

ARGAN INC
Form 10-K/A
September 18, 2014
Table of Contents

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

FORM 10-K/A
(Amendment No. 2)

x **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the Fiscal Year Ended January 31, 2014

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 201, Rockville, Maryland
(Address of Principal Executive Offices)
(301) 315-0027

20850
(Zip Code)

(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	NYSE
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.

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 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 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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$135,319,000 on July 31, 2013 (the last business day of the Registrant's second fiscal quarter), based upon the closing price on the NYSE MKT stock exchange as reported for 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 10, 2014: 14,329,401 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders which was held on June 24, 2014 are incorporated by reference in Part III.

Table of Contents

DESCRIPTION OF AMENDMENT

This Form 10-K/A is filed to amend the Annual Report on Form 10-K filed April 15, 2014 (the 2014 Annual Report) by refiling the complete text of Item 8. Financial Statements and Supplementary Data, including the revised Reports of Independent Registered Public Accounting Firm with the dates correctly stated in the last paragraph of each report and currently dated management certifications that refer to this Amendment to the 2014 Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the Index to the Consolidated Financial Statements on page 4 of this Amendment to our 2014 Annual Report on Form 10-K/A which index and material referenced therein is incorporated herein.

ITEM 15. EXHIBITS.

The following exhibits are filed as part of this Amendment to our 2014 Annual Report on Form 10-K/A:

Exhibit No.	Description
31.1	Certification of CEO required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of CFO required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of CFO required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARGAN, INC.

By: */s/ Rainer H. Bosselmann*

Rainer H. Bosselmann
Chairman of the Board and Chief Executive Officer
Dated: September 18, 2014

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2014

The following financial statements (including the notes thereto and the Reports of Independent Registered Public Accounting Firm with respect thereto), are filed as part of this Amendment to our 2014 Annual Report on Form 10-K/A.

	Page No.
<u>Reports of Grant Thornton LLP, Independent Registered Public Accounting Firm</u>	- 4 -
<u>Consolidated Balance Sheets at January 31, 2014 and 2013</u>	- 6 -
<u>Consolidated Statements of Operations for the years ended January 31, 2014, 2013 and 2012</u>	- 7 -
<u>Consolidated Statements of Stockholders' Equity for the years ended January 31, 2014, 2013 and 2012</u>	- 8 -
<u>Consolidated Statements of Cash Flows for the years ended January 31, 2014, 2013 and 2012</u>	- 9 -
<u>Notes to Consolidated Financial Statements</u>	- 10 -

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Argan, Inc.

We have audited the internal control over financial reporting of Argan, Inc. (a Delaware corporation) and subsidiaries (the Company) as of January 31, 2014, based on criteria established in the 1992 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2014, based on criteria established in the 1992 *Internal Control Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended January 31, 2014, and our report dated April 14, 2014 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

McLean, Virginia

April 14, 2014

- 4 -

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of Argan, Inc.

We have audited the accompanying consolidated balance sheets of Argan, Inc. (a Delaware corporation) and subsidiaries (the Company) as of January 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended January 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Argan, Inc. and subsidiaries as of January 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2014, based on criteria established in the 1992 *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 14, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ GRANT THORNTON LLP

McLean, Virginia

April 14, 2014

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JANUARY 31,

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 272,209,000	\$ 175,142,000
Accounts receivable, net of allowance for doubtful accounts	23,687,000	24,879,000
Costs and estimated earnings in excess of billings	527,000	1,178,000
Deferred income tax assets	178,000	1,303,000
Prepaid expenses and other current assets	1,958,000	1,606,000
TOTAL CURRENT ASSETS	298,559,000	204,108,000
Property, plant and equipment, net of accumulated depreciation (including \$5,309,000 in costs related to variable interest entities as of January 31, 2013)	4,183,000	9,468,000
Goodwill	18,476,000	18,476,000
Intangible assets, net of accumulated amortization	2,088,000	2,331,000
Deferred income tax and other assets		341,000
TOTAL ASSETS	\$ 323,306,000	\$ 234,724,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 22,589,000	\$ 32,699,000
Accrued expenses	7,911,000	9,488,000
Billings in excess of costs and estimated earnings	134,736,000	73,359,000
TOTAL CURRENT LIABILITIES	165,236,000	115,546,000
Deferred income tax and other liabilities	293,000	10,000
TOTAL LIABILITIES	165,529,000	115,556,000
COMMITMENTS AND CONTINGENCIES (see Notes 11 and 12)		
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; 14,289,134 and 13,977,560 shares issued at January 31, 2014 and 2013, respectively; 14,285,901 and 13,974,327 shares outstanding at January 31, 2014 and 2013, respectively	2,143,000	2,096,000
Additional paid-in capital	100,863,000	95,004,000
Retained earnings	53,335,000	23,850,000
Treasury stock at cost 3,233 shares at January 31, 2014 and 2013	(33,000)	(33,000)

TOTAL STOCKHOLDERS EQUITY	156,308,000	120,917,000
Noncontrolling interests	1,469,000	(1,749,000)
TOTAL EQUITY	157,777,000	119,168,000
TOTAL LIABILITIES AND EQUITY	\$ 323,306,000	\$ 234,724,000

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JANUARY 31,

	2014	2013	2012
Revenues			
Power industry services	\$ 218,649,000	\$ 261,327,000	\$ 132,519,000
Telecommunications infrastructure services	8,806,000	17,308,000	9,331,000
Revenues	227,455,000	278,635,000	141,850,000
Cost of revenues			
Power industry services	141,807,000	214,817,000	111,193,000
Telecommunications infrastructure services	6,800,000	13,683,000	7,555,000
Cost of revenues	148,607,000	228,500,000	118,748,000
Gross profit	78,848,000	50,135,000	23,102,000
Selling, general and administrative expenses	12,918,000	14,350,000	11,186,000
	65,930,000	35,785,000	11,916,000
Gains on the deconsolidation of variable interest entities	2,444,000		
Other income (expense), net	961,000	(43,000)	48,000
Income from continuing operations before income taxes	69,335,000	35,742,000	11,964,000
Income tax expense	25,991,000	13,640,000	4,556,000
Income from continuing operations	43,344,000	22,102,000	7,408,000
Discontinued operations			
(Loss) income from discontinued operations before income tax benefit (see Note 19)		(405,000)	282,000
Income tax benefit		120,000	1,280,000
(Loss) income from discontinued operations		(285,000)	1,562,000
Net income	43,344,000	21,817,000	8,970,000
Income (loss) attributable to noncontrolling interests	3,219,000	(1,448,000)	(302,000)
Net income attributable to the stockholders of Argan, Inc.	\$ 40,125,000	\$ 23,265,000	\$ 9,272,000
Earnings (loss) per share attributable to the stockholders of Argan, Inc.			
Continuing operations (see Note 15)			

Edgar Filing: ARGAN INC - Form 10-K/A

Basic	\$	2.85	\$	1.71	\$	0.57
Diluted	\$	2.78	\$	1.67	\$	0.56
Discontinued operations						
Basic			\$	(0.02)	\$	0.11
Diluted			\$	(0.02)	\$	0.11
Net income						
Basic	\$	2.85	\$	1.69	\$	0.68
Diluted	\$	2.78	\$	1.65	\$	0.67
Weighted average number of shares outstanding						
Basic		14,072,000		13,784,000		13,612,000
Diluted		14,427,000		14,116,000		13,792,000
Cash dividend per common share	\$	0.75	\$	0.60	\$	0.50

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED JANUARY 31, 2014, 2013 AND 2012

	Common Stock Outstanding Shares	Par Value	Warrants	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interests	Treasury Stock	Total Equity
Balance, February 1, 2011	13,598,994	\$ 2,040,000	\$ 601,000	\$ 88,561,000	\$ 6,476,000	\$	\$ (33,000)	\$ 97,645,000
Net income (loss)					9,272,000	(302,000)		8,970,000
Exercise of stock options	55,038	8,000		499,000				507,000
Conversion of stock warrants	3,000	1,000	(11,000)	33,000				23,000
Stock option vesting				637,000				637,000
Reversal of excess tax benefit on forfeited stock options				(16,000)				(16,000)
Dividends					(6,804,000)			(6,804,000)
Other	833					1,000		1,000
Balance, January 31, 2012	13,657,865	2,049,000	590,000	89,714,000	8,944,000	(301,000)	(33,000)	100,963,000
Net income (loss)					23,265,000	(1,448,000)		21,817,000
Exercise of stock options	153,962	23,000		1,413,000				1,436,000
Conversion of stock warrants	160,000	24,000	(590,000)	1,806,000				1,240,000
Stock option vesting				1,316,000				1,316,000
Release of restricted stock	2,500			25,000				25,000
Excess tax benefit on exercised stock options and converted				730,000				730,000

warrants								
Dividends					(8,359,000)			(8,359,000)
Balance, January 31, 2013	13,974,327	2,096,000		95,004,000	23,850,000	(1,749,000)	(33,000)	119,168,000
Net income					40,125,000	3,219,000		43,344,000
Exercise of stock options	309,074	46,000		3,722,000				3,768,000
Stock option vesting				1,536,000				1,536,000
Release of restricted stock	2,500	1,000		25,000				26,000
Excess tax benefit on exercised stock options				576,000				576,000
Dividends					(10,640,000)			(10,640,000)
Deconsolidation of VIEs						(1,000)		(1,000)
Balance, January 31, 2014	14,285,901	\$ 2,143,000	\$	\$ 100,863,000	\$ 53,335,000	\$ 1,469,000	\$ (33,000)	\$ 157,777,000

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31,

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 43,344,000	\$ 21,817,000	\$ 8,970,000
Removal of loss (income) on discontinued operations		285,000	(1,562,000)
Income from continuing operations	43,344,000	22,102,000	7,408,000
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:			
Gains on the deconsolidation of variable interest entities	(2,444,000)		
Non-cash stock compensation expense	1,536,000	1,316,000	637,000
Depreciation	549,000	522,000	455,000
Amortization of purchased intangible assets	243,000	243,000	334,000
Deferred income tax expense (benefit)	1,701,000	(139,000)	(51,000)
Changes in operating assets and liabilities:			
Accounts receivable	1,294,000	(8,826,000)	(2,976,000)
Restricted cash			1,243,000
Costs and estimated earnings in excess of billings	722,000	1,603,000	(1,338,000)
Prepaid expenses and other assets	598,000	2,943,000	(4,020,000)
Accounts payable and accrued expenses	(9,937,000)	6,489,000	20,270,000
Billings in excess of costs and estimated earnings	61,377,000	5,389,000	58,088,000
Net cash provided by continuing operating activities	98,983,000	31,642,000	80,050,000
Net cash used in discontinued operating activities		(78,000)	(1,335,000)
Net cash provided by operating activities	98,983,000	31,564,000	78,715,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment, net	(1,136,000)	(7,263,000)	(1,738,000)
Net cash provided by the sale of the assets of VLI			2,528,000
Net cash (used in) provided by investing activities	(1,136,000)	(7,263,000)	790,000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Loans to deconsolidated variable interest entities	(2,450,000)		
Payments received on loans made to deconsolidated variable interest entities	8,915,000		
Deconsolidation of the cash of variable interest entities	(399,000)		
Proceeds from the exercise of stock options and conversion of warrants	3,794,000	2,676,000	531,000
Dividends	(10,640,000)	(8,359,000)	(6,804,000)

Net cash used in financing activities	(780,000)	(5,683,000)	(6,273,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,067,000	18,618,000	73,232,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	175,142,000	156,524,000	83,292,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 272,209,000	\$ 175,142,000	\$ 156,524,000
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for income taxes	\$ 24,723,000	\$ 9,977,000	\$ 5,097,000

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

Table of Contents

ARGAN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2014, 2013 AND 2012

NOTE 1 DESCRIPTION OF THE BUSINESS

Argan, Inc. (Argan) conducts continuing operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates (GPS), which provide the substantial portion of consolidated revenues, and Southern Maryland Cable, Inc. (SMC). Argan and these 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. The combination of GPS and its consolidated joint ventures and variable interest entities represents our power industry services business segment. Through SMC, the services of the telecommunications infrastructure services segment include project management, construction, installation and maintenance provided to commercial, local government and federal government customers primarily in the mid-Atlantic region.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 3). The Company's fiscal year ends on January 31. All significant inter-company balances and transactions have been eliminated in consolidation. In Note 16, 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.

Use of Estimates The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make use of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, expenses, and certain financial statement disclosures. Management believes that the estimates, judgments and assumptions upon which it relies are reasonable based upon information available to it at the time that these estimates, judgments and assumptions are made. Estimates are used for, but are not limited to, the Company's accounting for revenue recognition, the determination of the allowance for doubtful accounts, the valuation of assets with long and indefinite lives including goodwill, the evaluation of contingent obligations and the valuation of deferred taxes. Actual results could differ from these estimates.

Fair Values Current professional accounting guidance applies to all assets and liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The requirements prescribe a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value. A Level 1 input includes a quoted market price in an active market or the price of an identical asset or liability. Level 2 inputs are market data other than Level 1 inputs that are observable either directly or indirectly including quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

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

Table of Contents

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation amounts are determined using the straight-line method over the estimated useful lives of the assets, other than land, which are generally from five to thirty-nine years. Building and leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the related asset or the lease term, as applicable. The costs of maintenance and repairs are expensed as incurred and major improvements are capitalized. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in earnings.

Goodwill At least annually, the Company reviews the carrying value of goodwill for impairment. Goodwill impairment is determined using the two-step process.

The first step of the impairment test is to identify a potential impairment by comparing the fair value of the reporting unit with its carrying amount, including goodwill. The estimate of fair value of the reporting unit, generally a company's operating segment, is determined using various valuation techniques, with the principal techniques being a discounted cash flow analysis and market multiple valuation. A discounted cash flow analysis requires making various judgmental assumptions, including assumptions about future cash flows, growth rates and discount rates. After taking into consideration industry and company trends, if the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not deemed impaired and the second step of the impairment test is not performed. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any.

The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the corresponding carrying amount. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. Accordingly, the fair value of the reporting unit is allocated to all of the assets and liabilities of that reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. Nonetheless, the Company would evaluate any of these assets for impairment more frequently if events or changes in circumstances indicate that an asset value might be impaired.

Long-Lived Assets The carrying amount of long-lived assets, consisting primarily of property, plant and equipment and purchased intangible assets with definite lives, are reviewed for impairment whenever events or changes in circumstances indicate that a carrying amount should be assessed. The Company compares the carrying value of the long-lived asset to the undiscounted future cash flows expected to result from the use of the asset. In the event the Company determines that the carrying value of the asset is not recoverable, a loss would be recognized based on the amount by which the carrying value exceeds the fair value of the asset. Fair value 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 useful lives and amortization of purchased intangible assets are described in Note 9.

Revenue Recognition, Power Industry Services Revenues are recognized under various construction agreements, including agreements for which revenues are based on either a fixed price or cost-plus-fee basis, with typical durations of one to three years. 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. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined.

Unapproved change orders, which represent contract variations for which the Company has project owner approval for scope changes but not for the price associated with the scope changes, are reflected in revenues when it is probable that the applicable costs will be recovered through a change in the contract price. As of January 31, 2014, there were no material unapproved change orders included in the total contract value amounts or reflected in the estimated total cost amounts of the contracts in progress. Disputed change orders that are unapproved in regard to both scope and price are considered claims. The Company recognizes revenues related to a claim only when an agreement on the amount has been reached with the project owner. Construction agreements may contain incentive fees that provide for increasing the Company's total fee on a particular contract based on the actual amount of costs incurred in relation to an agreed upon target cost. The Company includes such fees in the determination of total estimated revenues when management believes that it is probable that such fees have been earned, which is typically near the end of the contract performance period.

Table of Contents

The following schedule presents revenues for the two categories of power industry services provided during the years ended January 31, 2014, 2013 and 2012. Core services represent primarily the ongoing activities conducted pursuant to engineering, construction and procurement 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	2014	2013	2012
Core services	\$ 191,597,000	\$ 261,327,000	\$ 132,519,000
Project development services	27,052,000		
Revenues	\$ 218,649,000	\$ 261,327,000	\$ 132,519,000

Revenue Recognition, Telecommunications Infrastructure Services This business segment generates revenues under various arrangements, including contracts for which revenues are based on either a fixed price or a time and materials basis. Revenues from time and materials contracts are recognized when the related services are provided to the customer. Revenues from fixed price contracts, including portions of estimated profit, are recognized as services are provided, based on costs incurred and estimated amounts of total contract costs using the percentage of completion method. Many of the contracts include multiple deliverables. Because these projects are fully integrated undertakings, the Company cannot separate the services provided into individual components. Losses on contracts, if any, are recognized in the periods in which they become known.

Income Taxes Deferred tax assets and liabilities are recognized using enacted tax rates for the effects of temporary differences between the book and tax bases of recorded assets and liabilities. If management believes that it is more likely than not that some portion or all of a deferred tax asset will not be realized, the carrying value will be reduced by a valuation allowance. The Company adopted the accounting and disclosure guidance for uncertainty in income taxes. There has not been any material effect on the consolidated financial statements as the result of adopting these requirements.

Stock-Based Compensation The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based upon fair value at the date of award using a fair value based option pricing model. The compensation expense is recognized over the requisite service period.

NOTE 3 SPECIAL PURPOSE ENTITIES**Consolidation of the Moxie Project Entities**

Moxie Energy, LLC (Moxie), a Delaware limited liability company, formed a pair of wholly-owned limited liability companies in order to sponsor the development of two natural gas-fired power plant projects (the Moxie Projects). The strategy of Moxie was to build the corresponding power plants in the Marcellus Shale region of Pennsylvania near the natural gas source, eliminating the need to transport natural gas via pipelines over long distances to supply the power production plants. The Moxie Project entities, Moxie Liberty LLC (Moxie Liberty) and Moxie Patriot LLC (Moxie Patriot) together referred to as the Moxie Project Entities, were engaged in the lengthy process of planning, obtaining permits and arranging financing for the construction, ownership and operation of the power plants.

Under a development agreement with Moxie, as amended and restated, Gemma Power, Inc. (GPI, an affiliate included in the GPS group of companies and wholly owned by Argan) supported the development of these two projects with

loans that were made in order to cover most of the costs of the development efforts. GPI was authorized by the Company's board of directors to extend loans to the Moxie Project Entities that could total up to \$10 million. Moxie supported the arrangement by providing GPI with a first priority lien and security interest in all of the assets of the Moxie Project Entities, limited recourse guarantees of all of the obligations of the entities, and first priority liens on its membership interests in the two entities. The admission of any additional investor that would change the control of Moxie or either of the Moxie Project Entities required the prior approval of GPI. Pursuant to the development agreement, Moxie provided GPI with the right to receive development success fees and granted GPS the right to provide construction services for the two projects under engineering, procurement and construction contracts.

Table of Contents

Primarily due to the Moxie Project Entities not having sufficient equity investment to permit the entities to finance their activities without additional financial support, these entities were considered to be variable interest entities (VIEs). Despite not having an ownership interest in the Moxie Project Entities, GPI was the primary beneficiary of these VIEs due substantially to the significance of GPI's loans to the entities, the risk that GPI could absorb significant losses if the development projects were not successful, the opportunity for GPI to receive development success fees and the intent of the parties for GPS to be awarded large contracts for the construction of the two power plants. Accordingly, the Company included the accounts of the VIEs of Moxie in its consolidated financial statements for the years ended January 31, 2013 and 2012.

The loss (net of income tax benefit) associated with the Moxie Project Entities incurred prior to the deconsolidation of the entities described below, and therefore included in the consolidated results of operations for the year ended January 31, 2014, was approximately \$77,000. The losses (net of income tax benefit) associated with the Moxie Project Entities and included in the consolidated results of operations for the years ended January 31, 2013 and 2012 totaled \$1,448,000 and \$302,000, respectively.

Deconsolidation of the Moxie Project Entities

During the year ended January 31, 2014, Moxie reached agreements for the purchase of its membership interests in the Moxie Project Entities by affiliates of Panda Power Funds (Panda). The consummation of the purchase of each Moxie Project Entity was contingent upon Panda securing permanent financing for the corresponding project. In order to support the continuing progress of each project, Panda 1) provided collateral supporting the rights of Moxie Liberty and Moxie Patriot to connect to the electricity grid, 2) made equipment deposit payments to the manufacturer of the natural gas-fired turbines, and 3) commenced payments to GPS under the corresponding engineering, procurement and construction contracts after the Moxie Project Entities provided GPS with limited notices-to-proceed. The equipment deposit funding was provided by Panda under secured loans. The membership interest purchase agreements required the Moxie Project Entities to continue to conduct the remaining development activities. However, the rights of the Moxie Project Entities to conduct any activities that deviated from the development plans were subject to the approval of Panda. Also, GPI consented to the secured lending arrangements with Panda and agreed to equal priority regarding claims (neither party had a priority of payment over or was subordinate to the other) and the methods for sharing the proceeds of any debt payments made by the Moxie Project Entities. In addition, the Moxie Project Entities entered into separate engineering, procurement and construction contracts with GPS for the Liberty and Patriot Power Projects (the EPC Contracts).

With the completion of the agreements described above, the power to direct the economic activities of the Moxie Project Entities that most affected their economic performance shifted. GPI was no longer the primary beneficiary of either of the VIEs. Panda became the primary source of financial support for the pre-construction phase of the related projects, providing significant financing in order to secure connections to the electricity grid and to pay for the natural gas-fired turbines, the most significant equipment components of the power plants. Through the EPC Contracts, GPS transitioned into its typical role of engineering, procurement and construction contractor where it is subject to the direction of the owner of the projects. Panda funded payments made to GPS in order to cover certain costs incurred under the EPC Contracts. Further, the identification of sources and structuring of the permanent financing for the Moxie Projects were activities directed and completed primarily by Panda. As a result, the Company ceased the consolidation of the Moxie Project Entities during the current fiscal year. The elimination of the accounts of Moxie Project Entities from the Company's consolidated financial statements, including the accumulated net losses of these VIEs, resulted in pre-tax gains recognized by GPI which totaled \$2,444,000.

Development Success Fees Associated with the Moxie Project Entities

In August and December 2013, respectively, Panda completed the purchase of and permanent financing for Moxie Liberty and Moxie Patriot and renamed the project entities Panda Liberty LLC (Panda Liberty) and Panda Patriot LLC (Panda Patriot). Also, GPS received full notices-to-proceed under the EPC Contracts. In connection with the closings, GPI received cash from the Moxie Project Entities in the aggregate amount of \$37,863,000, including the receipt of the development success fees in the total amount of \$27,052,000 which has been included in the revenues of the power industry services segment for the year ended January 31, 2014 and the repayment of notes receivable and accrued interest in the aggregate amount of \$10,811,000. From the dates of deconsolidation through the dates of purchase of the Moxie Project Entities by Panda, GPI earned interest income on its notes receivable in the aggregate amount of \$952,000. This amount was included in other income in the consolidated statement of operations for the year ended January 31, 2014.

Table of Contents

As GPI was not relieved of its responsibility to provide working capital funding for the Moxie Projects (its primary responsibility under the related development agreement) until the closing of their purchases by Panda, and as the Moxie Projects did not have the means to pay development success fees until the financial closings occurred, the development success fees related to each Moxie Project were not earned or realizable until GPI received payment of the fees at the closing of each purchase. Management concluded that the earnings process related to the development success fees was completed on the closing dates which occurred in December 2013 and August 2013 for Moxie Patriot and Moxie Liberty, respectively. Accordingly, we recognized the fees related to each project at the time of the corresponding closing.

Construction Joint Ventures

During the current year, GPS assigned the EPC Contracts to two separate joint ventures that were formed in order to perform the work for the applicable project and to spread the bonding risk of each project. The joint venture partner for both projects is a large, heavy civil contracting firm. The joint venture agreements provide that GPS has the majority interest in any profits, losses, assets and liabilities that may result from the performance of the EPC Contracts. However, if the joint venture partner is unable to pay its share of any losses, GPS would be fully liable for those losses incurred under the EPC Contracts. GPS has no significant commitments under these arrangements beyond those related to the completion of the EPC Contracts. The joint venture partners will dedicate resources that are necessary to complete the projects and will be reimbursed for their costs. GPS expects to perform most of the activities of the EPC Contracts. Due to the financial control of GPS, the accounts of the joint ventures were included in the consolidated financial statements for the year ended January 31, 2014.

NOTE 4 PAYMENT OF SPECIAL CASH DIVIDENDS

In September 2013, the Company's board of directors declared a special cash dividend of \$0.75 per share of common stock, which was paid on November 7, 2013 to stockholders of record at the close of business on October 15, 2013. During the years ended January 31, 2013 and 2012, the Company declared and paid special cash dividends of \$0.60 and \$0.50 per share of common stock, respectively.

NOTE 5 CASH AND CASH EQUIVALENTS

The Company holds cash on deposit in excess of federally insured limits and has liquid mutual fund investments at Bank of America (the Bank). Management does not believe that the risks associated with keeping deposits in excess of federal deposit limits or holding investments in liquid mutual funds represent material risks.

The Company considers all liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At January 31, 2014, a significant portion of the balance of cash and cash equivalents was invested in a high-quality money market fund with at least 80% of its net assets invested in U.S. Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. The fund is sponsored by an investment division of the Bank.

The amount of cash and cash equivalents in the consolidated balance sheet as of January 31, 2014 included cash held within the consolidated joint venture entities that were formed during the current year. Such cash, which amounted to approximately \$117.7 million as of January 31, 2014, will be used for activities of those construction joint ventures including future distributions to joint venture partners.

NOTE 6 ACCOUNTS RECEIVABLE

Amounts retained by project owners under construction contracts and included in accounts receivable at January 31, 2014 and 2013 were approximately \$22.7 million and \$20.2 million, respectively. Such retainage amounts represent funds withheld by construction project owners until a defined phase of a contract or project has been completed and accepted by the project owner. The lengths of retention periods may vary, but for material amounts outstanding as of January 31, 2014, the remaining periods range between ten (10) and twenty-nine (29) months.

The Company conducts business and may extend credit to customers based on an evaluation of the customers financial condition, generally without requiring collateral. Exposure to losses on accounts receivable is expected to differ by customer due to the varying financial condition of each customer. The Company monitors its exposure to credit losses and maintains allowances for anticipated losses considered necessary under the circumstances based on historical experience with uncollected accounts and a review of its currently outstanding accounts receivable.

Table of Contents

The amount of the allowance for doubtful accounts at January 31, 2014 and 2013 was approximately \$5.5 million. In fiscal year 2010, the balance of the accounts receivable from the owner of a partially completed construction project was written down to \$5.5 million, the amount of the net proceeds remaining from a public auction of the facility. As the amount that the Company may ultimately receive in a distribution of the auction proceeds, if any, is not known at this time, this remaining accounts receivable amount was fully reserved. The amounts of the provision for accounts receivable losses for the years ended January 31, 2014, 2013 and 2012 were not material.

NOTE 7 COSTS, ESTIMATED EARNINGS AND BILLINGS ON UNCOMPLETED CONTRACTS

The Company's billing practices are governed primarily by the contract terms of each project based on the achievement of milestones, pre-agreed schedules or progress towards completion approved by the project owner. Billings do not necessarily correlate with revenues recognized under the percentage-of-completion method of accounting.

The tables below set forth the aggregate amount of costs incurred and earnings accrued on uncompleted contracts compared with the billings on those contracts through January 31, 2014 and 2013, and reconcile the net amounts of billings in excess of costs and estimated earnings to the amounts included in the consolidated balance sheets at those dates.

	2014	2013
Costs incurred on uncompleted contracts	\$ 162,137,000	\$ 259,390,000
Estimated accrued earnings	21,961,000	48,724,000
	184,098,000	308,114,000
Less Billings to date	318,307,000	380,295,000
	\$ 134,209,000	\$ 72,181,000
Costs and estimated earnings in excess of billings	\$ 527,000	\$ 1,178,000
Billings in excess of costs and estimated earnings	134,736,000	73,359,000
	\$ 134,209,000	\$ 72,181,000

Contract costs include all direct costs, such as material and labor, and those indirect costs related to contract performance such as payroll taxes, insurance, job supervision and equipment charges. The amounts of costs and estimated earnings in excess of billings are expected to be billed and collected in the normal course of business.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at January 31, 2014 and 2013:

	2014	2013
Land and improvements	\$ 473,000	\$ 471,000
Building and improvements	2,779,000	2,587,000

Edgar Filing: ARGAN INC - Form 10-K/A

Furniture, machinery and equipment	3,560,000	3,060,000
Trucks and other vehicles	1,578,000	1,803,000
Construction project costs of variable interest entities		5,309,000
	8,390,000	13,230,000
Less accumulated depreciation	4,207,000	3,762,000
Property, plant and equipment, net	\$ 4,183,000	\$ 9,468,000

In June 2012, GPS purchased an office building and the underlying land for a cash price of \$1,955,000. The building is large enough to combine the staff of GPS into one facility, and the purchase eliminated the need for leased office space in Connecticut. Depreciation expense amounts related to continuing operations for property and equipment were \$549,000, \$522,000 and \$455,000 for the fiscal years ended January 31, 2014, 2013 and 2012, respectively. The costs of maintenance and repairs related to continuing operations were \$250,000, \$325,000 and \$295,000 for the years ended January 31, 2014, 2013 and 2012, respectively.

Table of Contents**NOTE 9 PURCHASED INTANGIBLE ASSETS**

In connection with the acquisitions of GPS and SMC, the Company recorded substantial amounts of goodwill and other purchased intangible assets including trade names and non-compete agreements. The goodwill included in the balance sheets at January 31, 2014 and 2013 in the amount of \$18,476,000 relates entirely to the acquisition of GPS. For income tax reporting purposes, goodwill allocated to GPS in the approximate amount of \$12.3 million is being amortized on a straight-line basis over periods of 15 years. The excess amount of the Company's goodwill is not amortizable for income tax reporting purposes.

The Company's other purchased intangible assets consisted of the following elements. The Company determined the fair values of the GPS and SMC trade names using a relief-from-royalty methodology. The Company also considered recognition by potential customers of a trade name such as GPS. The Company believes that the useful life of the GPS trade name is fifteen years, the period over which the trade name is expected to contribute to future cash flows. Management concluded that the useful life of the SMC trade name was indefinite since it is expected to contribute directly to future cash flows in perpetuity. The fair value amounts of three non-compete agreements with the former owners of acquired businesses were determined at the time of the acquisitions by discounting the estimated reductions in the cash flows that would be expected if the key employees were to leave the Company. The Company amortized the fair value amounts ascribed to the non-compete agreements over five years, the contractual length of each non-compete agreement.

The net carrying amounts of the Company's intangible assets, other than goodwill, consisted of the following at January 31, 2014 and 2013:

	2014	2013
Trade name GPS	\$ 1,907,000	\$ 2,150,000
Trade name SMC	181,000	181,000
Totals	\$ 2,088,000	\$ 2,331,000

As of January 31, 2014 and 2013, the amounts of accumulated amortization associated with the trade name of GPS were \$1,736,000 and \$1,493,000, respectively. Amortization expense was \$243,000, \$243,000 and \$334,000 for the years ended January 31, 2014, 2013 and 2012, respectively, including \$91,000 in the year ended January 31, 2012 associated with fully amortized non-compete agreements. The estimated amounts of amortization expense related to the trade name of GPS for the next five fiscal years are presented below:

2015	\$ 243,000
2016	243,000
2017	243,000
2018	243,000
2019	243,000
Thereafter	692,000
Total	\$ 1,907,000

NOTE 10 FINANCING ARRANGEMENTS

The Company maintains financing arrangements with the Bank. The financing arrangements, as amended, provide a revolving loan with a maximum borrowing amount of \$4.25 million that is available until May 31, 2015, with interest at LIBOR plus 2.25%. During the current year, available funds in the total amount of \$1.35 million were designated to cover letters of credit issued by the Bank in support of the project development activities of a potential power plant customer. The Company may obtain standby letters of credit from the Bank for use in the ordinary course of business not to exceed \$10.0 million. There were no actual borrowings outstanding under the Bank financing arrangements as of January 31, 2014 or 2013.

The Company has pledged the majority of its assets to secure the financing arrangements. The Bank's consent is required for acquisitions, divestitures, certain investments and cash dividends. The Bank requires that the Company comply with certain financial covenants at its fiscal year-end and at each of its fiscal quarter-ends (using a rolling 12-month period) including covenants that (1) the ratio of total funded debt to EBITDA (as defined by the Bank) 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.

Table of Contents

At January 31, 2014 and 2013, the Company was in compliance with the financial covenants of its amended financing arrangements. Management believes that the Company will continue to comply with its financial covenants under the financing arrangements.

NOTE 11 COMMITMENTS

The Company leases certain office space and other facilities under non-cancelable operating leases expiring on various dates through February 2017. Certain leases contain renewal options. As it is management's intention to continue to occupy the headquarters facility of SMC, the future minimum lease payment amounts presented below include the payment amounts associated with three remaining two-year option terms. None of the Company's leases include significant amounts for incentives, rent holidays, penalties, or price escalations. Under certain lease agreements, the Company is obligated to pay property taxes, insurance, and maintenance costs.

The amounts of rent included in the selling, general and administrative expenses of continuing operations were \$171,000, \$390,000 and \$443,000 for the years ended January 31, 2014, 2013 and 2012, respectively. The amounts of rent incurred on construction projects and included in the costs of revenues of continuing operations were \$3,612,000, \$7,567,000 and \$4,386,000 for the years ended January 31, 2014, 2013 and 2012, respectively. The following is a schedule of future minimum lease payments for the operating leases of continuing operations that had initial or remaining non-cancelable lease terms in excess of one year as of January 31, 2014:

2015	\$ 181,000
2016	183,000
2017	182,000
2018	89,000
2019	89,000
Thereafter	81,000
Total	\$ 805,000

NOTE 12 LEGAL CONTINGENCIES

In the normal course of business, the Company has pending claims and legal proceedings. It is the opinion of management, based on information available at this time, that none of the current claims and proceedings could have a material effect on the Company's consolidated financial statements other than the matters discussed below. The material amounts of any legal fees expected to be incurred in connection with these matters are accrued when such amounts are estimable.

Altra Matters

GPS was the contractor for engineering, procurement and construction services related to an anhydrous ethanol plant in Carleton, Nebraska (the Project). The Project owner was ALTRA Nebraska, LLC (Altra). In November 2007, GPS and Altra agreed to a suspension of the Project while Altra sought to obtain financing to complete the Project. By March 2008, financing had not been arranged which terminated the construction contract prior to completion of the Project. In March 2008, GPS filed a mechanic's lien against the Project in the approximate amount of \$23.8 million, which amount included sums owed to subcontractors/suppliers of GPS and their subcontractors/suppliers. Several other claimants also filed mechanic's liens against the Project.

In August 2009, Altra filed for bankruptcy protection. Proceedings resulted in a court-ordered liquidation of Altra's assets. The incomplete plant was sold at auction in October 2009. Remaining net proceeds of approximately \$5.5 million are being held by the bankruptcy court and have not been distributed to Altra's creditors. The court separated the lien action into two phases relating to the priority of the claims first and the validity and amount of each party's lien claim second. In November 2011, the court held that the claim of the project lender is superior to the lien claim of GPS. Fact discovery related to the second phase was completed in January 2012, but the court has continued to stay this action pending the final resolution of the claim against the Company's payment bond that is discussed below.

Table of Contents

In January 2009, GPS and Delta-T Corporation (Delta T), a major subcontractor to GPS on the Project, executed a Project Close-Out Agreement (the Close-Out) which settled all contract claims between the parties and included a payment in the amount of \$3.5 million that GPS made to Delta-T. In the Close-Out, Delta-T also agreed to prosecute any lien claims against Altra, to assign to GPS the first \$3.5 million of any resulting proceeds and to indemnify and defend any claims against GPS related to the Project. In addition, GPS received a guarantee from Delta-T's parent company in support of the indemnification commitment. Delta-T assigned its lien rights related to the Project to GPS which advised the parties that it would be pursuing only the assigned lien rights of Delta-T, amounting to approximately \$21.2 million, for the remainder of this action.

In April 2009, a subcontractor (DCR) to Delta-T received an arbitration award in its favor against Delta-T in the amount of approximately \$6.8 million (the Judgment Award). In December 2009, the Judgment Award was confirmed in federal district court in Florida. In April 2009, DCR also filed suit in the District Court of Thayer County, Nebraska, in order to recover its claimed amount of \$6.8 million, as amended, from a payment bond issued to Altra on behalf of GPS. Delta-T did not pay or satisfy any portion of the award and it abandoned its defense of the surety company. In December 2011, DCR filed a separate lawsuit against GPS relating to the Project in the District Court of Thayer County, Nebraska, that alleged claims against GPS for failure to furnish the surety bond upon request and unjust enrichment. DCR claimed that, to the extent that the bonding company was successful in asserting a notice defense to DCR's claim, GPS was liable for DCR's damages for failing to furnish the bond when requested. DCR's unjust enrichment claim alleged that GPS received payments from Altra that exceeded the scope of GPS's work on the Project and should have been paid to lower tier subcontractors such as DCR; its complaint sought damages in the amount of \$6.1 million plus interest, costs and attorney fees.

In August 2012, the applicable parties executed settlement agreements that resulted in the dismissal of the claims against GPS and its surety company, with prejudice, and the assignment of DCR's mechanics lien claim against the escrowed Altra Project sales proceeds to GPS. In connection with these settlements, GPS made cash payments to DCR in August 2012 that totaled \$1,875,000. The payments were funded, in part, by a cash payment received during the year from Delta-T's parent company in the amount of \$275,000. The net amount of \$1,600,000 was included as a charge to the cost of revenues of GPS in July 2012. Subsequent to the execution of the settlement agreements and the payments made by GPS, DCR's former counsel filed notice of a charging lien, claiming that DCR is indebted to counsel in excess of \$1.8 million in fees and costs. In addition, a subcontractor to DCR on the Altra Project filed a motion asking the court to set aside the dismissals or, in the alternative, to reconsider them. In October 2012, the court vacated the prior orders of dismissal and permitted DCR's former counsel and former subcontractor to file complaints. A trial for the charging lien and subcontractor claims was held in April 2013. The court ordered the parties to submit post-trial briefs which were provided to the court in August 2013. The parties currently await the court's verdict.

The Company intends to vigorously pursue the enforcement of the settlement agreements and the pursuit of the lien claims against the Altra Project assigned to GPS. Due to the uncertainty of the ultimate outcomes of these legal proceedings, assurance cannot be provided by the Company that it will be successful in these efforts. However, management does not believe that resolution of the matters discussed above will result in additional loss with material negative effect on the Company's consolidated operating results in a future reporting period. No additional provision for loss related to these matters was recorded in the consolidated statement of operations for the year ended January 31, 2014. If new facts become known in the future indicating that it is probable that a loss has been incurred by GPS and the amount of additional loss can be reasonably estimated by GPS, the impacts of the change will be reflected in the consolidated financial statements at that time.

Tampa Bay Nutraceutical Company

On or about September 19, 2007, Tampa Bay Nutraceutical Company, Inc. (TBN) filed a civil action in the Circuit Court of Florida for Collier County (the Circuit Court) against Vitarich Laboratories, Inc. (VLI , see Note 19). The causes of action related to an order for product issued by TBN to VLI in June 2007 and alleged (1) breach of contract; (2) fraudulent misrepresentation; and (3) various warranty breaches, among other allegations. TBN alleged compensatory damages in excess of \$42 million.

Since 2011, the parties were engaged primarily in legal activity concerning TBN s failure to provide proper discovery responses to VLI. In August 2012, the Circuit Court ordered TBN to pay to VLI, by September 17, 2012, a sanction award covering the costs and expenses incurred by VLI as a result of TBN s repeated disobedience of court orders. As TBN failed to do so, the Circuit Court issued a judgment in favor of VLI, ordering that TBN s pleadings in this matter be stricken and dismissing all of plaintiff s claims with prejudice.

Table of Contents

However, in September 2012, TBN filed an appeal in the Florida's Second District Court of Appeal (the Appeal Court) for reconsideration of the sanction award decision. In July 2013, the Appeal Court affirmed the Circuit Court's decision. As a result, the judgment of the Circuit Court has now become final.

In connection with this matter, VLI accrued a liability in order to cover expected litigation costs in the amount of approximately \$1,304,000. With the termination of this matter, VLI reversed the legal accrual in July 2013 which, accordingly, resulted in a favorable adjustment to selling, general and administrative expenses in the Company's consolidated financial statements for the year ended January 31, 2014.

NOTE 13 STOCK-BASED COMPENSATION

In June 2013, the stockholders approved the amendment of the 2011 Stock Plan (the Stock Plan) in order to increase the number of shares of the Company's common stock authorized for issuance thereunder by 750,000 shares to a total of 1,250,000 shares. The Stock Plan, which will expire in July 2021, was established in order to succeed the Argan, Inc. 2001 Stock Option Plan (the Option Plan) which expired in July 2011. As was the case under the Option Plan, the Company's Board of Directors may make awards under the Stock Plan to officers, directors and key employees.

Awards may include incentive stock options (ISOs) or nonqualified stock options (NSOs), and restricted or unrestricted stock. ISOs granted under the Stock Plan shall have an exercise price per share at least equal to the common stock's market value per share at the date of grant, shall have a term no longer than ten years, 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 market value per share at the date of grant, may have up to a ten-year term, and typically become exercisable one year from the date of award.

At January 31, 2014, there were 1,448,650 remaining shares of the Company's common stock reserved for issuance under the two plans, including approximately 532,500 shares of the Company's common stock available for awards under the Stock Plan.

A summary of activity under the Option and Stock Plans for the three years ended January 31, 2014 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (years)	Weighted Average Fair Value
Outstanding, February 1, 2011	675,724	\$ 11.29	5.78	\$ 5.79
Granted	212,500	\$ 13.92		
Exercised	(55,038)	\$ 9.36		
Forfeited	(16,000)	\$ 11.36		
Outstanding, January 31, 2012	817,186	\$ 12.10	4.94	\$ 5.68
Granted	293,000	\$ 17.36		
Exercised	(153,962)	\$ 9.33		
Forfeited	(30,000)	\$ 8.66		
Outstanding, January 31, 2013	926,224	\$ 14.34	5.39	\$ 5.93

Edgar Filing: ARGAN INC - Form 10-K/A

Granted	303,000	\$ 21.32		
Exercised	(309,074)	\$ 12.20		
Forfeited	(4,000)	\$ 17.33		
Outstanding, January 31, 2014	916,150	\$ 17.36	6.04	\$ 5.58
Exercisable, January 31, 2014	613,150	\$ 15.40	5.09	\$ 6.15

The total intrinsic values for the stock options exercised during the years ended January 31, 2014, 2013 and 2012 were \$3,158,000, \$1,242,000 and \$238,000, respectively. At January 31, 2014, the aggregate intrinsic value amounts for outstanding and exercisable stock options were \$10,124,000 and \$7,977,000, respectively.

- 19 -

Table of Contents

A summary of the change in the number of shares of common stock subject to non-vested options to purchase such shares for the three years ended January 31, 2014 is presented below:

	Shares	Weighted Average Fair Value
Non-vested, February 1, 2011	237,000	\$ 6.31
Granted	212,500	\$ 5.09
Vested	(232,000)	\$ 6.34
Forfeited (non-vested)	(5,000)	\$ 4.98
Non-vested, January 31, 2012	212,500	\$ 5.09
Granted	293,000	\$ 5.65
Vested	(112,000)	\$ 4.51
Forfeited (non-vested)	(5,000)	\$ 6.32
Non-vested, January 31, 2013	388,500	\$ 5.67
Granted	303,000	\$ 4.40
Vested	(384,500)	\$ 5.67
Forfeited (non-vested)	(4,000)	\$ 5.71
Non-vested, January 31, 2014	303,000	\$ 4.40

Compensation expense amounts recorded in the years ended January 31, 2014, 2013 and 2012 related to stock options were \$1,536,000, \$1,316,000 and \$637,000, respectively. At January 31, 2014, there was \$825,000 in unrecognized compensation cost related to stock options granted under the Stock Plan. The end of the period over which the compensation expense for these awards is expected to be recognized is December 2014.

The Company estimates the weighted average fair value of stock options on the date of award using a Black-Scholes option pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Current guidance provided by the SEC permits the use of a simplified method in developing the estimates of the expected terms of plain-vanilla share options under certain circumstances, including situations where a company having historical stock option exercise experience that is insufficient to provide a reasonable basis upon which to estimate expected terms. The Company utilizes the simplified method to estimate the expected terms of its stock option awards. The risk-free interest rates and expected volatility factors used in the determinations of the fair value of stock options awarded during the year ended January 31, 2014 ranged from 0.73% to 1.52% and from 32.3% to 34.3%, respectively. For stock options awarded during the year ended January 31, 2013, the comparable ranges were 1.82% to 2.01% and 34.5% to 36.4%, respectively. For stock options awarded during the year ended January 31, 2012, the comparable ranges were 1.98% to 3.42% and 36.1% to 57.6%, respectively. The calculations of the expected volatility factors were based on the monthly closing prices of the Company's common stock for the five-year periods preceding the dates of the corresponding awards.

The fair value amounts per share of options to purchase shares of the Company's common stock awarded during the fiscal years ended January 31, 2014, 2013 and 2012 were determined at the dates of grant using the following weighted-average assumptions:

	2014	2013	2012
Risk-free interest rate	1.33%	1.93%	2.57%
Expected volatility	32.73%	35.51%	44.88%
Expected life	4.70 years	4.56 years	4.26 years
Dividend yield	3.39%	%	%

During the years ended January 31, 2012, the Company awarded 5,000 shares of restricted stock to an employee. The aggregate market value of the shares was amortized to compensation expense over the two-year vesting period, which was approximately \$10,000, \$25,000 and \$15,000 for the years ended January 31, 2014, 2013 and 2012, respectively.

Table of Contents

Warrants for the purchase of 160,000 shares of the Company's common stock were converted in the year ended January 31, 2013. The warrants, convertible at a price of \$7.75 per share, were issued in connection with the Company's private placement of common stock in April 2003 to three individuals who became the executive officers of the Company upon completion of the offering and also to an investment advisory firm. A former director of the Company is the chief executive officer of the investment advisory firm. The aggregate fair value amount of the warrants, \$849,000, was treated as a cost of the related stock offering.

The Company also has 401(k) savings plans pursuant to which the Company makes discretionary contributions for the eligible and participating employees. The Company's expense for these defined contribution plans totaled approximately \$677,000 for the year ended January 31, 2014, including a profit-sharing contribution of \$404,000. The comparable expense amounts for the years ended January 31, 2013 and 2012 were \$36,000 and \$31,000, respectively.

NOTE 14 INCOME TAXES

The components of the Company's income tax expense related to continuing operations for the years ended January 31, 2014, 2013 and 2012 are presented below:

	2014	2013	2012
Current:			
Federal	\$ 20,765,000	\$ 11,555,000	\$ 3,771,000
State	3,525,000	2,224,000	836,000
	24,290,000	13,779,000	4,607,000
Deferred:			
Federal	1,419,000	(207,000)	41,000
State	282,000	68,000	(92,000)
	1,701,000	(139,000)	(51,000)
Income tax expense	\$ 25,991,000	\$ 13,640,000	\$ 4,556,000

The actual income tax expense amounts for the years ended January 31, 2014, 2013 and 2012 differed from the expected tax amounts computed by applying the U.S. federal corporate income tax rate of 35% for the year ended January 31, 2014 and 2013, and 34% for the year ended January 31, 2012, to income from continuing operations before income taxes as presented below:

	2014	2013	2012
Computed expected income tax	\$ 24,267,000	\$ 12,510,000	\$ 4,068,000
Increase (decrease) resulting from:			
State income taxes, net	2,574,000	1,459,000	460,000
Permanent differences	(1,105,000)	(730,000)	(138,000)
Federal income tax true-up and other adjustments	255,000	401,000	166,000

Income tax expense	\$ 25,991,000	\$ 13,640,000	\$ 4,556,000
--------------------	---------------	---------------	--------------

For the year ended January 31, 2014, the favorable tax effects of permanent differences related primarily to the domestic manufacturing deduction, the deconsolidation of the VIEs and the exclusion of the noncontrolling interests of the Company's partner in the income of the joint ventures for income tax reporting purposes. For the years ended January 31, 2013 and 2012, the favorable tax effects of permanent differences related primarily to the tax benefit of the domestic manufacturing deduction.

As of January 31, 2014 and 2013, the amounts presented in the consolidated balance sheets for accrued expenses included accrued income taxes of approximately \$303,000 and \$1,362,000, respectively. The Company's consolidated balance sheet as of January 31, 2014 included net deferred tax liabilities in the amount of approximately \$114,000. The consolidated balance sheet as of January 31, 2013 included net deferred tax assets in the amount of approximately \$1,639,000.

Table of Contents

The Company's ability to realize its deferred tax assets depends primarily upon the generation of sufficient future taxable income to allow for the utilization of the Company's deductible temporary differences and tax planning strategies. If such estimates and assumptions change in the future, the Company may be required to record additional valuation allowances against some or all of the deferred tax assets resulting in additional income tax expense in the consolidated statement of operations. At this time, based substantially on the strong earnings performance of the Company's power industry services business segment, management believes that it is more likely than not that the Company will realize a benefit for its deferred tax assets.

The tax effects of temporary differences that gave rise to deferred tax assets and liabilities as of January 31, 2014 and 2013 are presented below:

	2014	2013
Assets:		
Purchased intangibles	\$ 1,255,000	\$ 1,407,000
Stock options	1,623,000	1,675,000
Accrued liabilities	514,000	855,000
Moxie Project net operating losses		432,000
Other	50,000	144,000
	3,442,000	4,513,000
Liabilities:		
Purchased intangibles	(2,563,000)	(2,258,000)
Property and equipment	(612,000)	(581,000)
Long-term contracts	(313,000)	
Other	(68,000)	(35,000)
	(3,556,000)	(2,874,000)
Net deferred tax (liabilities) assets	\$ (114,000)	\$ 1,639,000

The Company is subject to income taxes in the United States of America and in various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for its fiscal years ended on or before January 31, 2010. During the current year, an audit of the income tax returns filed in Florida by Vitarich Laboratories, Inc. (VLI, see Note 19), a wholly owned subsidiary of Argan, for the income tax years ended January 31, 2010, 2011 and 2012 was completed. There were no material changes to its income tax liability resulting from the outcome of this audit.

Income tax penalties recorded during the years ended January 31, 2014, 2013 and 2012, and included in the corresponding amounts of selling, general and administrative expenses, were not material. Interest amounts related to late income tax payments recorded during the years ended January 31, 2014, 2013 and 2012, and included in the corresponding amounts of income tax expense, were not material.

NOTE 15 EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.

Basic earnings (loss) per share amounts for the years ended January 31, 2014, 2013 and 2012 were computed by dividing income (loss) amounts attributable to the stockholders of Argan by the weighted average number of shares of common stock that were outstanding during the applicable year.

Diluted earnings per share amounts for the years ended January 31, 2014, 2013 and 2012 were computed by dividing the income amounts attributable to the stockholders of Argan by the weighted average number of outstanding common shares for the applicable year plus 356,000, 330,000 and 180,000 common stock equivalent shares representing their total dilutive effects for the years, respectively. The diluted weighted average number of shares outstanding for the years ended January 31, 2014, 2013 and 2012 excluded the effects of options to purchase approximately 222,000, 404,000 and 556,000 shares of common stock, respectively, because such anti-dilutive common stock equivalents had exercise prices that were in excess of the average market price of the Company's common stock during the applicable year.

Table of Contents

Diluted loss per share for discontinued operations for the year ended January 31, 2013 was computed by dividing the loss amount by the weighted average number of outstanding common shares for the year. The effects of outstanding options and warrants to purchase shares of common stock were not reflected in the computation as the loss made the common stock equivalents anti-dilutive for the year.

The earnings per share amounts for continuing operations attributable to the stockholders of Argan for the years ended January 31, 2014, 2013 and 2012 were based on the amounts of income from continuing operations excluding the net income attributable to the noncontrolling interests of \$3,219,000 for the current year and excluding the net losses attributable to the noncontrolling interests of \$1,448,000 and \$302,000, respectively, for the prior two years.

NOTE 16 SEGMENT REPORTING

Segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's reportable segments, power industry services and telecommunications infrastructure services, are organized in separate business units with different management teams, customers, technologies and services. The business operations of each segment are conducted primarily by the Company's wholly-owned subsidiaries GPS and SMC, respectively.

Presented below are summarized operating results and certain financial position data of the Company's reportable continuing business segments for the years ended January 31, 2014, 2013 and 2012. The Other column includes the Company's corporate and unallocated expenses.

Fiscal Year Ended January 31, 2014

	Power Industry Services	Telecom Infrastructure Services	Other	Consolidated
Revenues	\$ 218,649,000	\$ 8,806,000	\$	\$ 227,455,000
Cost of revenues	141,807,000	6,800,000		148,607,000
Gross profit	76,842,000	2,006,000		78,848,000
Selling, general and administrative expenses	7,575,000	1,331,000	4,012,000	12,918,000
	69,267,000	675,000	(4,012,000)	65,930,000
Gains on the deconsolidation of VIEs	2,444,000			2,444,000
Other income (expense), net	958,000		3,000	961,000
Income (loss) from continuing operations before income taxes	\$ 72,669,000	\$ 675,000	\$ (4,009,000)	69,335,000
Income tax expense				25,991,000
Income from continuing operations				\$ 43,344,000

Edgar Filing: ARGAN INC - Form 10-K/A

Amortization of purchased intangible assets	\$ 243,000	\$	\$	\$ 243,000
Depreciation	\$ 366,000	\$ 180,000	\$ 3,000	\$ 549,000
Fixed asset additions	\$ 1,067,000	\$ 69,000	\$	\$ 1,136,000
Goodwill	\$ 18,476,000	\$	\$	\$ 18,476,000
Total assets	\$ 276,744,000	\$ 1,989,000	\$ 44,573,000	\$ 323,306,000
Current assets	\$ 252,603,000	\$ 1,293,000	\$ 44,663,000	\$ 298,559,000
Current liabilities	\$ 163,534,000	\$ 511,000	\$ 1,191,000	\$ 165,236,000

- 23 -

Table of Contents**Fiscal Year Ended January 31, 2013**

	Power Industry Services	Telecom Infrastructure Services	Other	Consolidated
Revenues	\$ 261,327,000	\$ 17,308,000	\$	\$ 278,635,000
Cost of revenues	214,817,000	13,683,000		228,500,000
Gross profit	46,510,000	3,625,000		50,135,000
Selling, general and administrative expenses	7,950,000	1,628,000	4,772,000	14,350,000
	38,560,000	1,997,000	(4,772,000)	35,785,000
Other income (expense), net	(45,000)		2,000	(43,000)
Income (loss) from continuing operations before income taxes	\$ 38,515,000	\$ 1,997,000	\$ (4,770,000)	35,742,000
Income tax expense				13,640,000
Income from continuing operations				\$ 22,102,000
Amortization of purchased intangible assets	\$ 243,000	\$	\$	\$ 243,000
Depreciation	\$ 290,000	\$ 229,000	\$ 3,000	\$ 522,000
Fixed asset additions	\$ 6,986,000	\$ 277,000	\$	\$ 7,263,000
Goodwill	\$ 18,476,000	\$	\$	\$ 18,476,000
Total assets	\$ 186,284,000	\$ 4,032,000	\$ 44,408,000	\$ 234,724,000
Current assets	\$ 158,567,000	\$ 3,486,000	\$ 42,055,000	\$ 204,108,000
Current liabilities	\$ 110,828,000	\$ 1,346,000	\$ 3,372,000	\$ 115,546,000

Fiscal Year Ended January 31, 2012

	Power Industry Services	Telecom Infrastructure Services	Other	Consolidated
Revenues	\$ 132,519,000	\$ 9,331,000	\$	\$ 141,850,000
Cost of revenues	111,193,000	7,555,000		118,748,000

Edgar Filing: ARGAN INC - Form 10-K/A

Gross profit	21,326,000	1,776,000		23,102,000
Selling, general and administrative expenses	6,235,000	1,586,000	3,365,000	11,186,000
	15,091,000	190,000	(3,365,000)	11,916,000
Other income (expense), net	33,000		15,000	48,000
Income (loss) from continuing operations before income taxes	\$ 15,124,000	\$ 190,000	\$ (3,350,000)	11,964,000
Income tax expense				4,556,000
Income from continuing operations				\$ 7,408,000
Amortization of purchased intangible assets	\$ 334,000	\$	\$	\$ 334,000
Depreciation	\$ 207,000	\$ 244,000	\$ 4,000	\$ 455,000
Fixed asset additions	\$ 1,598,000	\$ 136,000	\$ 4,000	\$ 1,738,000
Goodwill	\$ 18,476,000	\$	\$	\$ 18,476,000
Total assets	\$ 164,049,000	\$ 3,121,000	\$ 38,082,000	\$ 205,252,000
Current assets	\$ 141,561,000	\$ 2,626,000	\$ 36,390,000	\$ 180,577,000
Current liabilities	\$ 101,709,000	\$ 1,065,000	\$ 1,505,000	\$ 104,279,000

- 24 -

Table of Contents**NOTE 17 MAJOR CUSTOMERS**

During the years ended January 31, 2014, 2013 and 2012, the majority of the Company's revenues related to engineering, procurement and construction services that were provided by GPS to the power industry. Revenues from power industry services accounted for approximately 96%, 94% and 93% of consolidated revenues for the years ended January 31, 2014, 2013 and 2012, respectively. The Company's most significant customer relationships included three power industry service customers which accounted for approximately 33%, 33% and 22%, respectively, of consolidated revenues for the year ended January 31, 2014. The Company's most significant customer relationships included two power industry service customers which accounted for approximately 56% and 18%, respectively, of consolidated revenues for the year ended January 31, 2013. The Company's most significant customer relationships included three power industry service customers which accounted for approximately 43%, 30% and 12%, respectively, of consolidated revenues for the year ended January 31, 2012.

NOTE 18 QUARTERLY FINANCIAL INFORMATION (unaudited)

Certain unaudited financial information reported for the quarterly periods ended April 30, July 31, October 31 and January 31 included in the fiscal years ended January 31, 2014 and 2013 is presented below (\$s in thousands except per share data):

Fiscal Year	April 30	July 31	October 31⁽¹⁾	January 31⁽²⁾	Full Year
2014					
Revenues	\$ 46,648	\$ 57,864	\$ 63,452	\$ 59,491	\$ 227,455
Gross profit	13,028	21,257	23,876	20,687	78,848
Income from continuing operations	6,940	13,923	12,449	10,032	43,344
Net income	6,940	13,923	12,449	10,032	43,344
Net income attributable to the stockholders of Argan, Inc.	6,410	12,623	11,928	9,164	40,125
Earnings per share ⁽³⁾					
Basic	\$ 0.46	\$ 0.90	\$ 0.85	\$ 0.64	\$ 2.85
Fully diluted	\$ 0.45	\$ 0.89	\$ 0.83	\$ 0.63	\$ 2.78
2013					
Revenues	\$ 63,690	\$ 82,619	\$ 74,486	\$ 57,840	\$ 278,635
Gross profit	10,101	12,879	13,136	14,019	50,135
Income from continuing operations	4,547	5,981	5,713	5,861	22,102
Net income	4,262	5,981	5,713	5,861	21,817
Net income attributable to the stockholders of Argan, Inc.	4,438	6,201	6,065	6,561	23,265
Earnings per share ⁽³⁾					
Basic	\$ 0.32	\$ 0.45	\$ 0.44	\$ 0.47	\$ 1.69
Fully diluted	\$ 0.32	\$ 0.45	\$ 0.43	\$ 0.46	\$ 1.65

(1) The operating results for the three months ended October 31, 2013 were favorably affected by the development success fee related to the purchase of Moxie Liberty by Panda which was recognized as revenue by the Company in the amount of \$14.3 million.

(2)

The operating results for the three months ended January 31, 2014 were favorably affected by the development success fee related to the purchase of Moxie Patriot by Panda which was recognized as revenue by the Company in the amount of \$12.8 million.

- (3) The earnings per share amounts are attributable to the stockholders of Argan, Inc.

Table of Contents

NOTE 19 DISPOSITION OF DISCONTINUED OPERATIONS

VLI, the wholly owned subsidiary that represented the Company's nutritional products business segment, completed the sale of substantially all of its assets to an unrelated party in March 2011 for cash proceeds that approximated \$2,528,000 (the "Asset Sale"). VLI recognized a pretax gain of approximately \$1,312,000 related to the Asset Sale which amount was reflected in income from discontinued operations for the year ended January 31, 2012.

The financial results of this business through April 30, 2012 have been presented as discontinued operations in the accompanying consolidated financial statements, including legal costs associated with this business. Such costs incurred subsequent to April 30, 2012 were reflected in the operating results of continuing operations; such costs were not material for the years ended January 31, 2014 and 2013. Net revenues of the discontinued operations for the year ended January 31, 2012 were \$1,460,000. VLI was liquidated in December 2013.