ARGAN INC
Form 10-Q
December 17, 2007

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended **October 31, 2007**

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 or Organization)	(I.R.S. Employer Identification No.)

One Church Street, Suite 401, Rockville MD 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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, 11,104,012 shares at December 14, 2007.

ARGAN, INC.

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ARGAN, INC.
Condensed Consolidated Balance Sheets
(unaudited)

	October 31, 2007	January 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 75,268,000	$ 25,393,000
Accounts receivable, net of allowance for doubtful accounts of $80,000 at 10/31/2007 and $137,000 at 1/31/2007	23,974,000	23,030,000
Investments available for sale	5,000,000	2,283,000
Escrowed cash	14,406,000	15,031,000
Estimated earnings in excess of billings	630,000	12,003,000
Current deferred tax asset	539,000	-
Inventories, net of reserves of $400,000 at 10/31/2007 and $104,000 at 01/31/2007	1,711,000	2,387,000
Prepaid expenses and other current assets	2,194,000	798,000
TOTAL CURRENT ASSETS	123,722,000	80,925,000
Property and equipment, net of accumulated depreciation of $3,037,000 at 10/31/2007 and $2,379,000 at 1/31/2007	2,807,000	3,250,000
Other assets	197,000	313,000
Deferred tax asset	385,000	-
Goodwill	20,155,000	23,981,000
Other intangible assets, net	6,531,000	12,661,000
TOTAL ASSETS	$ 153,797,000	$ 121,130,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 27,966,000	$ 44,255,000
Accrued expenses	9,734,000	5,873,000
Estimated loss on uncompleted contracts	68,000	-
Billings in excess of cost and earnings	66,479,000	15,705,000
Current portion of long-term debt	2,668,000	2,586,000
TOTAL CURRENT LIABILITIES	106,915,000	68,419,000
Deferred income tax liability	-	1,471,000
Other liabilities	46,000	14,000
Long-term debt	4,693,000	6,715,000
TOTAL LIABILITIES	111,654,000	76,619,000
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; 11,107,245 and 11,097,245 shares issued and 11,104,012 and 11,094,012 shares outstanding at 10/31/2007 and 1/31/2007, respectively	1,665,000	1,664,000
Warrants outstanding	849,000	849,000
Additional paid-in capital	57,492,000	57,190,000
Accumulated other comprehensive loss	(39,000)	(8,000)

Accumulated deficit		(17,791,000)		(15,151,000)
Treasury stock at cost; 3,233 shares at 10/31/2007 and 1/31/2007		(33,000)		(33,000)
TOTAL STOCKHOLDERS' EQUITY		42,143,000		44,511,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	153,797,000	$	121,130,000

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

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ARGAN, INC.
Condensed Consolidated Statements of Operations
(unaudited)

	Three months ended October 31, 2007	Three months ended October 31, 2006	Nine months ended October 31, 2007	Nine months ended October 31, 2006
Net sales				
Power industry services	$ 42,017,000	$ -	$ 130,970,000	$ -
Nutraceutical products	4,617,000	5,248,000	14,602,000	16,288,000
Telecom infrastructure services	2,629,000	4,361,000	7,260,000	10,843,000
Net Sales	49,263,000	9,609,000	152,832,000	27,131,000
Cost of sales				
Power industry services	35,548,000	-	119,383,000	-
Nutraceutical products	4,193,000	4,235,000	12,481,000	12,561,000
Telecom infrastructure services	2,076,000	3,506,000	5,776,000	8,507,000
Gross profit	7,446,000	1,868,000	15,192,000	6,063,000
Selling, general and administrative expenses	4,381,000	2,214,000	13,715,000	6,134,000
Impairment of goodwill and other intangible assets	4,666,000	-	4,666,000	-
Loss from operations	(1,601,000)	(346,000)	(3,189,000)	(71,000)
Interest expense and amortization of subordinated debt issuance costs	(171,000)	(87,000)	(550,000)	(564,000)
Interest income	1,074,000	2,000	2,352,000	5,000
Loss from operations before income taxes	(698,000)	(431,000)	(1,387,000)	(630,000)
Income tax (expense) benefit	(1,259,000)	176,000	(1,253,000)	202,000
Net loss	$ (1,957,000)	$ (255,000)	$ (2,640,000)	$ (428,000)
Earnings per share:				
Basic and diluted loss per share	$ (0.18)	$ (0.06)	$ (0.24)	$ (0.10)
Weighted average number of shares outstanding:				
Basic and diluted	11,096,000	4,574,000	11,095,000	4,312,000

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

ARGAN, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended October 31, 2007	Nine Months Ended October 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,640,000)	$ (428,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and other amortization	968,000	1,054,000
Amortization of purchased intangibles	5,290,000	991,000
Impairment of goodwill and other intangible assets	4,666,000	-
Deferred income taxes	(2,424,000)	(491,000)
Non-cash stock option compensation expense	282,000	185,000
Provision for inventory obsolescence	296,000	(33,000)
Provision for losses on accounts receivable	50,000	97,000
Loss on disposal of assets	69,000	1,000
Changes in operating assets and liabilities:		
Escrowed cash	625,000	-
Accounts receivable, net	(994,000)	(1,472,000)
Estimated earnings in excess of billings	11,373,000	(30,000)
Inventories, net	380,000	1,241,000
Prepaid expenses and other current assets	(1,396,000)	(343,000)
Accounts payable and accrued expenses	(12,428,000)	687,000
Billings in excess of cost and earnings	50,774,000	3,000
Other	86,000	(108,000)
Net cash provided by operating activities	54,977,000	1,354,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(19,997,000)	-
Proceeds from sale of investments	17,271,000	-
Purchases of property and equipment	(507,000)	(778,000)
Proceeds from sale of property and equipment	44,000	15,000
Net cash used in investing activities	(3,189,000)	(763,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from the exercise of stock options	27,000	-
Net proceeds from the private offering of common stock	-	1,862,000
Principal payments on long-term debt	(1,940,000)	(478,000)
Proceeds from long-term debt	-	1,500,000
Proceeds from line of credit	-	4,575,000
Payments on line of credit	-	(4,530,000)
Principal payments on subordinated note due to a related party	-	(3,292,000)
Net cash used in financing activities	(1,913,000)	(363,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,875,000	228,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	25,393,000	5,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 75,268,000	$ 233,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest and income taxes as follows:		

Interest	$	898,000	$	315,000
Income taxes	$	3,117,000	$	14,000
Non-cash investing and financing activities are as follows:				
Net increase in fair value of interest rate swaps	$	36,000	$	7,000

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

ARGAN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1- DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Business

Argan, Inc. (AI or the Company) conducts its operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates (GPS) which was acquired in December 2006, Vitarich Laboratories, Inc. (VLI) which was acquired in August 2004, and Southern Maryland Cable, Inc. (SMC) which was acquired in July 2003. Through GPS, the Company provides a full range of development, consulting, engineering, procurement, construction, commissioning, operating and maintenance services to the power energy market for a wide range of customers including public utilities, independent power project owners, municipalities, public institutions and private industry. Through VLI, the Company develops, manufactures and distributes premium nutritional supplements, whole-food dietary supplements and personal care products. Through SMC, the Company provides telecommunications infrastructure services including project management, construction and maintenance to the Federal Government, telecommunications and broadband service providers, as well as to electric utilities primarily in the Mid-Atlantic region.

AI operates in three reportable segments.

Basis of presentation

The condensed consolidated balance sheet as of October 31, 2007, the condensed consolidated statements of operations for the three and nine months ended October 31, 2007 and 2006, and the condensed consolidated statements of cash flows for the nine months ended October 31, 2007 and 2006 are unaudited. In the opinion of management, the accompanying financial statements contain all adjustments, which are of a normal and recurring nature, considered necessary to present fairly the financial position of the Company as of October 31, 2007 and the results of its operations and its cash flows for the interim periods presented. The Company prepares its interim financial information using the same accounting principles as it does for its annual financial statements.

These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the footnotes contained in the Company’s consolidated financial statements for the year ended January 31, 2007, together with the independent registered public accounting firm’s report, included in the Company’s Annual Report on Form 10-KSB, as filed with the Securities and Exchange Commission (SEC). 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.

NOTE 2 - RECENT ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“FAS”) No. 141(R), “Business Combinations”. FAS No. 141(R) replaces FAS No. 141 and provides greater consistency in the accounting and financial reporting of business combinations. FAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, establishes principles and requirements for how an acquirer recognizes and measures any non-controlling interest in the acquiree and the goodwill acquired, and requires the acquirer to disclose the nature and financial effect of the business combination. Among other changes, this statement also required that “negative goodwill” be recognized in earnings as a gain attributable to the acquisition, that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred and that any deferred tax benefits resulted in a business combination are recognized in income from continuing operations in the period of the combination. FAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will assess the impact that SFAS 141R may have on its financial position and results of operations.

In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” FAS No. 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. The provisions of FAS No. 159 will be effective for the Company beginning February 1, 2008. The Company does not expect FAS No. 159 to have a significant impact on the consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, “Fair Value Measurements.” This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company plans to adopt FAS No. 157 on February 1, 2008, as required. The adoption of FAS No. 157 is not expected to have a material impact on the Company’s financial condition and results of operations.

NOTE 3 - ESTIMATED LOSS ON UNCOMPLETED CONTRACTS

During the nine months ended October 31, 2007, the Company experienced an unexpected increase in costs related to one of the GPS contracts. Unexpected costs included labor productivity being below expectations and previous experience, labor rate increases due to overtime requirements to meet the completion date, equipment defects and engineering issues resulting in considerable rework and additional materials. The Company incurred a total loss of approximately $10,416,000 on this contract, including amounts recorded in the three and nine months ended October 31, 2007 of $2,267,000 and $11,604,000, respectively.

NOTE 4 - INVENTORIES

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined on the first-in, first-out (FIFO) method. Appropriate consideration is given to obsolescence, excessive inventory levels, product deterioration, and other factors in evaluating net realizable value. Inventories consist of the following:

	October 31, 2007	January 31, 2007
Raw materials	$ 1,822,000	$ 2,264,000
Work-in process	109,000	100,000
Finished goods	180,000	127,000
Less: Reserves	(400,000)	(104,000)
Inventories, net	$ 1,711,000	$ 2,387,000

NOTE 5 - INTANGIBLE ASSETS

The Company's intangible assets consist of the following at October 31, 2007:

	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets being amortized:				
Contractual customer relationships - VLI & SMC	5-7 years	$ 2,341,000	$ 1,841,000	$ 500,000
Customer relationships - GPS	1-2 years	6,678,000	5,068,000	1,610,000
Proprietary formulas - VLI	3 years	1,813,000	1,813,000	—
Non-compete agreements- GPS & VLI	5 years	2,007,000	1,236,000	771,000
Trade name - GPS	15 years	3,643,000	217,000	3,426,000
Intangible assets not being amortized:				
Trade name - SMC	Indefinite	224,000	—	224,000
Total other intangible assets		$ 16,706,000	$ 10,175,000	$ 6,531,000
Goodwill	Indefinite	$ 20,155,000	$ —	$ 20,155,000

Amortization expense totaling $1,201,000 for the three months ended October 31, 2007, consisted of $985,000, $38,000, $118,000 and $60,000 for contractual customer relationships, proprietary formulas, non-compete agreements and the trade name, respectively. Amortization expense totaling $331,000 for the three months ended October 31, 2006, consisted of $126,000, $115,000 and $90,000 for contractual customer relationships, proprietary formulas and non-compete agreements, respectively.

Amortization expense totaling $5,290,000 for the nine months ended October 31, 2007, consisted of $4,490,000, $268,000, $350,000 and $182,000 for contractual customer relationships, proprietary formulas, non-compete agreements and the trade name, respectively. Amortization expense totaling $991,000 for the nine months ended October 31, 2006, consisted of $377,000, $344,000 and $270,000 for contractual customer relationships, proprietary formulas and non-compete agreements, respectively.

Due to VLI's loss of key customer accounts, the continuing overall decline in the net sales of VLI, and the operating loss incurred by VLI for the quarter ended October 31, 2007, the Company conducted an analysis of the operations of VLI in order to identify any impairment in the carrying value of the goodwill related to this business. The unadjusted amount of goodwill related to VLI at October 31, 2007 was approximately $6,565,000. In general, this business has reported operating results that are below expected results. Analyzing this business using both an income approach and a market approach suggested that the current fair value of this business was approximately $7.0 million. Based on the analysis, the Company recorded a goodwill impairment loss of $3,826,000 during the current quarter, thereby reducing the goodwill related VLI to an adjusted balance of approximately $2,739,000 as of October 31, 2007.

The loss of business also suggested that the carrying value of VLI's long-lived intangible assets, non-contract customer relationships and non-compete agreements, may be impaired. The Company determined that the net unadjusted carrying values of these assets exceeded estimated amounts based on the undiscounted future cash flows attributable to these assets. Using fair values based on the estimated amounts of discounted cash flows, we recorded asset impairment losses in the amounts of $513,000 and $327,000, respectively, during the current quarter, thereby reducing the adjusted carrying values of these long-lived assets to approximately $220,000 and $333,000, respectively, as of October 31, 2007.

The total amount of the impairment of goodwill and other intangible assets, $4,666,000, is included in the condensed consolidated statements of operations for the three and nine months ended October 31, 2007.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company leased administrative, manufacturing and warehouse facilities for VLI from an individual who was the former officer and shareholder of VLI. The lease costs through March 2007, the date of his employment termination, were considered related party expenses. SMC's administrative and maintenance facilities were rented from a former officer through July 2006. The total expense amounts under these arrangements were $45,000 for the nine months ended October 31, 2007, and $68,000 and $208,000 for the three and nine months ended October 31, 2006, respectively.

The Company entered into a supply agreement with an entity owned by the former shareholder of VLI whereby the supplier committed to sell to the Company and the Company committed to purchase on an as-needed basis, certain organic products. VLI made $47,000 in purchases under the supply agreement through March 2007, the date that the former officer and shareholder of VLI was terminated and $23,000 and $77,000 in purchases under the supply agreement for the three and nine months ended October 31, 2006, respectively.

The Company also sold its products in the normal course of business to an entity in which the former officer and owner of VLI had an ownership interest. VLI had approximately $117,000 in sales to this entity through the aforementioned termination in March 2007, and $118,000 and $405,000 in sales to this entity for the three and nine months ended October 31, 2006, respectively. At October 31, 2007 and January 31, 2007, the previously affiliated entity owed $182,000 and $155,000 to VLI, respectively.

NOTE 7 - DEBT

On December 11, 2006, Argan amended its financing arrangements with its bank. The amended financing arrangements include an amended 3-year term loan for VLI in the amount of $1.4 million with interest at LIBOR (4.75% at October 31, 2007) plus 3.25%; a new 4-year term loan that was used to acquire GPS in the amount of $8.0 million with interest at LIBOR plus 3.25%; and a revolving loan with a maximum amount of $4.25 million available until May 31, 2008, with interest at LIBOR plus 3.25%.

The financing arrangements provide for measurement at the Company's fiscal year end and at each of the Company's fiscal quarter ends (using a rolling 12-month period) of certain financial covenants including requirements that the ratio of total funded debt to EBITDA not exceed 2.25 to 1 for the year ending January 31, 2007 and not exceed 2 to 1 for future quarters, 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 1.75 to 1 for the year ended January 31, 2007 and not exceed 1.50 to 1 for future quarters. The bank's consent continues to be required for acquisitions and divestitures. The Company continues to pledge the majority of the Company's 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 their rights and remedies under the financing arrangements including accelerating payments of all outstanding senior debt due and payable.

At October 31, 2007, the Company was in compliance with the covenants of its amended financing arrangements.

NOTE 8 - INCOME TAXES

Despite reporting a loss from operations before income taxes of $1,387,000 for the nine months ended October 31, 2007, the Company recorded income tax expense of $1,253,000 for the period. For the current year, the Company is being adversely impacted by its inability to utilize certain current operating losses for state income tax reporting purposes. In addition, the current year goodwill impairment loss of $3,826,000 that is discussed in Note 5 is not deductible for income tax reporting purposes, and represents a permanent difference between financial and income tax reporting. For the nine months ended October 31, 2006, the effective income tax benefit rate was 32%.

The Company's income tax (expense) benefit for the nine months ended October 31, 2007 and 2006 differs from the expected income tax benefit computed by applying the U.S. Federal corporate income tax rate of 34% to the loss from operations before income taxes for the nine months ended October 31, 2007 and 2006 as shown in the table below.

	2007	2006
Computed expected income tax benefit	$ 471,000	$ 214,000
Increase (decrease) resulting from:		
State income taxes, net	(386,000)	(107,000)
Permanent differences	(1,338,000)	95,000
	$ (1,253,000)	$ 202,000

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), on February 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has concluded that there is no material effect as a result of adopting this standard.

The Company is subject to income taxes in the U.S. federal jurisdiction and 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 U.S. federal, state and local income tax examinations by tax authorities for the years before 2003.

NOTE 9 - STOCK BASED COMPENSATION

The Company has a stock option plan which was established in August 2001 (the "Plan"). Under the Plan, the Company's Board of Directors may grant stock options to officers, directors and key employees. In June 2007, the shareholders of the Company voted to amend the Plan to authorize the grant of options for up to 650,000 shares of the Company's common stock.

Stock options granted may be "Incentive Stock Options" ("ISOs") or "Nonqualified Stock Options" (NSOs"). ISOs have an exercise price at least equal to the stock's fair market value at the date of grant, a ten year term and vest and become fully exercisable one year from the date of grant. NSOs may be granted at an exercise price equal to the stock's fair market value at the date of grant or at a price other than the stock's fair market value at the date of grant and have up to a ten year term, and vest and become fully exercisable as determined by the Board.

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes option-pricing model based on the following weighted average assumptions:

	Nine Months Ended October 31,	
	2007	2006
Dividend yield	—	—
Expected volatility	71%	57%
Risk-free interest rate	4.89%	5.11%
Expected life in years	5	5

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A summary of stock option activity under the Plan during the nine months ended October 31, 2007 is presented below:

Options	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)		Aggregate Intrinsic Value
Outstanding at January 31, 2007	244,000	$	4.20			
Granted	142,000	$	7.05			
Exercised	(10,000)		2.65			
Forfeited or expired	(3,000)	$	6.32			
Outstanding at October 31, 2007	373,000	$	5.30	6.5	$	1,150,000
Exercisable at October 31, 2007	215,000	$	4.11	7.4	$	397,000

The per share weighted average grant date fair values of options awarded during the nine months ended October 31, 2007 and 2006 were $4.90 and $1.34, respectively. At October 31, 2007, there was approximately $450,000 unrecognized compensation cost related to stock options granted under the Plan. The end of the period over which the compensation expense for these awards is expected to be recognized is October 2008.

A summary of the status of the Company's nonvested shares as of October 31, 2007, and changes during the nine months then ended, is presented below:

	Shares		Aggregate Intrinsic Value
Nonvested at January 31, 2007	16,000		
Granted	142,000		
Vested	—		
Forfeited	—		
Nonvested at October 31, 2007	158,000	$	753,000

The fair value of nonvested shares is determined using the Black-Scholes option-pricing model based on the excess of the opening trading price of the Company's shares on the grant date in excess of exercise price.

In connection with the Company's private placement in April 2003, the Company issued warrants to purchase shares of the Company's common stock at a price of $7.75 per share with a ten year term. 180,000 of the warrants were granted to three individuals who became the executive officers of the Company upon completion of the offering. In addition, MSR Advisors, Inc. (MSR) received warrants to purchase 50,000 shares of the Company's stock. A director of the Company is the Chief Executive Officer of MSR. The fair value of the warrants of $849,000 was recognized as offering costs. All warrants are exercisable.

At October 31, 2007, there were 864,000 shares of the Company's common stock available for issuance upon the exercise of stock options and warrants, including 261,000 shares of the Company's common stock available for award under the Plan.

NOTE 10 - LOSS PER SHARE

Basic and diluted net loss per share information is presented in accordance with SFAS No. 128, "Earnings Per Share." Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding for the applicable period. Common stock equivalents, including stock options and warrants, are not considered because the effect of their inclusion would be anti-dilutive.

NOTE 11 - SEGMENT REPORTING

The Company has three reportable operating segments. 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 assessing performance.

The Company's three reportable segments are power industry services, telecom infrastructure services and nutraceutical products. The Company conducts its operations through its wholly owned subsidiaries - GPS, VLI and SMC. The "Other" column includes the Company's corporate and unallocated expenses.

The Company's operating segments are organized in separate business units with different management, customers, technology and services. The respective segments account for the respective businesses using the accounting policies in Note 2 to the Company's Annual Report on Form 10-KSB for the fiscal year ended January 31, 2007.

The following information is for the three months ended October 31, 2007, except for total assets and goodwill which is as of October 31, 2007:

	Power Industry Services	**Nutraceutical Products**	**Telecom Infrastructure Services**	**Other**	**Consolidated**
Net sales	$ 42,017,000	$ 4,617,000	$ 2,629,000	—	$ 49,263,000
Cost of sales	35,548,000	4,193,000	2,076,000	—	41,817,000
Gross profit	6,469,000	424,000	553,000	—	7,446,000
Selling, general and administrative expenses	1,892,000	1,047,000	346,000	1,096,000	4,381,000
Impairment of goodwill and other intangible assets	—	4,666,000	—	—	4,666,000
Income (loss) from operations	4,577,000	(5,289,000)	207,000	(1,096,000)	(1,601,000)
Interest expense	(145,000)	(26,000)	—	—	(171,000)
Interest income	1,067,000	—	—	7,000	1,074,000
Income (loss) before income taxes	$ 5,499,000	$ (5,315,000)	$ 207,000	$ (1,089,000)	(698,000)
Income tax expense					(1,259,000)
Net loss					$ (1,957,000)
Depreciation and amortization	$ 45,000	$ 140,000	$ 135,000	$ 4,000	$ 324,000
Amortization of intangibles	$ 947,000	$ 228,000	$ 26,000	$ —	$ 1,201,000
Goodwill	$ 16,476,000	$ 2,739,000	$		