ARGAN INC
Form 10-Q
September 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 31, 2010

or

o **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

Argan, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-1947195**
(State or Other Jurisdiction of Incorporation)	(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 þ No o

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 o No o

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 o   Accelerated filer þ   Non-accelerated filer o   Smaller reporting company o

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

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, 13,596,494 shares at September 3, 2010.

ARGAN, INC. AND SUBSIDIARIES
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ARGAN, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	July 31, 2010 (Unaudited)	January 31, 2010 (Note 1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 71,980,000	$ 66,009,000
Restricted cash	3,824,000	5,002,000
Accounts receivable, net of allowance for doubtful accounts	13,688,000	4,979,000
Costs and estimated earnings in excess of billings	8,310,000	12,931,000
Inventories, net of reserve for obsolescence	1,917,000	2,010,000
Current deferred tax assets	1,065,000	1,603,000
Prepaid expenses and other current assets	1,188,000	2,697,000
TOTAL CURRENT ASSETS	101,972,000	95,231,000
Property and equipment, net of accumulated depreciation	1,515,000	1,540,000
Goodwill	18,476,000	18,476,000
Intangible assets, net of accumulated amortization	3,083,000	3,258,000
Deferred tax assets	1,720,000	1,628,000
Other assets	100,000	140,000
TOTAL ASSETS	$ 126,866,000	$ 120,273,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 15,451,000	$ 17,906,000
Accrued expenses	6,515,000	10,254,000
Billings in excess of costs and estimated earnings	9,526,000	1,874,000
Current portion of long-term debt	833,000	1,833,000
TOTAL CURRENT LIABILITIES	32,325,000	31,867,000
Other liabilities	34,000	38,000
TOTAL LIABILITIES	32,359,000	31,905,000
COMMITMENTS AND CONTINGENCIES (Note 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; 13,599,727 and 13,585,727 shares issued at 7/31/10 and 1/31/10, and 13,596,494 and 13,582,494 shares outstanding at 7/31/10 and 1/31/10, respectively	2,040,000	2,038,000
Warrants outstanding	601,000	613,000

Additional paid-in capital	87,873,000	87,048,000
Retained earnings (deficit)	4,026,000	(1,298,000)
Treasury stock, at cost; 3,233 shares at 7/31/10 and 1/31/10	(33,000)	(33,000)
TOTAL STOCKHOLDERS EQUITY	94,507,000	88,368,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 126,866,000	$ 120,273,000

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

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ARGAN, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2010	**2009**	**2010**	**2009**
Net revenues				
Power industry services	$ 50,373,000	$ 59,804,000	$ 101,769,000	$ 117,839,000
Nutritional products	2,189,000	3,452,000	4,886,000	6,270,000
Telecommunications infrastructure services	1,947,000	2,199,000	3,785,000	4,456,000
Net revenues	54,509,000	65,455,000	110,440,000	128,565,000
Cost of revenues				
Power industry services	41,902,000	53,712,000	86,569,000	105,087,000
Nutritional products	2,391,000	3,162,000	5,074,000	5,720,000
Telecommunications infrastructure services	1,638,000	1,625,000	3,431,000	3,375,000
Cost of revenues	45,931,000	58,499,000	95,074,000	114,182,000
Gross profit	8,578,000	6,956,000	15,366,000	14,383,000
Selling, general and administrative expenses	3,365,000	3,188,000	6,939,000	6,401,000
Income from operations	5,213,000	3,768,000	8,427,000	7,982,000
Interest expense	(11,000)	(52,000)	(25,000)	(114,000)
Investment income	20,000	24,000	32,000	75,000
Equity in the earnings of the unconsolidated subsidiary		408,000		1,018,000
Income from operations before income taxes	5,222,000	4,148,000	8,434,000	8,961,000
Income tax expense	1,921,000	1,463,000	3,110,000	3,309,000
Net income	$ 3,301,000	$ 2,685,000	$ 5,324,000	$ 5,652,000
Earnings per share:				
Basic	$ 0.24	$ 0.20	$ 0.39	$ 0.42
Diluted	$ 0.24	$ 0.19	$ 0.39	$ 0.41
Weighted average number of shares outstanding:				
Basic	13,593,000	13,492,000	13,589,000	13,469,000
Diluted	13,699,000	13,771,000	13,736,000	13,756,000

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

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ARGAN, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended July 31,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,324,000	$ 5,652,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax expense	446,000	375,000
Stock option compensation expense	708,000	578,000
Amortization of purchased intangibles	175,000	178,000
Depreciation and other amortization	364,000	295,000
Equity in the earnings of the unconsolidated subsidiary		(1,018,000)
Other	186,000	44,000
Changes in operating assets and liabilities:		
Restricted cash	1,178,000	(4,000)
Accounts receivable	(8,820,000)	(10,980,000)
Costs and estimated earnings in excess of billings	4,621,000	(3,906,000)
Inventories	9,000	(719,000)
Prepaid expenses and other assets	1,482,000	(371,000)
Accounts payable and accrued expenses	(6,190,000)	(8,219,000)
Billings in excess of costs and estimated earnings	7,652,000	(3,693,000)
Other	(4,000)	6,000
Net cash provided by (used in) operating activities	7,131,000	(21,782,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(272,000)	(83,000)
Proceeds from sale of property and equipment	9,000	13,000
Net cash used in investing activities	(263,000)	(70,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from the exercise of stock options and warrants	103,000	557,000
Principal payments on long-term debt	(1,000,000)	(1,259,000)
Net cash used in financing activities	(897,000)	(702,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,971,000	(22,554,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	66,009,000	74,666,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 71,980,000	$ 52,112,000

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest and income taxes:

Interest	$	25,000	$	114,000
Income taxes	$	590,000	$	5,980,000

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

ARGAN, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(Unaudited)

NOTE 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

Argan, Inc. (Argan) conducts its operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates (GPS) which provide the substantial portion of consolidated net revenues, Vitarich Laboratories, Inc. (VLI) and Southern Maryland Cable, Inc. (SMC). Argan and its consolidated wholly owned subsidiaries are hereinafter referred to as the Company. Through GPS, the Company provides a full range of engineering, procurement, construction, commissioning, 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. Through VLI, the Company develops and manufactures premium nutritional supplements, whole-food dietary supplements and personal care products. Through SMC, the Company provides telecommunications infrastructure services including project management, construction, installation and maintenance primarily to the federal government, telecommunications and broadband service providers, and electric utilities primarily in the Mid-Atlantic region. Each of the wholly-owned subsidiaries represents a separate reportable segment.

In June 2008, GPS entered into a business partnership with a renewable energy company for the design and construction of wind-energy farms located in the United States and Canada. Originally, the partners each owned 50% of the new company, Gemma Renewable Power, LLC (GRP). In December 2009, the Company acquired its former partner s ownership and GRP became a wholly-owned subsidiary of GPS (see Note 6).

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Argan and its wholly owned subsidiaries. The Company s fiscal year ends on January 31. All significant inter-company balances and transactions have been eliminated in consolidation. The Company evaluated subsequent events for adjustment to or disclosure in these condensed consolidated financial statements through the date of their issuance.

The condensed consolidated balance sheet as of July 31, 2010, the condensed consolidated statements of operations for the three and six months ended July 31, 2010 and 2009, and the condensed consolidated statements of cash flows for the six months ended July 31, 2010 and 2009 are unaudited. The condensed consolidated balance sheet as of January 31, 2010 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, 2010 and the results of its operations and its cash flows for the interim periods presented. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements, the notes thereto (including the summary of significant accounting policies), and the independent registered public accounting firm s report thereon that are included in the Company s Annual Report on Form 10-K filed with the SEC for the fiscal year ended January 31, 2010 on April 14, 2010.

Codification of Generally Accepted Accounting Principles in the United States of America (US GAAP)

On June 30, 2009, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 168) in order to establish the *FASB Accounting Standards Codification* (the Codification or ASC), which officially launched July 1, 2009, as the sole source of authoritative generally accepted accounting principles in the United States of America for nongovernmental entities, except for guidance issued by the SEC. SFAS No. 168, which was primarily codified into ASC Topic 105, *Generally Accepted Accounting Standards*, replaced the four-tiered US GAAP hierarchy described in SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, with a two-level hierarchy consisting only of authoritative and non-authoritative guidance. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. As the Company adopted SFAS No. 168 last year, all relevant references to authoritative literature reflect the newly adopted Codification.

New Accounting Standard

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (the Update), *Fair Value Measurements and Disclosures*, which provides amendments to ASC 820-10 (*Fair Value Measurements and Disclosures Overall Subtopic*) of the Codification. The Update requires improved disclosures about fair value measurements. Separate disclosures are required of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with description of the reasons for the transfers. Disclosure of activity in Level 3 fair value measurements is required to be made on a gross basis rather than as one net number. The Update also requires: (1) fair value measurement disclosures for each class of assets and liabilities, and (2) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements, which are required for fair value measurements that fall into either Level 2 or Level 3.

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. Current accounting guidance prescribes 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. Level 1 inputs include quoted market prices 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 new disclosures and clarifications of existing disclosures required by the Update became effective for the Company s interim and annual reporting periods beginning February 1, 2010, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Because these are enhanced disclosure requirements, there has been no impact on the Company s results of operations or financial position. In addition, the enhanced disclosure requirements have not materially affected the Company s financial reporting.

NOTE 2 CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Company holds cash on deposit at Bank of America (the Bank) in excess of federally insured limits. Management currently does not believe that the risk associated with keeping deposits in excess of federal deposit limits represents a material risk. The carrying value amounts of the Company s cash, cash equivalents and restricted cash are reasonable estimates of the fair values of these assets due to their short-term nature.

Pursuant to the requirements of an amended and restated engineering, procurement and construction contract executed in May 2010, GPS established a separate bank account which is used to pay the costs defined as reimbursable costs that are incurred on the related construction project and to receive cost reimbursement payments from the project owner. The amount of cash restricted for such purpose was approximately $3.8 million at July 31, 2010.

Pursuant to the agreement covering the acquisition of GPS, the Company maintained $5.0 million in an escrow account with the Bank which secured a letter of credit that was issued in support of a bonding commitment. In June 2010, the letter of credit was terminated as the bonding company eliminated the requirement. Accordingly, approximately $5.0 million was released from the escrow account during the current period.

For certain construction projects, cash may be held in escrow as a substitute for retentions. However, no amount of cash related to construction projects was held in escrow as of July 31, 2010 or January 31, 2010.

NOTE 3 ACCOUNTS RECEIVABLE; COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

Both accounts receivable and costs and estimated earnings in excess of billings represent amounts due from customers for services rendered or products delivered. The timing of billings to customers under construction-type contracts varies based on individual contracts and often differs from the periods in which net revenues are recognized. The amount of costs and estimated earnings in excess of billings at July 31, 2010 was approximately $8.3 million; this amount is expected to be billed and collected in the normal course of business. The comparable amount of costs and estimated earnings in excess of billings at January 31, 2010 was $12.9 million. Certain amounts included in accounts receivable represent funds retained by a construction customer until a defined phase of a contract or project has been completed by the Company and accepted by the customer. The amounts of such funds included in accounts receivable at July 31, 2010 and January 31, 2010 were approximately $3.7 million and $260,000, respectively. The lengths of retention periods may vary, but they typically range between six months and two years.

The Company conducts business with and may extend credit to a customer based on an evaluation of the customer s 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 an allowance for anticipated losses considered necessary under the circumstances based on historical experience with uncollected accounts and a review of its currently outstanding accounts receivable. The allowance for doubtful accounts at July 31, 2010 and January 31, 2010 totaled $5.9 million and $5.8 million, respectively. Last year, a substantial portion of the accounts receivable from the owner of a partially completed construction project was written down against the allowance, without any effect on the statement of operations for the prior year, 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, the remaining account receivable amount was fully reserved in the allowance for doubtful accounts at July 31, 2010 and January 31, 2010.

The amounts of the provision for accounts receivable losses were $78,000 and $125,000 for the three months ended July 31, 2010 and 2009, respectively, and were $111,000 and $125,000 for the six months ended July 31, 2010 and 2009, respectively.

NOTE 4 INVENTORIES

Inventories are stated at the lower of cost or market (i.e., net realizable value). Cost is determined on the first-in first-out (FIFO) method and includes material, labor and overhead costs. Fixed overhead is allocated to inventory based on the normal capacity of the Company s production facilities. Any costs related to idle facilities, excess spoilage, excessive freight charges or re-handling costs are expensed currently as period costs. Appropriate consideration is given to obsolescence, excessive inventory levels, product deterioration and other factors in evaluating net realizable value.

In connection with the production of products pursuant to customer purchase orders received by VLI, the Company consumes small quantities of a certain raw material, the cost of which is fully reserved. Accordingly, the Company reversed a portion of its reserve for overstocked and obsolete inventory related to this item that reduced the cost of revenues of VLI by $118,000 and $133,000, respectively, for the three and six months ended July 31, 2009. For the three and six months ended July 31, 2010, the amounts of such reserve reversals related to consumption were $26,000 and $40,000, respectively. The Company will continue to monitor the status of customer relationships covering this raw material, including the volume of actual and expected purchase orders, and may reverse additional reserve amounts in future quarters as quantities of the raw material are consumed in production or the probability of significant future customer orders materializes. The amount of inventory reserve related to this raw material at July 31, 2010 was approximately $1.1 million.

Excluding the effects of the reserve reversals described in the preceding paragraph, the amounts expensed for obsolescence during the three months ended July 31, 2010 and 2009 were approximately $101,000 and $25,000, respectively, and the amounts expensed for inventory obsolescence during the six months ended July 31, 2010 and 2009 were approximately $124,000 and $59,000, respectively.

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Inventories consisted of the following amounts at July 31, 2010 and January 31, 2010:

	July 31, 2010	January 31, 2010
Raw materials	$ 3,342,000	$ 3,586,000
Work-in process	149,000	54,000
Finished goods	311,000	270,000
	3,802,000	3,910,000
Less: reserves	(1,885,000)	(1,900,000)
Inventories, net	$ 1,917,000	$ 2,010,000

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment amounts are stated at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, which are generally from five to twenty years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the related asset or the lease term, whichever is shorter. Depreciation expense amounts for property and equipment were $152,000 and $111,000 for the three months ended July 31, 2010 and 2009, respectively, and were $297,000 and $220,000 for the six months ended July 31, 2010 and 2009, respectively.

The costs of maintenance and repairs, which totaled $128,000 and $197,000 for the three months ended July 31, 2010 and 2009, respectively, and $334,000 and $281,000 for the six months ended July 31, 2010 and 2009, respectively, are expensed as incurred. Major improvements are capitalized. When an asset is sold or retired, the amounts of the associated cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income. The Company recorded an impairment loss related to the fixed assets of VLI in the year ended January 31, 2009. Since then, the costs of fixed asset purchases at VLI have been expensed. Such costs amounted to $16,000 and $89,000 for the three months ended July 31, 2010 and 2009, respectively, and $41,000 and $90,000 for the six months ended July 31, 2010 and 2009, respectively.

Property and equipment at July 31, 2010 and January 31, 2010 consisted of the following:

	July 31, 2010	January 31, 2010
Leasehold improvements	$ 806,000	$ 806,000
Machinery and equipment	3,255,000	2,990,000
Trucks and other vehicles	1,746,000	1,769,000
	5,807,000	5,565,000
Less accumulated depreciation	(4,292,000)	(4,025,000)
Property and equipment, net	$ 1,515,000	$ 1,540,000

NOTE 6 ACQUISITION OF GEMMA RENEWABLE POWER, LLC

In June 2008, GPS entered into a business partnership with a firm that develops and operates wind-energy farms for the purpose of designing and constructing such power-generation facilities in the United States of America and Canada. The business partners each owned 50% of the company, GRP.

On December 17, 2009, the Company acquired the other 50% ownership interest in GRP. The acquisition was completed pursuant to the terms and conditions of a purchase and sale agreement (the Purchase Agreement), and GRP became a wholly-owned subsidiary of GPS. The purchase price was $3,183,000 which the Company believes to be less than the fair value of the net assets received on the acquisition date. A portion of the purchase price in the amount

of $1,583,000 was paid in January 2010 upon the award to GRP by the developer of an initial construction project. The remaining amounts of the purchase price, which were included in accrued liabilities at July 31, 2010 and January 31, 2010, are payable and conditioned upon the award to GRP of a second wind farm construction project as set forth in the Purchase Agreement. GRP has a right of first offer, as described in the Purchase Agreement, to construct the developer s future wind farm projects until GRP is awarded a second project.

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The following unaudited consolidated pro forma information assumes that the acquisition had occurred on June 3, 2008, the formation date of GRP. The unaudited consolidated pro forma information, as presented below, is not indicative of the results that would have been obtained had the transaction occurred on June 3, 2008, nor is it indicative of the Company s future results.

	Three Months Ended July 31, 2009	Six Months Ended July 31, 2009
Pro forma consolidated net revenues	$ 74,015,000	$ 147,544,000
Pro forma consolidated net income	$ 2,954,000	$ 6,323,000
Pro forma net income per share:		
Basic	$ 0.22	$ 0.47
Diluted	$ 0.21	$ 0.46

The Company s share of the earnings of GRP was approximately $408,000 for the three months ended July 31, 2009 and $1,018,000 for the six months ended July 31, 2009.

Under an agreement between the parties, GPS provided support to GRP, including certain administrative and accounting services. The total amounts of reimbursable costs incurred by GPS for these services in the three and six months ended July 31, 2009 were approximately $326,000 and $585,000, respectively.

NOTE 7 INTANGIBLE ASSETS

In connection with the acquisitions of GPS, VLI and SMC, the Company recorded substantial amounts of goodwill and other purchased intangible assets including contractual and other customer relationships, non-compete agreements and trade names. The Company s intangible assets consisted of the following amounts at July 31, 2010 and January 31, 2010:

		July 31, 2010			January 31, 2010
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Amount	Net Amount
Intangible assets being amortized:					
Non-compete agreements GPS	5 years	$ 534,000	$ 389,000	$ 145,000	$ 198,000
Trade name GPS	15 years	3,643,000	886,000	2,757,000	2,879,000
Intangible asset not being amortized:					
Trade name SMC	Indefinite	181,000		181,000	181,000
Total intangible assets		$ 4,358,000	$ 1,275,000	$ 3,083,000	$ 3,258,000
Goodwill	Indefinite	$ 18,476,000	$	$ 18,476,000	$ 18,476,000

Amortization expense totaled $88,000 and $89,000 for the three months ended July 31, 2010 and 2009, respectively, consisting of $61,000 for the trade name in both periods, and $27,000 and $28,000 for non-compete agreements in the respective periods. Amortization expense totaled $175,000 and $178,000 for the six months ended July 31, 2010 and 2009, respectively, consisting of $121,000 for the trade name in both periods, and $54,000 and $57,000 for non-compete agreements in the respective periods.

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NOTE 8 DEBT

The Company has financing arrangements with the Bank covering a 4-year amortizing term loan with an original amount of $8.0 million which bears interest at LIBOR plus 3.25% (3.57% at July 31, 2010), the proceeds from which were used to acquire GPS, and a revolving loan with a maximum borrowing amount of $4.25 million. The outstanding principal amount of the GPS loan with the Bank was approximately $833,000 as of July 31, 2010. No borrowed amounts were outstanding under the revolving loan as of July 31, 2010. The Company retired a term loan with the Bank related to VLI in the third quarter of last year with the payment of the final monthly installment. The total interest expense amounts related to the VLI and GPS term loans were $11,000 and $52,000, respectively, for the three months ended July 31, 2010 and 2009, respectively, and were $25,000 and $114,000 for the six months ended July 31, 2010 and 2009, respectively. The Company may also obtain standby letters of credit from the Bank in the ordinary course of business in amounts not to exceed $10.0 million in the aggregate. In April 2010, the Company and the Bank executed an amendment to the financing arrangements that extended the availability date of the revolving loan until May 31, 2011 and reduced the associated interest rate to LIBOR plus 2.25%. The carrying value amount of the Company s GPS term loan approximates its fair value because the applicable interest rate is variable.

The financing arrangements with the Bank require compliance with certain financial covenants at the Company s fiscal year end and at each of the Company s fiscal quarter ends (using a rolling 12-month period), including requirements that the ratio of total funded debt to EBITDA not exceed 2 to 1, that the fixed charge coverage ratio be not less than 1.25 to 1, and that the ratio of senior funded debt to EBITDA not exceed 1.50 to 1. The Bank s consent continues to be required for acquisitions and divestitures. The Company has pledged the majority of its assets to secure the financing arrangements. The amended financing arrangements contain an acceleration clause which allows the Bank to declare amounts outstanding under the financing arrangements due and payable if it determines in good faith that a material adverse change has occurred in the financial condition of the Company or any of its subsidiaries. The Company believes that it will continue to comply with its financial covenants under the financing arrangements. If the Company s performance does not result in compliance with any of its financial covenants, or if the Bank seeks to exercise its rights under the acceleration clause referred to above, the Company would seek to modify its financing arrangements, but there can be no assurance that the Bank would not exercise its rights and remedies under the financing arrangements including accelerating payments of all outstanding senior debt amounts due and payable. At July 31, 2010 and January 31, 2010, the Company was in compliance with the covenants of its amended financing arrangements.

NOTE 9 STOCK-BASED COMPENSATION

The Company has a stock option plan which was established in August 2001 (the Option Plan). Under the Option Plan, the Company s Board of Directors may grant stock options to officers, directors and key employees. Stock options granted may be incentive stock options or nonqualified stock options. Currently, the Company is authorized to grant options for up to 1,150,000 shares of the Company s common stock.

A summary of stock option activity under the Option Plan for the six months ended July 31, 2010 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Years)	Weighted Average Fair Value
Outstanding, January 31, 2010	497,000	$ 10.27	6.47	$ 5.45
Granted	177,000	$ 15.04		
Exercised	(11,000)	$ 7.24		
Outstanding, July 31, 2010	663,000	$ 11.59	5.90	$ 5.88
Exercisable, July 31, 2010	440,000	$ 10.10	5.88	$ 5.37

Exercisable, January 31, 2010	374,000	$	9.44	5.65	$	4.87

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A summary of the change in the number of non-vested options to purchase shares of common stock for the six months ended July 31, 2010 is presented below:

	Shares	Weighted Average Fair Value
Nonvested, January 31, 2010	123,000	$ 7.21
Granted	177,000	$ 6.92
Vested	(77,000)	$ 7.43
Nonvested, July 31, 2010	223,000	$ 6.91

Compensation expense amounts related to stock options were $388,000 and $306,000 for the three months ended July 31, 2010 and 2009, respectively, and were $708,000 and $578,000 for the six months ended July 31, 2010 and 2009, respectively. At July 31, 2010, there was $845,000 in unrecognized compensation cost related to stock options granted under the Option Plan. The Company expects to recognize the compensation expense for these awards within the next twelve months. The total intrinsic value of the stock options exercised during the six months ended July 31, 2010 was approximately $46,000. At July 31, 2010, the aggregate exercise price of outstanding and exercisable stock options exceeded the aggregate market value of the shares of common stock subject to such options by approximately $778,000 and $2,162,000, respectively.

The fair value of each stock option granted in the six-month period ended July 31, 2010 was estimated on the date of award using the Black-Scholes option-pricing model based on the following weighted average assumptions.

	Six Months Ended July 31, 2010
Dividend yield	
Expected volatility	62.38%
Risk-free interest rate	3.50%
Expected life in years	3.38

The Company also has outstanding warrants to purchase 163,000 shares of the Company s common stock, exercisable at a per share price of $7.75, that were issued in connection with the Company s private placement in April 2003 to three individuals who became the executive officers of the Company upon completion of the offering and to an investment advisory firm. A director of the Company is also the chief executive officer of the investment advisory firm. The fair value of the warrants of $849,000 was recognized as offering costs. All warrants are exercisable and will expire in December 2012. During the six months ended July 31, 2010, the Company received approximately $23,000 in cash proceeds in connection with the purchase of 3,000 shares of the Company s common stock pursuant to the exercise of warrants.

At July 31, 2010, there were 1,052,000 shares of the Company s common stock available for issuance upon the exercise of stock options and warrants, including 226,000 shares of the Company s common stock available for awards under the Option Plan.

NOTE 10 INCOME TAXES

The Company s income tax expense amounts for the six months ended July 31, 2010 and 2009 differed from the expected income tax expense amounts computed by applying the federal corporate income tax rate of 34% to the income from operations before income taxes as shown in the table below. For the six months ended July 31, 2010, the tax benefit of permanent items relates primarily to the domestic manufacturing deduction to be taken for income tax reporting purposes. For the six months ended July 31, 2009, the favorable tax effect of permanent differences relates primarily to the tax benefit of the domestic manufacturing deduction.

	Six Months Ended July 31, 2010	Six Months Ended July 31, 2009
Computed expected income tax expense	$ 2,868,000	$ 3,047,000
State income taxes, net	583,000	338,000
Permanent differences, net	(341,000)	(76,000)
	$ 3,110,000	$ 3,309,000

As of July 31, 2010 and January 31, 2010, other current assets included net refundable income taxes of $174,000 and $2.0 million, respectively. The Company s consolidated balance sheets as of July 31, 2010 and January 31, 2010 included net deferred tax assets in the amounts of $2.8 million and $3.2 million, respectively, resulting from future deductible temporary differences. The Company maintains a valuation allowance for the state portion of the deferred tax assets of VLI which amounted to $329,000 and $272,000 at July 31, 2010 and January 31, 2010, respectively. 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 benefit for its deferred tax assets except for the state portion of the aforementioned deferred tax assets of VLI.

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, 2007.

NOTE 11 NET INCOME PER SHARE

Basic income per share amounts for the interim periods presented herein were computed by dividing net income by the weighted average number of common shares outstanding for the respective period.

Diluted income per share amounts for the three months ended July 31, 2010 and 2009 were computed by dividing net income for the respective period by the corresponding weighted average number of common shares plus 106,000 shares and 279,000 shares representing the total dilutive effects of outstanding stock options and warrants during the three months ended July 31, 2010 and 2009, respectively. The diluted weighted average number of shares outstanding for the three months ended July 31, 2010 and 2009 excluded options to purchase approximately 536,000 and 43,000 shares of common stock, respectively, because such common stock equivalents have exercise prices that were in excess of the average market price of the Company s common stock during the periods, or would be anti-dilutive.

Diluted income per share amounts for the six months ended July 31, 2010 and 2009 were computed by dividing net income for the respective period by the corresponding weighted average number of common shares plus 147,000 shares and 287,000 shares representing the total dilutive effects of outstanding stock options and warrants during the six months ended July 31, 2010 and 2009, respectively. The diluted weighted average number of shares outstanding for the six months ended July 31, 2010 and 2009 excluded options to purchase approximately 336,000 and 53,000 shares of common stock, respectively, because such common stock equivalents have exercise prices that were in excess of the average market price of the Company s common stock during the periods, or would be anti-dilutive.

NOTE 12 LEGAL CONTINGENCIES

In the normal course of business, the Company has pending claims and legal proceedings. It is the opinion of the Company s management, based on information available at this time, that none of the current claims and proceedings will 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.

Delta-T 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 also included all sums owed to the subcontractors/suppliers of GPS and their subcontractors/suppliers.

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.

Delta-T Corporation (Delta-T) was a major subcontractor to GPS on the Project. In January 2009, GPS and Delta-T executed a Project Close Out Agreement (the Close Out) which settled all contract claims between the parties and included a settlement 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.

In April 2009, one of the subcontractors to Delta-T received an arbitration award in its favor against Delta-T in the amount of approximately $6.8 million, including approximately $662,000 in interest and $2.3 million identified in the award as amounts applied to other projects (the Judgment Award). In April 2009, the subcontractor also filed suit in the District Court of Thayer County, Nebraska, in order to recover its claimed amount of $3.6 million unpaid by Delta-T on the Altra project from a payment bond issued to Altra on behalf of GPS. In December 2009, the Judgment Award was confirmed in federal district court in Florida. In February 2010, the amount of the suit in Nebraska was amended by the subcontractor to $6.8 million, plus interest, to match the amount of the Judgment Award. Delta-T has not paid or satisfied any portion of the award. Management understands that Delta-T has abandoned its defense of the surety company.

The Company intends to vigorously pursue its lien claim against the Altra project as well as defend this matter for the surety company, to investigate the inclusion of the $2.3 million applied to other projects in the Judgment Award, to demand that Delta-T satisfy its obligations under the Close Out, and/or to enforce the guarantee provided to GPS by Delta-T s parent company. Assurance cannot be provided by the Company that it will be successful in these efforts. It is reasonably possible that resolution of the matters discussed above could result in a loss with a material negative effect on the Company s consolidated operating results in a future reporting period. However, at this time, management cannot make an estimate of the amount or range of loss, if any, related to these matters. No provision for loss has been recorded in the consolidated financial statements as of July 31, 2010 related to these matters. 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 loss can be reasonably estimated by GPS, the impact 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. (Tampa Bay) filed a civil action in the Circuit Court of Florida for Collier County against VLI. The current causes of action relate to an order for product issued by Tampa Bay to VLI in June 2007 and sound in (1) breach of contract; (2) promissory estoppel; (3) fraudulent misrepresentation; (4) negligent misrepresentation; (5) breach of express warranty; (6) breach of implied warranty of merchantability; (7) breach of implied warranty of fitness for a particular purpose; and (8) non-conforming goods. Tampa Bay alleges compensatory damages in excess of $42 million. Depositions are ongoing. The Company is vigorously defending this litigation. Although the Company believes it has meritorious defenses, it is impracticable to assess the likelihood of an unfavorable outcome of a trial or to estimate a likely range of potential damages, if any, at this state of the litigation. The ultimate resolution of the litigation with Tampa Bay could result in a material adverse effect on the results of operations of the Company for a future reporting period.

NOTE 13 SUPPLEMENTAL FINANCIAL INFORMATION

Certain sales-type taxes that are assessed by government authorities and collected from customers are included in cost of revenues. Accordingly, these amounts are considered contract costs in the performance of percentage-of-completion calculations and the determination of net revenues. The amounts of such costs were $169,000 and $2,494,000 for the three months ended July 31, 2010 and 2009, respectively, and $347,000 and $4,803,000 for the six months ended July 31, 2010 and 2009, respectively.

Accrued liabilities as of July 31, 2010 included accrued purchase price for GRP, accrued payroll and other related costs, and accrued incentive cash compensation in the amounts of $1,600,000, $1,438,000 and $130,000, respectively. As of January 31, 2010, accrued liabilities included comparable amounts of $1,600,000, $1,649,000 and $2,519,000, respectively.

NOTE 14 SEGMENT REPORTING AND MAJOR CUSTOMERS

The Company s three reportable segments are power industry services, nutritional products and telecommunications infrastructure services. Operating 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 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, VLI and SMC, respectively. The Other column includes the Company s corporate and unallocated expenses.

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Presented below are the summarized operating results of the business segments for the three months ended July 31, 2010, and certain financial position data as of July 31, 2010:

Three Months Ended July 31, 2010	Power Industry Services	Nutritional Products	Telecom Infrastructure Services	Other	Consolidated
Net revenues	$ 50,373,000	$ 2,189,000	$ 1,947,000	$	$ 54,509,000
Cost of revenues	41,902,000	2,391,000	1,638,000		45,931,000
Gross profit	8,471,000	(202,000)	309,000		8,578,000
Selling, general and administrative expenses	1,320,000	761,000	369,000	915,000	3,365,000
Income (loss) from operations	7,151,000	(963,000)	(60,000)	(915,000)	5,213,000
Interest expense	(11,000)				(11,000)
Investment income	13,000			7,000	20,000
Income (loss) before income taxes	$ 7,153,000	$ (963,000)	$ (60,000)	$ (908,000)	5,222,000
Income tax expense					1,921,000
Net income					$ 3,301,000
Amortization of purchased intangibles	$ 88,000	$	$	$	$ 88,000
Depreciation and other amortization	$ 98,000	$	$ 97,000	$ 1,000	$ 196,000
Fixed asset additions	$ 102,000	$	$ 7,000	$	$ 109,000
Goodwill	$ 18,476,000	$	$	$	$ 18,476,000
Total assets	$ 88,319,000	$ 4,500,000	$ 2,811,000	$ 31,236,000	$ 126,866,000

Presented below are the summarized operating results of the business segments for the three months ended July 31, 2009, and certain financial position data as of July 31, 2009:

Three Months Ended July 31, 2009	Power Industry Services	Nutritional Products	Telecom Infrastructure Services	Other	Consolidated
Net revenues	$ 59,804,000	$ 3,452,000	$ 2,199,000	$	$ 65,455,000
Cost of revenues	53,712,000	3,162,000	1,625,000		58,499,000
Gross profit	6,092,000	290,000	574,000		6,956,000
Selling, general and administrative expenses	1,110,000	718,000	456,000	904,000	3,188,000

Income (loss) from operations	4,982,000	(428,000)	118,000	(904,000)	3,768,000
Interest expense	(48,000)	(4,000)			(52,000)
Investment income	20,000			4,000	24,000
Equity in the earnings of the unconsolidated subsidiary	408,000				408,000
Income (loss) before income taxes	$ 5,362,000	$ (432,000)	$ 118,000	$ (900,000)	4,148,000
Income tax expense					1,463,000
Net income					$ 2,685,000
Amortization of purchased intangibles	$ 86,000	$ 3,000	$	$	$ 89,000
Depreciation and other amortization	$ 48,000	$	$ 99,000	$ 1,000	$ 148,000
Fixed asset additions	$ 8,000	$	$ 43,000	$	$ 51,000
Goodwill	$ 18,476,000	$	$	$	$ 18,476,000
Total assets	$ 85,248,000	$ 5,470,000	$ 2,680,000	$ 35,429,000	$ 128,827,000

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Presented below are the summarized operating results of the business segments for the six months ended July 31, 2010:

Six Months Ended July 31, 2010	Power Industry Services	Nutritional Products	Telecom Infrastructure Services	Other	Consolidated
Net revenues	$ 101,769,000	$ 4,886,000	$ 3,785,000	$	$ 110,440,000
Cost of revenues	86,569,000	5,074,000	3,431,000		95,074,000
Gross profit	15,200,000	(188,000)	354,000		15,366,000
Selling, general and administrative expenses	2,765,000	1,301,000	871,000	2,002,000	6,939,000
Income (loss) from operations	12,435,000	(1,489,000)	(517,000)	(2,002,000)	8,427,000
Interest expense	(25,000)				(25,000)
Investment income	22,000			10,000	32,000
Income (loss) before income taxes	$ 12,432,000	$ (1,489,000)	$ (517,000)	$ (1,992,000)	8,434,000
Income tax expense					3,110,000
Net income					$ 5,324,000
Amortization of purchased intangibles	$ 175,000	$	$	$	$ 175,000
Depreciation and other amortization	$ 164,000	$	$ 198,000	$ 2,000	$ 364,000
Fixed asset additions	$ 243,000	$	$ 29,000	$	$ 272,000

Presented below are the summarized operating results of the business segments for the six months ended July 31, 2009:

Six Months Ended July 31, 2009	Power Industry Services	Nutritional Products	Telecom Infrastructure Services	Other	Consolidated
Net revenues	$ 117,839,000	$ 6,270,000	$ 4,456,000	$	$ 128,565,000
Cost of revenues	105,087,000	5,720,000	3,375,000		114,182,000
Gross profit	12,752,000	550,000	1,081,000		14,383,000
Selling, general and administrative expenses	2,269,000	1,274,000	852,000	2,006,000	6,401,000
Income (loss) from operations	10,483,000	(724,000)	229,000	(2,006,000)	7,982,000
Interest expense	(104,000)	(10,000)			(114,000)

Investment income		57,000						18,000		75,000
Equity in the earnings of the unconsolidated subsidiary		1,018,000								1,018,000
Income (loss) before income taxes	$	11,454,000	$	(734,000)	$	229,000	$	(1,988,000)		8,961,000
Income tax expense										3,309,000
Net income									$	5,652,000
Amortization of purchased intangibles	$	174,000	$	4,000	$		$		$	178,000
Depreciation and other amortization	$	95,000	$		$	196,000	$	4,000	$	295,000
Fixed asset additions	$	10,000	$		$	62,000	$	11,000	$	83,000

During the three and six months ended July 31, 2010, the majority of the Company s net revenues related to engineering, procurement and construction services that were provided by GPS to power industry customers. Net revenues from power industry services accounted for approximately 92% of consolidated net revenues for both current year periods. The Company s significant current year customer relationships included two power industry service customers that accounted for approximately 64% and 23% of consolidated net revenues for the current quarter, and for approximately 66% and 23% of consolidated net revenues for the six-month period ended July 31, 2010.
Net revenues from power industry services accounted for approximately 91% and 92% of consolidated net revenues for the three and six months ended July 31, 2009, respectively. The Company s most significant prior year customer relationship was a power industry service customer that accounted for approximately 89% and 88% of consolidated net revenues for the three and six months ended July 31, 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position of Argan, Inc. and its subsidiaries (the Company, we, us, or our) as of July 31, 2010, and the results of operations for the three and six months ended July 31, 2010 and 2009, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010 that was filed with the Securities and Exchange Commission on April 14, 2010 (the 2010 Annual Report).

Cautionary Statement Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for certain forward-looking statements. We have made statements in this Item 2 and elsewhere in this Quarterly Report on Form 10-Q that may constitute forward-looking statements. The words believe, expect, anticipate, plan, intend, foresee, should, other similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future net revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. These forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions. They are subject to change based upon various factors including, but not limited to, the risks and uncertainties described in Item 1A of our 2010 Annual Report. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Summary

Argan, Inc. (Argan) conducts operations through our wholly-owned subsidiaries, Gemma Power Systems, LLC and affiliates (GPS), Vitarich Laboratories, Inc. (VLI), and Southern Maryland Cable, Inc. (SMC). Through GPS, we provide a full range of development, consulting, engineering, procurement, construction, commissioning, operations and maintenance services to the power generation and renewable energy markets for a wide range of customers including public utilities, independent power project owners, municipalities, public institutions and private industry. Through VLI, we develop, manufacture and distribute premium nutritional products. Through SMC, we provide telecommunications infrastructure services including project management, construction and maintenance to the federal government, telecommunications and broadband service providers as well as electric utilities. Each of the wholly-owned subsidiaries represents a separate reportable segment; power industry services, nutritional products and telecommunications infrastructure services, respectively. Argan is a holding company with no operations other than its investments in GPS, VLI and SMC. At July 31, 2010, there were no restrictions with respect to inter-company payments from GPS, VLI and SMC to Argan.

Overview and Outlook

For the three months ended July 31, 2010 (the second quarter of our fiscal year 2011), consolidated net revenues were $54.5 million which represented a decrease of $11.0 million, or 16.7%, from net revenues of $65.5 million for the second quarter of last year. Net income for the three months ended July 31, 2010 was $3.3 million, or $0.24 per diluted share. We reported net income of $2.7 million, or $0.19 per diluted share, for the second quarter of last year. For the six months ended July 31, 2010, consolidated net revenues were $110.4 million which represented a decrease of $18.2 million, or 14.1%, from net revenues of $128.6 million for the six months ended July 31, 2009. Net income for the six months ended July 31, 2010 was $5.3 million, or $0.39 per diluted share. We reported net income of $5.7 million, or $0.41 per diluted share, for the corresponding period of last year.

We experienced declines in the net revenues of all three business units for the three months ended July 31, 2010 compared with the three months ended July 31, 2009. The net revenues of the power industry services segment, which represented approximately 92.4% of our consolidated net revenues for the three months ended July 31, 2010, declined to $50.4 million for the current quarter from $59.8 million for the corresponding quarter of the prior year, a decrease

of 15.8%. The combined net revenues of the nutritional products and telecommunications infrastructure services businesses, which represented approximately 7.6% of our consolidated net revenues for the three months ended July 31, 2010, declined by 26.8% to $4.1 million for the current quarter compared with net revenues of $5.7 million for the second quarter last year.

The decrease in consolidated net revenues for the six months ended July 31, 2010, compared with the net revenues for the corresponding period of last year, was due primarily to a decrease of 13.6% in the net revenues of the power industry services business, which represented 92.2% of consolidated net revenues for the current period. The net revenues of the nutritional products and telecommunications infrastructure services businesses also decreased for the current period, by 22.1% and 15.1%, respectively.

Income from operations increased by $1.4 million in the three months ended July 31, 2010 to $5.2 million from $3.8 million in the three months ended July 31, 2009, reflecting an increase of $1.6 million in gross profit between the quarters. The gross profit of the power industry services segment increased by $2.4 million, or 39.1%, in the current quarter compared with the second quarter last year. This increase was offset by declines in the profitability of both the nutritional products and telecommunications infrastructure services businesses. The amount of selling, general and administrative expenses for the current quarter increased by $177,000, or 5.6%, compared with the corresponding amount for last year s second quarter. Income before income taxes increased by $1.1 million in the three months ended July 31, 2010 to $5.2 million from $4.1 million in the three months ended July 31, 2009. Our operating results for the second quarter last year included our 50% share of the earnings of GRP, or $408,000; GRP was an unconsolidated subsidiary last year until it was acquired in December 2009.

Income from operations increased by $445,000 in the six months ended July 31, 2010 to $8.4 million from $8.0 million in the six months ended July 31, 2009, reflecting an increase of $983,000 in gross profit between the periods. The gross profit of the power industry services segment increased in the current period by $2.4 million compared with the corresponding period of last year. This increase was offset by declines in the profitability of both the nutritional products and telecommunications infrastructure services businesses. Also, selling, general and administrative expenses for the current period increased by approximately $538,000 compared with last year s period. Income before income taxes decreased by $527,000 in the six months ended July 31, 2010 to $8.4 million from $9.0 million in the six months ended July 31, 2009. Our operating results for the six months ended July 31, 2009 included our 50% share of the earnings of GRP, or $1.0 million.

Cash and cash equivalents increased by $6.0 million during the current year to $72.0 million at July 31, 2010. Our operating activities provided $7.1 million of cash as we reported net income of $5.3 for the six months ended July 31, 2010. We used cash to reduce our debt by $1,000,000 to a balance of $833,000 at July 31, 2010. This debt amount represented less than 1% of total stockholders equity and consolidated total assets as of July 31, 2010. Although our businesses made capital expenditures totaling $272,000 in the six months ended July 31, 2010, the balance