART I.	FINANCIAL INFORMATION	3
<u>Item 1.</u>	Financial Statements	3
	<u>Condensed Consolidated Balance Sheets July 31, 2015 and January 31, 2015</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 31, 2015 and 2014</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 31, 2015 and 2014</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	30
<u>Item 4.</u>	<u>Controls and Procedures</u>	30
<u>PART II.</u>	<u>OTHER INFORMATION</u>	31
<u>Item 1.</u>	<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	<u>Risk Factors</u>	31
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>	31
<u>Item 4.</u>	<u>Mine Safety Disclosures (not applicable to the Registrant)</u>	
<u>Item 5.</u>	<u>Other Information</u>	31
<u>Item 6.</u>	<u>Exhibits</u>	32
<u>SIGNATURES</u>		32
CERTIFICATIONS		

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2015 (Unaudited)	January 31, 2015 (Note 1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 182,136,000	\$ 333,691,000
Short-term investments	117,064,000	
Accounts receivable, net of allowance for doubtful accounts	38,839,000	27,330,000
Costs and estimated earnings in excess of billings	2,943,000	455,000
Notes receivable and accrued interest, net of allowance for doubtful amounts	6,281,000	1,786,000
Prepaid expenses and other current assets	2,856,000	1,092,000
TOTAL CURRENT ASSETS	350,119,000	364,354,000
Property, plant and equipment, net of accumulated depreciation (including \$2,658,000 in costs related to the variable interest entity as of January 31, 2015)	5,189,000	6,518,000
Goodwill	22,887,000	18,476,000
Intangible assets, net of accumulated amortization	1,863,000	1,845,000
TOTAL ASSETS	\$ 380,058,000	\$ 391,193,000
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 32,392,000	\$ 37,691,000
Accrued expenses	24,022,000	15,976,000
Billings in excess of costs and estimated earnings	114,587,000	161,564,000
Deferred income taxes	656,000	201,000
TOTAL CURRENT LIABILITIES	171,657,000	215,432,000
Deferred income taxes	821,000	809,000
TOTAL LIABILITIES	172,478,000	216,241,000
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS EQUITY		
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; 14,792,702 and 14,634,434 shares issued at July 31 and January 31, 2015, respectively; 14,789,469 and 14,631,201 shares outstanding at July 31 and January 31, 2015, respectively	2,219,000	2,195,000
Additional paid-in capital	115,621,000	109,696,000
Retained earnings	92,418,000	73,614,000
Treasury stock, at cost 3,233 shares at July 31 and January 31, 2015	(33,000)	(33,000)
TOTAL STOCKHOLDERS EQUITY	210,225,000	185,472,000
Noncontrolling interests (Note 3)	(2,645,000)	(10,520,000)
TOTAL EQUITY	207,580,000	174,952,000
TOTAL LIABILITIES AND EQUITY	\$ 380,058,000	\$ 391,193,000

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
REVENUES				
Power industry services	\$ 93,471,000	\$ 100,418,000	\$ 176,355,000	\$ 150,242,000
Telecommunications infrastructure services	3,963,000	1,612,000	6,566,000	2,979,000
Revenues	97,434,000	102,030,000	182,921,000	153,221,000
COST OF REVENUES				
Power industry services	66,136,000	79,261,000	128,515,000	119,311,000
Telecommunications infrastructure services	2,805,000	1,205,000	4,746,000	2,296,000
Cost of revenues	68,941,000	80,466,000	133,261,000	121,607,000
GROSS PROFIT	28,493,000	21,564,000	49,660,000	31,614,000
Selling, general and administrative expenses	4,848,000	4,481,000	10,387,000	7,859,000
INCOME FROM OPERATIONS	23,645,000	17,083,000	39,273,000	23,755,000
Other income, net	128,000	41,000	212,000	63,000
INCOME BEFORE INCOME TAXES	23,773,000	17,124,000	39,485,000	23,818,000
Income tax expense	7,939,000	5,104,000	12,800,000	6,997,000
NET INCOME	15,834,000	12,020,000	26,685,000	16,821,000
Net income attributable to noncontrolling interests	4,527,000	3,470,000	7,875,000	4,796,000
NET INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.	\$ 11,307,000	\$ 8,550,000	\$ 18,810,000	\$ 12,025,000
EARNINGS PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.				
Basic	\$ 0.77	\$ 0.59	\$ 1.28	\$ 0.84
Diluted	\$ 0.75	\$ 0.58	\$ 1.26	\$ 0.82
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	14,747,000	14,399,000	14,693,000	14,350,000
Diluted	15,003,000	14,655,000	14,952,000	14,641,000

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended July 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 26,685,000	\$ 16,821,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Stock option compensation expense	1,057,000	968,000
Depreciation	258,000	283,000
Amortization of purchased intangibles	164,000	121,000
Deferred income tax expense (benefit)	185,000	(125,000)
Gain on the deconsolidation of a variable interest entity	(264,000)	
Changes in operating assets and liabilities:		
Accounts receivable	(5,774,000)	(10,766,000)
Costs and estimated earnings in excess of billings	945,000	97,000
Prepaid expenses and other assets	(1,133,000)	(1,098,000)
Accounts payable and accrued expenses	(3,739,000)	17,407,000
Billings in excess of costs and estimated earnings	(46,977,000)	46,848,000
Net cash (used in) provided by operating activities	(28,593,000)	70,556,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments, net	(117,000,000)	
Purchase of APC, net of cash acquired (Note 2)	(4,210,000)	
Purchases of property, plant and equipment	(2,503,000)	(199,000)
Loans to energy project developers	(605,000)	(320,000)
Net cash used in investing activities	(124,318,000)	(519,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	1,000,000	2,282,000
Excess income tax benefit on exercised stock options	356,000	630,000
Net cash provided by financing activities	1,356,000	2,912,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(151,555,000)	72,949,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	333,691,000	272,209,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 182,136,000	\$ 345,158,000
SUPPLEMENTAL CASH FLOW INFORMATION (also see Note 2)		
Cash paid for income taxes	\$ 10,703,000	\$ 5,153,000

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2015

(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, its majority-controlled joint ventures and any variable interest entities for which Argan or one of its wholly-owned subsidiaries is deemed to be the primary beneficiary. Argan conducts operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates (GPS), which provided 95% and 98% of consolidated revenues for the six months ended July 31, 2015 and 2014, respectively; Atlantic Projects Company Limited and affiliates (APC, see Note 2) and Southern Maryland Cable, Inc. (SMC). Argan and these consolidated subsidiaries are hereinafter referred to as the Company. All significant inter-company balances and transactions have been eliminated in consolidation. The Company's fiscal year ends on January 31.

Through GPS and APC, the Company provides a full range of engineering, procurement, construction, commissioning, operations management, maintenance, development 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 variable interest entities (see Note 3), and APC represent our power industry services reportable 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. In Note 16, 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.

Basis of Presentation

The condensed consolidated balance sheet as of July 31, 2015, the condensed consolidated statements of operations for the three and six months ended July 31, 2015 and 2014, and the condensed consolidated statements of cash flows for the six months ended July 31, 2015 and 2014 are unaudited. The condensed consolidated balance sheet as of January 31, 2015 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 July 31, 2015, 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.

Edgar Filing: ARGAN INC - Form 10-Q

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, 2015 on April 16, 2015.

Fair Values

The carrying value amounts presented in the condensed consolidated balance sheets for the Company's cash and cash equivalents, short-term investments, 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 operating segments (as needed for purposes of identifying indications of impairment to the carrying value of goodwill) are determined by averaging valuation amounts that are calculated using several market-based and income-based approaches deemed appropriate for the circumstances.

Table of Contents

Foreign Currency

The effects of translating the financial statements of APC (see Note 2) from its functional currency (Euros) into the Company's reporting currency (US Dollars) would be properly recognized as a cumulative translation adjustment in accumulated other comprehensive income (loss) which is net of tax, where applicable. However, the amount of the adjustment for the current period was not material. Net foreign currency transaction losses were included in the other income (expense) section of the Company's condensed consolidated statements of operations in the net amount of \$219,000 for both the three and six months ended July 31, 2015.

Recently Issued Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") issued substantially converged final standards on revenue recognition in an effort to create a new, principles-based revenue recognition framework that may affect nearly every revenue-generating entity. Upon their effectiveness, the new standards will generally supersede and replace nearly all existing professional guidance included in US GAAP and the International Financial Reporting Standards (IFRS), including industry-specific guidance. The FASB's new revenue recognition standard, Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), as amended, will do the following:

- 1) Establish a new control-based revenue recognition model,
- 2) Change the basis for deciding when revenue is recognized over time or at a point in time,
- 3) Provide new and more detailed guidance on specific aspects of revenue recognition, and
- 4) Expand and improve disclosures about revenue.

In the United States, the new guidance, as amended, is effective for public business entities, including the Company, for reporting periods beginning after December 15, 2017. In general, it appears that the Company will determine contract revenues by using an approach substantially similar to the "percentage-of-completion" method that the Company uses currently in order to determine substantial amounts of revenues earned on its construction contracts. However, pursuant to the new guidance, the ability to recognize revenues over time, and to satisfy the identified performance obligation(s) of a contract, will depend on whether the applicable contract transfers control of the good and/or service provided by the Company thereunder to the applicable project owner. The Company has not assessed the full impact of the new requirements on its consolidated financial statements including an evaluation of the alternative application approaches that are provided. Entities are permitted to apply the new revenue standard either retrospectively, subject to some practical expedients, or through an alternative transition method that requires a registrant to apply the guidance only to contracts that are uncompleted on the date of initial application.

NOTE 2 PURCHASE OF ATLANTIC PROJECTS COMPANY LIMITED

Edgar Filing: ARGAN INC - Form 10-Q

On May 29, 2015 (the Acquisition Date), a wholly owned subsidiary of the Company purchased 100% of the outstanding capital stock of Atlantic Projects Company Limited, a private company incorporated in the Republic of Ireland. This business combination was completed pursuant to the terms and conditions of a Share Purchase Agreement, dated May 11, 2015 (the SPA). Formed in Dublin over forty years ago and including its affiliated companies, APC provides turbine, boiler and large rotating equipment installation, commissioning and outage services to original equipment manufacturers, global construction firms and plant owners worldwide. APC has successfully completed projects in more than thirty countries on six continents. With its presence in Ireland and its other offices located in Hong Kong, Singapore and New York, APC expands the Company's operations internationally. APC will continue to operate under its own name and with its own management team as a member of the Company's group of companies.

The fair value on the Acquisition Date of the consideration transferred to the former owners of APC was \$11,101,000 (the Consideration) including \$6,484,000 cash paid at closing, a liability in the amount of \$1,081,000 representing cash held back until the expiration of the twelve-month escrow period and approximately 99,000 issued shares of the Company's common stock which was valued at \$3,536,000 based on the closing price of the Company's common stock on the Acquisition Date. In addition, the former owners of APC are entitled to receive a cash dividend declared by APC prior to the acquisition in the aggregate amount of approximately \$3,311,000 which was determined pursuant to the terms of the SPA. This obligation is included in accrued expenses in the Company's condensed consolidated balance sheet as of July 31, 2015.

Table of Contents

The amount of net cash used in the acquisition of APC is p