

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

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended October 31, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-31756



(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

13-1947195

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

One Church Street, Suite 201, Rockville, Maryland 20850

(Address of Principal Executive Offices) (Zip Code)

(301) 315-0027

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed since Last Report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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

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

Title of Each Class

Common Stock, \$.15 par value

Trading Symbol(s)

AGX

Name of Each Exchange on Which Registered

New York Stock Exchange

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common stock, \$0.15 par value: 15,714,745 shares as of December 7, 2021.

**ARGAN, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2021	2020	2021	2020
<b>REVENUES</b>	\$ 124,451	\$ 127,331	\$ 383,800	\$ 274,971
Cost of revenues	98,316	106,988	306,299	234,989
<b>GROSS PROFIT</b>	26,135	20,343	77,501	39,982
Selling, general and administrative expenses	11,590	9,398	31,813	28,827
<b>INCOME FROM OPERATIONS</b>	14,545	10,945	45,688	11,155
Other income, net	1,117	175	1,569	1,714
<b>INCOME BEFORE INCOME TAXES</b>	15,662	11,120	47,257	12,869
Income tax (expense) benefit	(3,269)	(1,666)	(11,228)	1,391
<b>NET INCOME</b>	12,393	9,454	36,029	14,260
Net loss attributable to non-controlling interests	—	—	—	(40)
<b>NET INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>	<b>12,393</b>	<b>9,454</b>	<b>36,029</b>	<b>14,300</b>
Foreign currency translation adjustments	(471)	(321)	(728)	(650)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>	<b>\$ 11,922</b>	<b>\$ 9,133</b>	<b>\$ 35,301</b>	<b>\$ 13,650</b>
<b>NET INCOME PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.</b>				
Basic	\$ 0.79	\$ 0.60	\$ 2.29	\$ 0.91
Diluted	\$ 0.78	\$ 0.60	\$ 2.25	\$ 0.91
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
Basic	15,774	15,680	15,757	15,659
Diluted	15,963	15,833	15,980	15,795
<b>CASH DIVIDENDS PER SHARE</b>	<b>\$ 0.25</b>	<b>\$ 0.25</b>	<b>\$ 0.75</b>	<b>\$ 1.75</b>

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

**ARGAN, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share data)

	October 31, 2021 (Unaudited)	January 31, 2021 (Note 1)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 391,563	\$ 366,671
Short-term investments	90,001	90,055
Accounts receivable	35,793	28,713
Contract assets	9,908	26,635
Other current assets (Note 10)	32,454	34,146
<b>TOTAL CURRENT ASSETS</b>	<u>559,719</u>	<u>546,220</u>
Property, plant and equipment, net	18,385	20,361
Goodwill	27,943	27,943
Other purchased intangible assets, net	3,417	4,097
Deferred taxes	—	249
Right-of-use and other assets	3,689	3,760
<b>TOTAL ASSETS</b>	<u>\$ 613,153</u>	<u>\$ 602,630</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 39,959	\$ 53,295
Accrued expenses	42,672	50,750
Contract liabilities	176,414	172,042
<b>TOTAL CURRENT LIABILITIES</b>	<u>259,045</u>	<u>276,087</u>
Deferred taxes	133	—
Other noncurrent liabilities	4,180	4,135
<b>TOTAL LIABILITIES</b>	<u>263,358</u>	<u>280,222</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.10 per share – 500,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value \$0.15 per share – 30,000,000 shares authorized; 15,787,673 and 15,706,202 shares issued at October 31, 2021 and January 31, 2021, respectively; 15,784,440 and 15,702,969 shares outstanding at October 31, 2021 and January 31, 2021, respectively	2,368	2,356
Additional paid-in capital	157,187	153,282
Retained earnings	190,308	166,110
Accumulated other comprehensive loss	(1,809)	(1,081)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>348,054</u>	<u>320,667</u>
Non-controlling interests	1,741	1,741
<b>TOTAL EQUITY</b>	<u>349,795</u>	<u>322,408</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 613,153</u>	<u>\$ 602,630</u>

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

**ARGAN, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE AND NINE MONTHS ENDED OCTOBER 31, 2021 AND 2020**  
**(Dollars in thousands)**  
**(Unaudited)**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
	Outstanding Shares	Par Value					
<b>Balances, August 1, 2021</b>	15,769,440	\$ 2,366	\$ 155,904	\$ 181,862	\$ (1,338)	\$ 1,741	\$ 340,535
Net income	—	—	—	12,393	—	—	12,393
Foreign currency translation loss	—	—	—	—	(471)	—	(471)
Stock compensation expense	—	—	913	—	—	—	913
Stock option exercises	15,000	2	370	—	—	—	372
Cash dividends	—	—	—	(3,947)	—	—	(3,947)
<b>Balances, October 31, 2021</b>	<u>15,784,440</u>	<u>\$ 2,368</u>	<u>\$ 157,187</u>	<u>\$ 190,308</u>	<u>\$ (1,809)</u>	<u>\$ 1,741</u>	<u>\$ 349,795</u>
<b>Balances, August 1, 2020</b>	15,669,969	\$ 2,351	\$ 150,847	\$ 170,653	\$ (1,445)	\$ 1,741	\$ 324,147
Net income	—	—	—	9,454	—	—	9,454
Foreign currency translation loss	—	—	—	—	(321)	—	(321)
Stock compensation expense	—	—	786	—	—	—	786
Stock option exercises	20,000	3	516	—	—	—	519
Cash dividends	—	—	—	(3,921)	—	—	(3,921)
<b>Balances, October 31, 2020</b>	<u>15,689,969</u>	<u>\$ 2,354</u>	<u>\$ 152,149</u>	<u>\$ 176,186</u>	<u>\$ (1,766)</u>	<u>\$ 1,741</u>	<u>\$ 330,664</u>
<b>Balances, February 1, 2021</b>	15,702,969	\$ 2,356	\$ 153,282	\$ 166,110	\$ (1,081)	\$ 1,741	\$ 322,408
Net income	—	—	—	36,029	—	—	36,029
Foreign currency translation loss	—	—	—	—	(728)	—	(728)
Stock compensation expense	—	—	2,521	—	—	—	2,521
Stock option exercises and other share-based award settlements	81,471	12	1,384	—	—	—	1,396
Cash dividends	—	—	—	(11,831)	—	—	(11,831)
<b>Balances, October 31, 2021</b>	<u>15,784,440</u>	<u>\$ 2,368</u>	<u>\$ 157,187</u>	<u>\$ 190,308</u>	<u>\$ (1,809)</u>	<u>\$ 1,741</u>	<u>\$ 349,795</u>
<b>Balances, February 1, 2020</b>	15,634,969	\$ 2,346	\$ 148,713	\$ 189,306	\$ (1,116)	\$ 1,781	\$ 341,030
Net income (loss)	—	—	—	14,300	—	(40)	14,260
Foreign currency translation loss	—	—	—	—	(650)	—	(650)
Stock compensation expense	—	—	2,199	—	—	—	2,199
Stock option exercises	55,000	8	1,237	—	—	—	1,245
Cash dividends	—	—	—	(27,420)	—	—	(27,420)
<b>Balances, October 31, 2020</b>	<u>15,689,969</u>	<u>\$ 2,354</u>	<u>\$ 152,149</u>	<u>\$ 176,186</u>	<u>\$ (1,766)</u>	<u>\$ 1,741</u>	<u>\$ 330,664</u>

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

**ARGAN, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Nine Months Ended October 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 36,029	\$ 14,260
Adjustments to reconcile net income to net cash provided by operating activities		
Lease expense	3,017	1,318
Depreciation	2,560	2,798
Stock compensation expense	2,521	2,199
Amortization of purchased intangible assets	680	677
Deferred income tax expense	383	8,366
Other	390	593
Changes in operating assets and liabilities		
Accounts receivable	(7,084)	6,585
Contract assets	16,727	6,156
Other assets	2,070	(15,976)
Accounts payable and accrued expenses	(19,966)	27,725
Contract liabilities	4,372	87,859
Net cash provided by operating activities	<u>41,699</u>	<u>142,560</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of short-term investments	90,000	170,000
Purchases of short-term investments	(90,000)	(100,000)
Investment in solar energy projects	(4,085)	—
Purchases of property, plant and equipment	(1,123)	(1,412)
Net cash (used in) provided by investing activities	<u>(5,208)</u>	<u>68,588</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of cash dividends	(11,831)	(27,420)
Proceeds from the exercise of stock options	1,396	1,245
Net cash used in financing activities	<u>(10,435)</u>	<u>(26,175)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH</b>	<u>(1,164)</u>	<u>877</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>24,892</u>	<u>185,850</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>366,671</u>	<u>167,363</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 391,563</u>	<u>\$ 353,213</u>

**SUPPLEMENTAL CASH FLOW INFORMATION** (Notes 7 and 10)

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

**ARGAN, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**October 31, 2021**  
**(Tabular dollar amounts in thousands, except per share data)**  
**(Unaudited)**

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

**Description of the Business**

Argan, Inc. (“Argan”) conducts operations through its wholly-owned subsidiaries, Gemma Power Systems, LLC and affiliates (“GPS”); The Roberts Company, Inc. (“TRC”); Atlantic Projects Company Limited and affiliates (“APC”) and Southern Maryland Cable, Inc. (“SMC”). Argan and these consolidated subsidiaries are hereinafter collectively referred to as the “Company.”

Through GPS and APC, the Company provides a full range of engineering, procurement, construction, commissioning, operations management, maintenance, project development, technical and other consulting services to the power generation market, including the renewable energy sector. The wide range of customers includes independent power producers, public utilities, power plant equipment suppliers and global energy plant construction firms with projects located in the United States (the “US”), the Republic of Ireland (“Ireland”) and the United Kingdom (the “UK”). Including a consolidated variable interest entity (“VIE”), GPS and APC represent the Company’s power industry services reportable segment. Through TRC, the industrial fabrication and field services reportable segment provides on-site services that support maintenance turnarounds, shutdowns and emergency mobilizations for industrial plants primarily located in the southeastern region of the US and that are based on its expertise in producing, delivering and installing fabricated metal components such as piping systems and pressure vessels. Through SMC, which conducts business as SMC Infrastructure Solutions, the telecommunications infrastructure services segment provides project management, construction, installation and maintenance services to commercial, local government and federal government customers primarily in the mid-Atlantic region of the US.

**Basis of Presentation and Significant Accounting Policies**

The condensed consolidated financial statements include the accounts of Argan, its wholly-owned subsidiaries and its financially controlled VIE. All significant inter-company balances and transactions have been eliminated in consolidation.

In Note 14, the Company has provided certain financial information relating to the operating results and assets of its reportable segments based on the manner in which management disaggregates the Company’s financial reporting for purposes of making internal operating decisions.

The Company’s fiscal year ends on January 31 of each year. The condensed consolidated balance sheet as of October 31, 2021, the condensed consolidated statements of earnings and stockholders’ equity for the three and nine months ended October 31, 2021 and 2020, and the condensed consolidated statements of cash flows for the nine months ended October 31, 2021 and 2020 are unaudited. The condensed consolidated balance sheet as of January 31, 2021 has been derived from audited financial statements. These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the US Securities and Exchange Commission (the “SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted pursuant to those 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, and the independent registered public accounting firm’s report thereon, that are included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2021 (“Fiscal 2021”).

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 October 31, 2021, and its earnings and 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.

## **Accounting Policies**

### **Income Taxes**

In December 2019, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2019-12, *Simplifying the Accounting for Income Taxes*, which, among other changes, eliminates the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the expected loss for the entire year. In these instances, the estimated annual effective income tax rate shall be used to calculate the tax without limitation. The new standard also requires the recognition of a franchise (or similar) tax that is partially based on income as an income-based tax and the recording of any incremental tax that is incurred by the Company as a non-income based tax. The Company’s adoption of this new guidance, which was effective on February 1, 2021, did not alter the Company’s accounting for income taxes.

There are no other recently issued accounting pronouncements that have not yet been adopted that the Company considers material to its condensed consolidated financial statements.

### **Fair Values**

The carrying value amounts presented in the condensed consolidated balance sheets for the Company’s current assets, which primarily include cash and cash equivalents, short-term investments, accounts receivable and contract assets, and its current liabilities are reasonable estimates of their fair values due to the short-term nature of these items.

### **Variable Interest Entity**

In January 2018, the Company was deemed to be the primary beneficiary of a VIE that is performing the project development activities related to the planned construction of a new natural gas-fired power plant. Consequently, the account balances of the VIE are included in the Company’s condensed consolidated financial statements, including development costs incurred by the VIE during the project development period. The total amount of the project development costs included in the balances for property, plant and equipment as of October 31, 2021 and January 31, 2021 was \$7.5 million at both dates. Consideration for the Company’s engineering and financial support provided to the project includes the right to build the power plant pursuant to a turnkey engineering, procurement and construction (“EPC”) services contract that has been negotiated and announced.

Currently, the most significant project development hurdle for the project owner is the establishment of a fuel-supply source for the plant. The understanding of GPS is that there are viable gas supply alternatives under development by the project owner and others. Recovery of the Company’s investment in this project will depend on the successful completion of all project development efforts, which should lead to the arrangement of financing for the construction of the corresponding power plant, or the sale of the project. As currently contemplated, such financing or sale would provide cash flow sufficient for the project developer to repay the funds borrowed from GPS in full. Such repayment would represent a full recovery of GPS’s investment in the project.

## **NOTE 2 – REVENUES FROM CONTRACTS WITH CUSTOMERS**

The Company’s accounting for revenues on contracts with customers is based on a single comprehensive five-step model that requires reporting entities to:

1. Identify the contract,
2. Identify the performance obligations of the contract,
3. Determine the transaction price of the contract,
4. Allocate the transaction price to the performance obligations, and
5. Recognize revenue.

The Company focuses on the transfer of the contractor’s control of the goods and/or services to the customer, as opposed to the transfer of risk and rewards. Major provisions of the current guidance cover the determination of which goods and services are distinct and represent separate performance obligations, the appropriate treatments for variable consideration, and the evaluation of whether revenues should be recognized at a point in time or over time.

When a performance obligation is satisfied over time, the related revenues are recognized over time. The Company's revenues are recognized primarily under various types of long-term construction contracts, including those for which revenues are based on either a fixed-price or a time-and-materials basis, and primarily over time as performance obligations are satisfied due to the continuous transfer of control to the project owner or other customer.

Revenues from fixed-price contracts, including portions of estimated gross profit, are recognized as services are provided, based on costs incurred and estimated total contract costs using the cost-to-cost approach. If, at any time, the estimate of contract profitability indicates an anticipated loss on a contract, the Company will recognize the total loss in the reporting period in which it is identified and the loss amount becomes estimable. Revenues from time-and-materials contracts are recognized when the related services are provided to the customer.

Almost all of the Company's fixed-price contracts are considered to have a single performance obligation. Although multiple promises to transfer individual goods or services may exist, they are not typically distinct within the context of such contracts because contract promises included therein are interrelated or the contracts require the Company to perform critical integration so that the customer receives a completed project. Warranties provided under the Company's contracts with customers are assurance-type and are recorded as the corresponding contract work is performed.

The transaction price for a contract represents the value of the contract awarded to the Company that is used to determine the amount of revenues recognized as of the balance sheet date. It may reflect amounts of variable consideration which could be either increases or decreases to the transaction price. These adjustments can be made from time-to-time during the period of contract performance as circumstances evolve related to such items as changes in the scope and price of contracts, claims, incentives and liquidated damages.

Contract assets include amounts that represent the rights to receive payment for goods or services that have been transferred to the project owner, with the rights conditional upon something other than the passage of time. Contract liabilities include amounts that reflect obligations to provide goods or services for which payment has been received. Contract retentions are billed amounts which, pursuant to the terms of the applicable contract, are not paid by project owners until a defined phase of a contract or project has been completed and accepted. These retained amounts are reflected in contract assets or contract liabilities depending on the net contract position of the particular contract. Retention amounts and the length of retention periods may vary. Retainage amounts related to active contracts are considered current regardless of the term of the applicable contract; such amounts are generally collected by the completion of the applicable contract. The total of amounts retained by project owners under construction contracts at October 31, 2021 and January 31, 2021 were \$41.3 million and \$36.8 million, respectively.

### **Variable Consideration**

Amounts for contract variations for which the Company has project-owner directive for additional work or other scope change, but not for the price associated with the corresponding additional effort, are included in the transaction price when it is considered probable that the applicable costs will be recovered through a modification to the contract price. The effects of any revision to a transaction price can be determined at any time and they could be material. The Company may include in the corresponding transaction price a portion of the amount claimed in a dispute that it expects to receive from a project owner. Once a settlement of the dispute has been reached with the project owner, the transaction price may be revised again to reflect the final resolution. The aggregate amount of such contract variations included in the transaction prices that were used to determine project-to-date revenues at October 31, 2021 and January 31, 2021 were \$6.8 million and \$16.6 million, respectively. Variations related to the Company's contracts typically represent modifications to the existing contracts and performance obligations, and do not represent new performance obligations. Actual costs related to any changes in the scope of the corresponding contract are expensed as they are incurred. Changes to total estimated contract costs and losses, if any, are reflected in operating results for the period in which they are determined.

The Company's long-term contracts typically have schedule dates and other performance objectives that if not achieved could subject the Company to liquidated damages. These contract requirements generally relate to specified activities that must be completed by an established date or by the achievement of a specified level of output or efficiency. Each applicable contract defines the conditions under which a project owner may be entitled to any liquidated damages. At the outset of each of the Company's contracts, the potential amounts of liquidated damages typically are not subtracted from the transaction price as the Company believes that it has included activities in its contract plan, and the associated costs, that



will be effective in preventing such damages. Of course, circumstances may change as the Company executes the corresponding contract. The transaction price is reduced by an applicable amount when the Company no longer considers it probable that a future reversal of revenues will not occur when the matter is resolved. The Company considers potential liquidated damages, the costs of other related items and potential mitigating factors in determining the adequacy of its regularly updated estimates of the amounts of gross profit expected to be earned on active projects.

In other cases, the Company may have the grounds to assert liquidated damages against subcontractors, suppliers, project owners or other parties related to a project. Such circumstances may arise when the Company's activities and progress are adversely affected by delayed or damaged materials, challenges with equipment performance or other events out of the Company's control where the Company has rights to recourse, typically in the form of liquidated damages. In general, the Company does not adjust the corresponding contract accounting until it is probable that the favorable cost relief will be realized. Such adjustments have been and could be material.

The Company records adjustments to revenues and profits on contracts, including those associated with contract variations and estimated cost changes, using a cumulative catch-up method. Under this method, the impact of an adjustment to the amount of revenues recognized to date is recorded in the period that the adjustment is identified. Estimated variable consideration amounts are determined by the Company based primarily on the single most likely amount in the range of possible consideration amounts. Revenues and profits in future periods of contract performance are recognized using the adjusted amounts of transaction price and estimated contract costs.

### **Accounting for the Subcontract Loss**

Construction activities that were performed by APC on the mechanical installation of the boiler for a biomass-fired power plant under construction in Teesside, England, the Tees Renewable Energy Plant ("TeesREP"), were suspended in March 2020 due to the COVID-19 pandemic, pending preparations being made by the contractors and subcontractors to comply with new and evolving government guidance concerning public health protocols. At the time of the suspension of work on the TeesREP project, APC had completed approximately 90% of its subcontracted work.

APC entered into an amendment to the subcontract with its customer, effective June 1, 2020, covering the various terms and conditions for completion of the installation of the boiler. The agreement represented a global settlement of past commercial differences with both parties making significant concessions, and converted the billing arrangements for the remaining work to a time-and-materials basis. During October 2020, APC and its customer agreed to additional contractual changes that effectively recognized APC's completion of the single performance obligation and that established a time-and-materials contractual arrangement covering any additional works requested by APC's customer until completion of APC's engagement which occurred during the current year.

The accounting for the subcontract, as amended, resulted in reductions to the subcontract loss that were recorded during the three and nine months ended October 31, 2020, in the approximate amounts of \$2.8 million and \$4.1 million, respectively. Accordingly, the final amount of the TeesREP subcontract loss was \$29.5 million, and the remaining subcontract loss reserve balance was eliminated as of October 31, 2020. The total amounts of accounts receivable and contract assets related to the TeesREP project and included in the condensed consolidated balance sheets were less than \$0.1 million as of October 31, 2021 and were \$4.7 million as of January 31, 2021.

### **Remaining Unsatisfied Performance Obligations ("RUPO")**

The amount of RUPO represents the unrecognized revenue value of active contracts with customers as determined under the revenue recognition rules of US GAAP. Increases to RUPO during a reporting period represent the transaction prices associated with new contracts, as well as additions to the transaction prices of existing contracts. The amounts of such changes may vary significantly each reporting period based on the timing of major new contract awards and the occurrence and assessment of contract variations.

At October 31, 2021, the Company had RUPO of \$491.6 million. The largest portion of RUPO at any date usually relates to EPC service contracts with typical performance durations of one to three years. However, the length of certain significant construction projects may exceed three years. The Company estimates that approximately 25% of the RUPO amount at October 31, 2021 will be included in the amount of consolidated revenues that will be recognized during the remainder of the fiscal year ending January 31, 2022. Most of the remaining amount of RUPO at October 31, 2021 is expected to be recognized in revenues during the fiscal year ending January 31, 2023.

Revenues for future periods will also include amounts related to customer contracts awarded subsequent to October 31, 2021. It is important to note that estimates may be changed in the future and that cancellations, deferrals or scope adjustments may occur related to work included in the amount of RUPO at October 31, 2021. Accordingly, RUPO may be adjusted to reflect project delays and cancellations, revisions to project scope and cost and foreign currency exchange fluctuations, or to revise estimates, as effects become known. Such adjustments may materially reduce future revenues below Company estimates.

### **Disaggregation of Revenues**

The following table presents consolidated revenues for the three and nine months ended October 31, 2021 and 2020, disaggregated by the geographic area where the corresponding projects were located:

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
United States	\$ 110,196	\$ 109,241	\$ 349,066	\$ 241,616
Republic of Ireland	9,698	8,331	21,947	10,760
United Kingdom	4,496	9,759	12,283	22,595
Other	61	—	504	—
Consolidated Revenues	<u>\$ 124,451</u>	<u>\$ 127,331</u>	<u>\$ 383,800</u>	<u>\$ 274,971</u>

The major portion of the Company's consolidated revenues are recognized pursuant to fixed-price contracts with most of the remaining portions earned pursuant to time-and-material contracts. Consolidated revenues are disaggregated by reportable segment in Note 14 to the condensed consolidated financial statements.

### **NOTE 3 – CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

At October 31, 2021 and January 31, 2021, significant amounts of cash equivalents were invested in government and prime money market funds with net assets invested in high-quality money market instruments. Such investments include US Treasury obligations; obligations of US government agencies, authorities, instrumentalities or sponsored enterprises; and repurchase agreements secured by US government obligations. Due to market conditions, returns on money market instruments are currently minimal. The Company considers all liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Short-term investments as of October 31, 2021 and January 31, 2021 consisted solely of certificates of deposit purchased from Bank of America (the "Bank") with weighted average initial maturities of less than one year. The Company has the intent and ability to hold the CDs until they mature, and they are carried at cost plus accrued interest which approximates fair value. Interest income is recorded when earned and is included in other income. At October 31, 2021 and January 31, 2021, the weighted average annual interest rates of the outstanding CDs were 0.1% and 0.2%, respectively.

The Company has a substantial portion of its cash on deposit in the US. The Company also maintains certain Euro-based bank accounts in Ireland and certain pound sterling-based bank accounts in the UK in support of the operations of APC. Management does not believe that the combined amount of the CD investments and the cash deposited with the Bank and financial institutions in Ireland and the UK, in excess of government-insured levels, represents a material risk.

### **NOTE 4 – ACCOUNTS AND NOTES RECEIVABLE**

The Company generally extends credit to a customer based on an evaluation of the customer's financial condition without requiring tangible collateral. Exposure to losses on accounts and notes receivable is expected to differ due to the varying financial condition of each customer. The Company monitors its exposure to credit losses and may establish an allowance

for credit losses based on management’s estimate of the loss that is expected to occur over the remaining life of the particular financial asset. The amounts of the provisions for credit losses for the three and nine months ended October 31, 2021 and 2020 were insignificant. The allowances for credit losses as of October 31, 2021 and January 31, 2021 were also insignificant.

As of October 31, 2021 and January 31, 2021, there were past due notes receivables from a project developer in the aggregate amount of \$1.8 million, for which full receipt will most likely depend on the successful financing of the related project. The Company placed these notes receivables on a non-accrual status during Fiscal 2021.

**NOTE 5 – PURCHASED INTANGIBLE ASSETS**

At both October 31, 2021 and January 31, 2021, the goodwill balances related to the acquisitions of GPS and TRC were \$18.5 million and \$9.5 million, respectively. Management does not believe that any events or circumstances that have occurred or arisen since January 31, 2021 require an updated assessment of the goodwill balances of either GPS or TRC.

The Company’s purchased intangible assets, other than goodwill, consisted of the following elements as of October 31, 2021 and January 31, 2021:

	Estimated Useful Life	October 31, 2021			January 31, 2021, (net amounts)
		Gross Amounts	Accumulated Amortization	Net Amounts	
Trade names					
TRC	15 years	\$ 4,499	\$ 1,775	\$ 2,724	\$ 2,949
GPS	15 years	3,643	3,617	26	208
Process certifications	7 years	1,897	1,604	293	497
Customer relationships	10 years	916	542	374	443
Totals		<u>\$ 10,955</u>	<u>\$ 7,538</u>	<u>\$ 3,417</u>	<u>\$ 4,097</u>

**NOTE 6 – FINANCING ARRANGEMENTS**

During April 2021, the Company amended its Amended and Restated Replacement Credit Agreement with the Bank (the “Credit Agreement”). The amendment extended the expiration date of the Credit Agreement to May 31, 2024 and reduced the borrowing rate. The Credit Agreement, as amended, includes the following features, among others: a lending commitment of \$50.0 million including a revolving loan with interest at the 30-day LIBOR plus 1.6% (reduced from 2.0%), and an accordion feature which allows for an additional commitment amount of \$10.0 million, subject to certain conditions. The Company may also use the borrowing ability to cover other credit instruments issued by the Bank for the Company’s use in the ordinary course of business as defined in the Credit Agreement.

At October 31, 2021, the Company did not have any borrowings or outstanding letters of credit issued under the Credit Agreement. However, subsequent to October 31, 2021, the Bank issued letters of credit in the total amount of \$19.9 million in support of the activities of APC under a new customer contract. In connection with the current project development activities of the VIE that is described in Note 1, the Bank issued a letter of credit, outside the scope of the Credit Agreement, in the approximate amount of \$3.4 million as of October 31, 2021 and January 31, 2021 for which the Company has provided cash collateral.

The Company has pledged the majority of its assets to secure its financing arrangements. The Bank’s consent is not required for acquisitions, divestitures, cash dividends or significant investments as long as certain conditions are met. The Bank requires that the Company comply with certain financial covenants at its fiscal year-end and at each of its fiscal quarter-ends. The Credit Agreement, as amended, includes other terms, covenants and events of default that are customary for a credit facility of its size and nature, including a requirement to achieve positive adjusted earnings before interest, taxes, depreciation and amortization, as defined, over each rolling twelve-month measurement period. As of October 31, 2021 and January 31, 2021, the Company was in compliance with the covenants of the Credit Agreement.

## **NOTE 7 – COMMITMENTS**

### **Leases**

The Company's operating leases primarily cover office space that expire on various dates through September 2031 and certain equipment used by the Company in the performance of its construction services contracts. Some of these equipment leases are embedded in broader agreements with subcontractors or construction equipment suppliers. The Company has no material finance leases. None of the operating leases includes significant amounts for incentives, rent holidays or price escalations. Under certain lease agreements, the Company is obligated to pay property taxes, insurance, and maintenance costs.

Operating lease right-of-use assets and associated lease liabilities are recorded in the balance sheet at the lease commencement date based on the present value of future minimum lease payments to be made over the expected lease term. As the implicit rate is not determinable in most of the Company's leases, management uses the Company's incremental borrowing rate (currently LIBOR plus 1.6%) at the commencement date in determining the present value of future payments. The expected lease term includes any option to extend or to terminate the lease when it is reasonably certain the Company will exercise such option.

Operating lease expense amounts are recorded on a straight-line basis over the expected lease terms and were \$1.1 million and \$3.0 million for the three and nine months ended October 31, 2021, respectively, and were \$0.5 million and \$1.3 million for the three and nine months ended October 31, 2020, respectively. Operating lease payments for the three and nine months ended October 31, 2021 were \$1.1 million and \$3.0 million, respectively, and were \$0.3 million and \$1.2 million for the three and nine months ended October 31, 2020, respectively. For operating leases as of October 31, 2021, the weighted average lease term is 41 months and the weighted average discount rate is 2.5%.

The Company also uses equipment and occupies other facilities under short-term rental agreements. Rent expense amounts incurred under operating leases and short-term rental agreements (including portions of the lease expense amounts disclosed above) and included in costs of revenues for the three and nine months ended October 31, 2021 were \$2.8 million and \$9.0 million, respectively. Rent expense incurred under these types of arrangements and included in costs of revenues for the three and nine months ended October 31, 2020 was \$2.3 million and \$4.2 million, respectively. Rent expense incurred under these types of arrangements (including portions of the lease expense amounts disclosed above) and included in selling, general and administrative expenses for the three and nine months ended October 31, 2021 was \$0.3 million and \$0.7 million, respectively. Rent expense incurred under these types of arrangements and included in selling, general and administrative expenses for the three and nine months ended October 31, 2020 was \$0.2 million and \$0.7 million, respectively.

The aggregate amounts of operating leases added during the nine months ended October 31, 2021 and 2020 were \$2.4 million and \$2.3 million, respectively. The following is a schedule of future minimum lease payments for the operating leases that were recognized in the condensed consolidated balance sheet as of October 31, 2021.

<b>Years Ending January 31,</b>	
Remainder of 2022	\$ 755
2023	1,020
2024	368
2025	214
2026	111
Thereafter	537
Total lease payments	3,005
Less interest portion	93
Present value of lease payments	2,912
Less current portion (included in accrued expenses)	1,665
Non-current portion (included in other noncurrent liabilities)	<u>\$ 1,247</u>

The future minimum lease payments presented above include amounts due under a long-term lease covering the primary offices and plant for TRC with the founder and current chief executive officer of TRC at an annual rate of \$0.3 million with a term extending through April 30, 2022.

### **Performance Bonds and Guarantees**

In the normal course of business and for certain major projects, the Company may be required to obtain surety or performance bonding, to cause the issuance of letters of credit, or to provide parent company guarantees (or some combination thereof) in order to provide performance assurances to clients on behalf of its contractor subsidiaries. As these subsidiaries are wholly-owned, any actual liability is ordinarily reflected in the financial statement account balances determined pursuant to the Company's accounting for contracts with customers. When sufficient information about claims on guaranteed or bonded projects would be available and monetary damages or other costs or losses would be determined to be probable, the Company would record such losses. Any amounts that may be required to be paid in excess of the estimated costs to complete contracts in progress as of October 31, 2021 are not estimable.

As of October 31, 2021, the value of the Company's unsatisfied bonded performance obligations, covering all of its subsidiaries, was approximately \$272.4 million. In addition, as of October 31, 2021, there were bonds outstanding in the aggregate amount of approximately \$0.8 million covering other risks including warranty obligations related to completed activities; these bonds expire at various dates over the next twelve months. Not all of our projects require bonding.

As of October 31, 2021, the Company has also provided a financial guarantee, subject to certain terms and conditions, on behalf of GPS to an original equipment manufacturer in the amount of \$3.6 million in support of business development efforts. The Company believes that the fair value of this guarantee as of October 31, 2021 is not material.

### **Warranties**

The Company generally provides assurance-type warranties for work performed under its construction contracts. The warranties cover defects in equipment, materials, design or workmanship, and most warranty periods typically run from nine to twenty-four months after the completion of construction on a particular project. Because of the nature of the Company's projects, including project owner inspections of the work both during construction and prior to substantial completion, the Company has not experienced material unexpected warranty costs in the past. Warranty costs are estimated based on experience with the type of work and any known risks relative to each completed project. The accruals of liabilities, which are established to cover estimated future warranty costs, are recorded as the contracted work is performed, and they are included in the amounts of accrued expenses in the condensed consolidated balances sheets. The liability amounts may be periodically adjusted to reflect changes in the estimated size and number of expected warranty claims.

### **NOTE 8 – LEGAL CONTINGENCIES**

In the normal course of business, the Company may have pending claims and legal proceedings. In the opinion of management, based on information available at this time, there are no current claims and proceedings that could have a material adverse effect on the condensed consolidated financial statements as of October 31, 2021. During September 2021, GPS settled major litigation as described below.

In January 2019, GPS filed a lawsuit against Exelon West Medway II, LLC and Exelon Generation Company, LLC (together referred to as "Exelon") in the US District Court for the Southern District of New York for Exelon's breach of contract and failure to remedy various conditions which negatively impacted the schedule and the costs associated with the construction by GPS of a gas-fired power plant for Exelon in Massachusetts. In March 2019, Exelon provided GPS with a notice intending to terminate the EPC contract under which GPS had been providing services to Exelon. At that time, the construction project was nearly complete and both of the power generation units included in the plant had successfully reached first fire. Nevertheless, and among other actions, Exelon provided contractual notice requiring GPS to vacate the construction site. Exelon asserted that GPS failed to fulfill certain obligations under the contract and was in default, withholding payments from GPS on invoices rendered to Exelon in accordance with the terms of the contract between the parties.

In September 2021, Argan's wholly owned subsidiary, GPS, reached a final settlement of all outstanding claims between the parties resulting in Exelon making a payment to GPS in the amount of \$27.5 million which was in excess of the previously reported amount of receivables and contract assets. The excess amount was included in revenues.

## **NOTE 9 – STOCK-BASED COMPENSATION**

On June 23, 2020, the Company’s stockholders approved the adoption of the 2020 Stock Plan (the “2020 Plan”), and the allocation of 500,000 shares of the Company’s common stock for issuance thereunder. The Company’s board of directors may make share-based awards under the 2020 Plan to officers, directors and key employees. The 2020 Plan replaces the 2011 Stock Plan (the “2011 Plan”); the Company’s authority to make awards pursuant to the 2011 Plan expired on July 19, 2021. Together, the 2020 Plan and the 2011 Plan are hereinafter referred to as the “Stock Plans.”

The features of the 2020 Plan are similar to those included in the 2011 Plan. Awards may include nonqualified stock options, incentive stock options, and restricted or unrestricted stock. The specific provisions for each award made pursuant to the terms of the 2020 Plan are documented in a written agreement between the Company and the awardee. All stock options awarded under the 2020 Plan shall have an exercise price per share at least equal to the common stock’s market value on the date of grant. Stock options shall have terms no longer than ten years. Typically, stock options are awarded with one-third of each stock option vesting on each of the first three anniversaries of the corresponding award date.

As of October 31, 2021, there were 2,046,068 shares of common stock reserved for issuance under the Stock Plans; this number includes 459,500 shares of common stock available for future awards under the 2020 Plan.

### **Stock Options**

A summary of stock option activity under the Company’s approved Stock Plans for the nine months ended October 31, 2021 and 2020, along with corresponding weighted average per share amounts, is presented below (shares in thousands):

	<u>Shares</u>	<u>Exercise Price</u>	<u>Remaining Term (years)</u>	<u>Fair Value</u>
Outstanding, February 1, 2021	1,405	\$ 44.17	6.90	\$ 10.39
Granted	32	\$ 54.60		
Exercised	(41)	\$ 34.05		
Forfeited	(15)	\$ 50.21		
Outstanding, October 31, 2021	<u>1,381</u>	\$ 44.64	6.32	\$ 10.46
Exercisable, October 31, 2021	<u>1,053</u>	\$ 45.51	5.66	\$ 11.18
Outstanding, October 31, 2020	<u>1,364</u>	\$ 44.14	6.96	\$ 10.52
Exercisable, October 31, 2020	<u>865</u>	\$ 46.40	5.97	\$ 11.76

The changes in the number of non-vested options to purchase shares of common stock for the nine months ended October 31, 2021 and 2020, and the weighted average fair value per share for each number, are presented below (shares in thousands):

	<u>Shares</u>	<u>Fair Value</u>
Non-vested, February 1, 2021	467	\$ 8.01
Granted	32	\$ 11.12
Vested	(163)	\$ 8.43
Forfeitures	(8)	\$ 7.05
Non-vested, October 31, 2021	<u>328</u>	\$ 8.13
Non-vested, October 31, 2020	<u>499</u>	\$ 8.35

The total intrinsic value amounts of the stock options exercised during the nine months ended October 31, 2021 and 2020 were \$0.6 million and \$1.2 million, respectively. At October 31, 2021, the aggregate market value amounts of the shares of common stock subject to outstanding and exercisable stock options that were “in-the-money” exceeded the aggregate exercise prices of such options by \$4.3 million and \$3.4 million, respectively.

## **Restricted Stock Units**

The changes in the maximum number of restricted stock units for the nine months ended October 31, 2021, and the weighted average fair value per share for each number, are presented below (shares in thousands):

	<u>Shares</u>	<u>Fair Value</u>
Outstanding, February 1, 2021	117	\$ 17.71
Awarded	128	\$ 39.84
Issued	<u>(40)</u>	<u>\$ 20.64</u>
Outstanding, October 31, 2021	<u>205</u>	<u>\$ 31.00</u>
Outstanding, October 31, 2020	<u>117</u>	<u>\$ 17.71</u>

## **Performance-Based Restricted Stock Units**

Pursuant to the terms of the Stock Plans and as described in the corresponding agreements with the executives, the Company awarded performance-based restricted stock units to four senior executives in April 2021 and two senior executives in April 2020, covering up to 49,000 and 45,000 maximum total numbers of shares of common stock, respectively, plus a number of shares to be determined based on the amount of cash dividends deemed paid on shares earned pursuant to the awards. The issuance of the number of shares earned under the agreements, free of related restrictions, depends on the total return performance of the Company's common stock measured against the performance of a peer-group of common stocks over three-year periods.

During the nine months ended October 31, 2021, the three-year vesting period for the restricted stock units awarded in April 2018 concluded and it was determined that 40,471 shares of common stock, including shares attributable to cash dividends, were earned pursuant to the performance criteria and other terms of the 2011 Plan and the applicable award agreements. These shares were issued to the awardees in April 2021.

## **Renewable Performance-Based Restricted Stock Units**

In April 2021, the Company awarded renewable energy project performance-based restricted stock units to two senior executives at GPS as described in the corresponding agreements with the executives. Each award covers 5,000 shares of the Company's common stock plus a number of shares to be determined based on the amount of cash dividends deemed paid on shares earned pursuant to the awards. The issuance of the shares, free of restrictions, shall be based on the success of GPS in increasing the amount of RUPO related to renewable energy projects, as defined, during certain periods within the three-year term of each award. The awards establish RUPO hurdle amounts for separate periods of time defined in the awards, and assign a certain portion of the award shares to each hurdle. If a RUPO hurdle is exceeded (each is mutually exclusive), the number of shares earned based on the achievement of the applicable hurdle will be issued to the executives at the end of the corresponding period. If a RUPO hurdle amount is not achieved within the period of time defined in the awards, the award shares assigned to the hurdle are forfeited.

## **Time-Based Restricted Stock Units**

During the nine months ended October 31, 2021, the Company also awarded time-based restricted stock units covering a total of 65,000 shares of common stock to senior executives and other employees pursuant to the terms of the Stock Plans and as described in the corresponding agreements with each awardee. Most of the shares will vest in equal installments on each of the first three anniversaries of the award date. Accordingly, at each vesting date, one-third of the award shares plus a number of shares to be determined based on the amount of cash dividends deemed paid on shares earned pursuant to the awards will be issued to each awardee. Of the 15,500 shares awarded in September 2021, most of these shares will vest on the three-year anniversary of award.

## **Fair Value**

The fair value amounts of stock options and restricted stock units are recorded as stock compensation expense over the terms of the corresponding awards. Expense amounts related to stock awards were \$0.9 million and \$0.8 million for the three months ended October 31, 2021 and 2020, respectively. Expense amounts related to stock awards were \$2.5 million and \$2.2 million for the nine months ended October 31, 2021 and 2020, respectively.

At October 31, 2021, there was \$6.2 million in unrecognized compensation cost related to outstanding stock awards that the Company expects to expense over the next three years.

The Company estimates the weighted average fair value of stock options on the date of award using a Black-Scholes option pricing model. The Company believes that its past stock option exercise activity is sufficient to provide it with a reasonable basis upon which to estimate the expected life of newly awarded stock options. Risk-free interest rates are determined by blending the rates for three to five year US Treasury notes. The dividend yield is based on the Company's current annual regular dividend amount. The calculations of the expected volatility factors are based on the monthly closing prices of the Company's common stock for the five-year periods preceding the dates of the corresponding awards.

The fair value amounts for the performance-based restricted stock units have been determined by using the per share market price of the Company's common stock on the dates of award and the target number of shares for the awards (50% of the maximum number), by assigning equal probabilities to the thirteen possible payout outcomes at the end of each three-year term, and by computing the weighted average of the outcome amounts. For each award, the estimated fair value amount was calculated to be 88.5% of the aggregate market value of the target number of shares on the award date. For the renewable performance-based restricted stock units, which were awarded for the first time in April 2021, the fair value of each award was determined to be 50% of the aggregate market value of the shares of common stock covered by the award on the date of the award. For the time-based restricted stock units, the fair value of each award equals the aggregate market price for the number of shares covered by each award on the date of award.

## **NOTE 10 – INCOME TAXES**

### **Income Tax Expense Reconciliation**

The Company's income tax amounts for the nine months ended October 31, 2021 and 2020 differed from corresponding amounts computed by applying the federal corporate income tax rate of 21% to the income before income taxes for the periods as presented below:

	<b><u>Nine Months Ended October 31,</u></b>	
	<b><u>2021</u></b>	<b><u>2020</u></b>
Computed expected income tax expense	\$ (9,924)	\$ (2,702)
Difference resulting from:		
State income taxes, net of federal tax effect	(1,015)	(40)
Net operating loss carryback benefit (see discussion below)	—	4,390
Adjustments and other differences	(289)	(257)
Income tax (expense) benefit	<u>\$ (11,228)</u>	<u>\$ 1,391</u>

Foreign income tax expense for the nine months ended October 31, 2021 was \$0.5 million; the foreign tax expense amount for the nine months ended October 31, 2020 was not material.

During the nine months ended October 31, 2021, the Company wrote-off previously established deferred tax assets in the amount of \$0.3 million based on the estimated non-deductible portion of stock option compensation.

### **Net Operating Loss (“NOL”) Carryback**

In an effort to combat the adverse economic impacts of the COVID-19 crisis, the US Congress passed the Coronavirus, Aid, Relief, and Economic Security Act ( the “CARES Act”) that was signed into law on March 27, 2020. This wide-ranging legislation was an emergency economic stimulus package that included spending and tax breaks aimed at strengthening the US economy and funding a nationwide effort to curtail the effects of the outbreak of COVID-19.



The tax changes of the CARES Act included a temporary suspension of the limitations on the future utilization of certain NOLs and re-established a carryback period for certain losses to five years. The NOLs eligible for carryback under the CARES Act include the Company's domestic NOL for the year ended January 31, 2020 ("Fiscal 2020"), which was approximately \$39.5 million. The Company made the appropriate filing with the Internal Revenue Service (the "IRS") requesting carryback refunds of income taxes paid for the years ended January 31, 2017 ("Fiscal 2017"), 2016 ("Fiscal 2016") and 2015 ("Fiscal 2015").

A deferred tax asset in the amount of \$8.3 million was recorded as of January 31, 2020 associated with the income tax benefit of the NOL for the year then ended. With the enactment of the CARES Act, the asset was moved to income taxes receivable (included in other current assets in the condensed consolidated balance sheets as of October 31, 2021 and January 31, 2021) where the value was increased to approximately \$12.7 million. The carryback provided a favorable rate benefit for the Company as the loss, which was incurred in a year where the statutory federal tax rate was 21%, has been carried back to tax years where the tax rate was higher. The substantial portion of the net amount of this additional income tax benefit, estimated at the time to be approximately \$4.2 million, was recorded in the nine-month period ended October 31, 2020.

### **Research and Development Tax Credits**

During the year ended January 31, 2019 ("Fiscal 2019"), the Company completed a detailed review of the activities of its engineering staff on major EPC services projects in order to identify and quantify the amounts of research and development tax credits that may have been available to reduce prior year income taxes. This study focused on project costs incurred during the three-year period ended January 31, 2018. Based on the results of the study, management identified and estimated significant amounts of income tax benefits that were not previously recognized in the Company's operating results for any prior year reporting period.

The amount of research and development tax credit benefit recognized in Fiscal 2019 was \$16.6 million. During Fiscal 2020, deferred tax assets related to the research and development tax credits were reduced by \$0.4 million. As described below, the IRS has concluded examinations of the Company's consolidated federal income tax returns for Fiscal 2016 and Fiscal 2017, as amended to include research and development tax credits, and has commenced an examination of the Company's consolidated federal income tax return for the year ended January 31, 2018 ("Fiscal 2018") with an expressed intent to focus on the research and development tax credit included therein. All of the aforementioned filings were made prior to January 31, 2019.

The amount of identified but unrecognized income tax benefits related to research and development tax credits as of October 31, 2021 is \$5.0 million, for which the Company has established a liability for uncertain income tax return positions, most of which is included in accrued expenses as of October 31, 2021 and January 31, 2021. The final outcome of these uncertain tax positions is not yet determinable. However, the Company does not expect that the amount of unrecognized tax benefits will significantly change due to any expiration of statutes of limitation over the next 12 months. However, it is possible that the disputes with the IRS related to the Company's federal research and development tax credits (see discussion of income tax returns below) could be resolved within the next twelve months depending on the scheduling of an appeals hearing and/or the results of negotiations with the IRS. If resolution of the disputes occurs, it would result in the Company's elimination of at least a substantial portion of the amount of the liability for uncertain income tax positions discussed above. As of October 31, 2021, the Company does not believe that it has any other material uncertain income tax positions reflected in its accounts.

As of October 31, 2021 and January 31, 2021, the balances of other current assets in the condensed consolidated balance sheet included income tax refunds receivable and prepaid income taxes in the total amounts of approximately \$25.9 million and \$26.9 million, respectively. The income tax refunds include the amounts expected to be received from the IRS upon completion of the tax return examination appeals process identified below and the amount expected to be received from the IRS upon its processing of the Company's NOL carryback refund request discussed above.

## **Income Tax Returns**

The Company is subject to federal and state income taxes in the US, and income taxes in Ireland and the UK. Tax treatments within each jurisdiction are subject to the interpretation of the related tax laws and regulations which require significant judgment to apply. The Company is no longer subject to income tax examinations by authorities for its fiscal years ended on or before January 31, 2018 except for several notable exceptions including Ireland, the UK and several states where the open periods are one year longer.

The IRS conducted an examination of the Company's original federal consolidated income tax return for Fiscal 2016. The IRS reported to the Company that no unfavorable adjustment items were noted during this examination. However, the Company consented to an extension of the audit timeline which enabled the IRS to also examine the amendment to the income tax return, which included the research and development credit for the year. In addition, the IRS opened an examination of the Company's amended consolidated income tax return for Fiscal 2017. In substance, these efforts evolved into simultaneously conducted examinations of the research and development credits claimed in each year.

In January 2021, the IRS issued its final revenue agents report that documents its understanding of the facts, attempts to summarize the Company's arguments in support of the research and development claims and states its position which disagrees with the Company's treatment of a substantial amount of the costs that support the Company's claims for Fiscal 2016 and Fiscal 2017. The Company believes that its arguments are sound and that the report does not present any new facts relating to the issues or make any new arguments that would cause it to make any adjustments to its accounting for the research and development claims as of October 31, 2021. In March 2021, the Company submitted a formal protest of the findings of the IRS examiner and is pursuing its income tax position with the IRS through the established protest and appeals process. The Company expects that the ultimate settlement of the income tax dispute will be resolved on a basis favorable to the Company.

In November 2020, the Company was notified by the IRS that it intends to examine the consolidated income tax return for Fiscal 2018, with an expressed focus on the research and development tax credit claimed therein. By the time the appeals process commences, our protest may dispute the results of the examinations of the tax returns for all three years.

## **Solar Energy Projects**

During the nine months ended October 31, 2021, the Company invested approximately \$4.1 million in a limited liability company that makes equity investments in solar energy projects that are eligible to receive energy tax credits. The passive investment has been accounted for under the equity method and reported within other assets in our condensed consolidated balance sheet. Each tax credit, when recognized, is recorded as a reduction of the corresponding investment balance with an offsetting reduction in the balance of accrued taxes payable in accordance with the deferral method. Investment tax credits in the approximate amount of \$3.3 million were recognized during the nine months ended October 31, 2021. As of October 31, 2021, the Company's remaining cash investment commitment was approximately \$0.9 million.

At October 31, 2021, the corresponding investment balance was adjusted to reflect its share of the loss of the investment entity in the amount of approximately \$0.4 million, which has been included as other expense in the Company's condensed consolidated statement of earnings for the nine months ended October 31, 2021. The Company has also established deferred taxes related to the difference in the book and tax bases of the investments. This investment is expected to provide a positive overall return over the six-year expected life of the investment.

## **Supplemental Cash Flow Information**

The amounts of cash paid for income taxes during the nine months ended October 31, 2021 and 2020 were \$9.6 million (including \$3.3 million in solar energy investment tax credits) and \$3.8 million, respectively. During the nine months ended October 31, 2020, the Company received cash refunds of previously paid income taxes from various taxing authorities in the total amount of \$0.9 million. The amount of income tax refunds received during the nine months ended October 31, 2021 was not material.

**NOTE 11 – NET INCOME PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN**

Basic and diluted net income per share amounts are computed as follows (shares in thousands except in the notes):

	<b>Three Months Ended October 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income attributable to the stockholders of Argan	\$ 12,393	\$ 9,454
Weighted average number of shares outstanding – basic	15,774	15,680
Effect of stock awards <sup>(1)</sup>	189	153
Weighted average number of shares outstanding – diluted	15,963	15,833
Net income per share attributable to the stockholders of Argan		
Basic	\$ 0.79	\$ 0.60
Diluted	\$ 0.78	\$ 0.60

- (1) For the three months ended October 31, 2021 and 2020, the weighted average numbers of shares determined on a dilutive basis exclude the effects of antidilutive stock options covering an aggregate of 579,167 and 506,501 shares of common stock, respectively.

	<b>Nine Months Ended October 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income attributable to the stockholders of Argan	\$ 36,029	\$ 14,300
Weighted average number of shares outstanding – basic	15,757	15,659
Effect of stock awards <sup>(1)</sup>	223	136
Weighted average number of shares outstanding – diluted	15,980	15,795
Net income per share attributable to the stockholders of Argan		
Basic	\$ 2.29	\$ 0.91
Diluted	\$ 2.25	\$ 0.91

- (1) For the nine months ended October 31, 2021 and 2020, the weighted average numbers of shares determined on a dilutive basis exclude the effects of antidilutive stock options covering an aggregate of 366,500 and 688,000 shares of common stock, respectively.

**NOTE 12 – CASH DIVIDENDS**

On September 9, 2021, the Company’s board of directors declared a regular quarterly cash dividend in the amount of \$0.25 per share of common stock, which was paid on October 29, 2021 to stockholders of record at the close of business on October 21, 2021. On June 24, 2021, the Company’s board of directors declared a regular quarterly cash dividend in the amount of \$0.25 per share of common stock, which was paid on July 30, 2021 to stockholders of record at the close of business on July 22, 2021. On April 14, 2021, the Company’s board of directors declared a regular quarterly cash dividend in the amount of \$0.25 per share of common stock, which was paid on April 30, 2021. During the nine months ended October 31, 2020, the board of directors declared three regular quarterly cash dividends, each in the amount of \$0.25 per share of common stock, which were paid to stockholders on October 31, 2020, July 31, 2020 and April 30, 2020, respectively. The Company also paid a special cash dividend in the amount of \$1.00 per share of common stock on July 31, 2020.

### **NOTE 13 – CUSTOMER CONCENTRATIONS**

The majority of the Company's consolidated revenues relate to performance by the power industry services segment which provided 80% and 86% of consolidated revenues for the three months ended October 31, 2021 and 2020, respectively, and 77% and 83% of consolidated revenues for the nine months ended October 31, 2021 and 2020, respectively. The industrial services segment represented 17% and 12% of consolidated revenues for the three months ended October 31, 2021 and 2020, respectively, and 20% and 15% of consolidated revenues for the nine months ended October 31, 2021 and 2020, respectively.

The Company's most significant customer relationship for the three months ended October 31, 2021 included one power industry service customer, which accounted for 56% of consolidated revenues. The Company's most significant customer relationship for the three months ended October 31, 2020 included one power industry service customer, which accounted for 70% of consolidated revenues. The Company's most significant customer relationships for the nine months ended October 31, 2021 included one power industry service customer and one industrial services customer, which accounted for 61% and 11% of consolidated revenues, respectively. The Company's most significant customer relationship for the nine months ended October 31, 2020 included one power industry service customer, which accounted for 69% of consolidated revenues.

The accounts receivable balances from two major customers represented 25% and 21% of the corresponding consolidated balance as of October 31, 2021. Accounts receivable balances from three major customers represented 26%, 11% and 11% of the corresponding consolidated balance as of January 31, 2021. The contract asset balances from two major customers represented 30% and 12% of the corresponding consolidated balance as of October 31, 2021. Contract asset balances from two major customers represented 64% and 12% of the corresponding consolidated balance as of January 31, 2021.

### **NOTE 14 – SEGMENT REPORTING**

Segments represent components of an enterprise for which discrete financial information is available that is evaluated regularly by the Company's chief executive officer, who is the chief operating decision maker, in determining how to allocate resources and in assessing performance. The Company's reportable segments recognize revenues and incur expenses, are organized in separate business units with different management teams, customers, talents and services, and may include more than one operating segment. Intersegment revenues and the related cost of revenues are netted against the corresponding amounts of the segment receiving the intersegment services. For the nine months ended October 31, 2021, intersegment revenues totaled approximately \$2.7 million; such revenues for the three months ended October 31, 2021 were not material. For the three and nine months ended October 31, 2020, intersegment revenues totaled approximately \$0.5 million and \$1.4 million, respectively. Intersegment revenues for the aforementioned periods primarily related to services provided by the industrial fabrication and field services segment to the power industry services segment and were based on prices negotiated by the parties.

Summarized below are certain operating results and financial position data of the Company's reportable business segments for the three and nine months ended October 31, 2021 and 2020. The "Other" column in each summary includes the Company's corporate expenses.

Three Months Ended October 31, 2021	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 99,560	\$ 21,402	\$ 3,489	\$ —	\$ 124,451
Cost of revenues	76,517	18,703	3,096	—	98,316
Gross profit	23,043	2,699	393	—	26,135
Selling, general and administrative expenses	6,770	2,158	558	2,104	11,590
Income (loss) from operations	16,273	541	(165)	(2,104)	14,545
Other income, net	1,116	—	—	1	1,117
Income (loss) before income taxes	<u>\$ 17,389</u>	<u>\$ 541</u>	<u>\$ (165)</u>	<u>\$ (2,103)</u>	<u>15,662</u>
Income tax expense					(3,269)
Net income					<u>\$ 12,393</u>
Amortization of intangibles	<u>\$ 61</u>	<u>\$ 166</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 227</u>
Depreciation	<u>145</u>	<u>564</u>	<u>109</u>	<u>1</u>	<u>819</u>
Property, plant and equipment additions	<u>36</u>	<u>60</u>	<u>223</u>	<u>2</u>	<u>321</u>
Current assets	<u>\$ 374,370</u>	<u>\$ 24,029</u>	<u>\$ 3,329</u>	<u>\$ 157,991</u>	<u>\$ 559,719</u>
Current liabilities	<u>247,693</u>	<u>9,015</u>	<u>1,696</u>	<u>641</u>	<u>259,045</u>
Goodwill	<u>18,476</u>	<u>9,467</u>	<u>—</u>	<u>—</u>	<u>27,943</u>
Total assets	<u>406,261</u>	<u>42,833</u>	<u>5,765</u>	<u>158,294</u>	<u>613,153</u>
Three Months Ended October 31, 2020	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 109,712	\$ 15,730	\$ 1,889	\$ —	\$ 127,331
Cost of revenues	91,263	14,218	1,507	—	106,988
Gross profit	18,449	1,512	382	—	20,343
Selling, general and administrative expenses	5,096	1,828	489	1,985	9,398
Income (loss) from operations	13,353	(316)	(107)	(1,985)	10,945
Other income, net	172	—	—	3	175
Income (loss) before income taxes	<u>\$ 13,525</u>	<u>\$ (316)</u>	<u>\$ (107)</u>	<u>\$ (1,982)</u>	<u>11,120</u>
Income tax expense					(1,666)
Net income					<u>\$ 9,454</u>
Amortization of intangibles	<u>\$ 62</u>	<u>\$ 164</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 226</u>
Depreciation	<u>178</u>	<u>654</u>	<u>106</u>	<u>2</u>	<u>940</u>
Property, plant and equipment additions	<u>164</u>	<u>34</u>	<u>81</u>	<u>—</u>	<u>279</u>
Current assets	<u>\$ 392,954</u>	<u>\$ 25,404</u>	<u>\$ 1,704</u>	<u>\$ 118,758</u>	<u>\$ 538,820</u>
Current liabilities	<u>245,808</u>	<u>13,762</u>	<u>709</u>	<u>751</u>	<u>261,030</u>
Goodwill	<u>18,476</u>	<u>9,467</u>	<u>—</u>	<u>—</u>	<u>27,943</u>
Total assets	<u>425,909</u>	<u>47,356</u>	<u>3,190</u>	<u>119,045</u>	<u>595,500</u>

Nine Months Ended October 31, 2021	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 295,736	\$ 78,213	\$ 9,851	\$ —	\$ 383,800
Cost of revenues	233,682	64,519	8,098	—	306,299
Gross profit	62,054	13,694	1,753	—	77,501
Selling, general and administrative expenses	17,976	6,017	1,528	6,292	31,813
Income (loss) from operations	44,078	7,677	225	(6,292)	45,688
Other income, net	1,564	—	—	5	1,569
Income (loss) before income taxes	<u>\$ 45,642</u>	<u>\$ 7,677</u>	<u>\$ 225</u>	<u>\$ (6,287)</u>	<u>47,257</u>
Income tax expense					(11,228)
Net income					<u>\$ 36,029</u>
Amortization of intangibles	<u>\$ 183</u>	<u>\$ 497</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 680</u>
Depreciation	464	1,764	329	3	2,560
Property, plant and equipment additions	<u>464</u>	<u>76</u>	<u>578</u>	<u>5</u>	<u>1,123</u>

Nine Months Ended October 31, 2020	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 227,363	\$ 42,163	\$ 5,445	\$ —	\$ 274,971
Cost of revenues	192,583	38,096	4,310	—	234,989
Gross profit	34,780	4,067	1,135	—	39,982
Selling, general and administrative expenses	15,892	5,664	1,447	5,824	28,827
Income (loss) from operations	18,888	(1,597)	(312)	(5,824)	11,155
Other income, net	1,634	—	—	80	1,714
Income (loss) before income taxes	<u>\$ 20,522</u>	<u>\$ (1,597)</u>	<u>\$ (312)</u>	<u>\$ (5,744)</u>	<u>12,869</u>
Income tax benefit					1,391
Net income					<u>\$ 14,260</u>
Amortization of intangibles	<u>\$ 182</u>	<u>\$ 495</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 677</u>
Depreciation	522	1,967	305	4	2,798
Property, plant and equipment additions	<u>857</u>	<u>338</u>	<u>217</u>	<u>—</u>	<u>1,412</u>

## 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 as of October 31, 2021, and the results of their operations for the three and nine month periods ended October 31, 2021 and 2020, 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 Fiscal 2021 that was filed with the SEC on April 14, 2021 (the "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," "would," "could," or other similar expressions are intended to identify forward-looking statements. Our forward-looking statements, including those relating to the potential effects of the COVID-19 pandemic on our business, financial position and results of operations, 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 revenues and operating results are based on our forecasts for existing operations and do not include the potential impact of any future acquisitions.

Our forward-looking statements, by their nature, 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 this Quarterly Report on Form 10-Q and our Annual Report. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove to be 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 Description**

Argan is a holding company that conducts operations through its wholly-owned subsidiaries, GPS, APC, SMC and TRC. Through GPS and APC, we provide a full range of engineering, procurement, construction, commissioning, operations management, maintenance, development, technical and consulting services to the power generation market, including the renewable energy sector, for a wide range of customers, including independent power project owners, public utilities, equipment suppliers and global energy plant construction firms. GPS and APC represent our power industry services reportable segment. Through TRC, the industrial fabrication and field services reportable segment provides on-site services that support maintenance turnarounds, shutdowns and emergency mobilizations for industrial plants primarily located in the southeastern region of the US and that are based on its expertise in producing, delivering and installing fabricated steel components such as piping systems and pressure vessels. Through SMC Infrastructure Solutions, the telecommunications infrastructure services segment provides project management, construction, installation and maintenance services to commercial, local government and federal government customers primarily in the mid-Atlantic region of the US.

We intend to make additional opportunistic acquisitions and/or investments by identifying companies with significant potential for profitable growth and realizable synergies with one or more of our existing businesses. However, we may have more than one industrial focus depending on the opportunity. We expect that significant acquired companies will be maintained in separate subsidiaries that will be operated in a manner that best provides cash flows for the Company and value for our stockholders.

### **Overview**

#### **Operating Results**

Consolidated revenues for the three months ended October 31, 2021 were \$124.5 million, which represented a slight decrease of \$2.8 million, or 2.3%, from consolidated revenues of \$127.3 million reported for the three months ended October 31, 2020.

The revenues of the power industry services segment decreased by \$10.1 million to \$99.6 million for the three months ended October 31, 2021, from \$109.7 million reported for the three months ended October 31, 2020. The revenues of this reportable segment of our business represented 80.0% of consolidated revenues for the three months ended October 31, 2021. For the three months ended October 31, 2020, the percentage share of consolidated revenues represented by this reportable segment was 86.2%. The industrial services business reported revenues of \$21.4 million for the three months ended October 31, 2021. This amount represented an increase of \$5.7 million, or 36.1%, from revenues of \$15.7 million reported by TRC for the three months ended October 31, 2020. Revenues provided by this reportable business segment represented 17.2% and 12.4% of corresponding consolidated revenues for the three months ended October 31, 2021 and 2020, respectively.

Consolidated gross profit for the three-month period ended October 31, 2021 was \$26.1 million, or 21.0% of the corresponding consolidated revenues, which reflected primarily favorable contributions from the power industry services and industrial services segments. For the three-month period ended October 31, 2020, the consolidated gross profit was \$20.3 million, which represented approximately 16.0% of the corresponding amount of consolidated revenues.

Selling, general and administrative expenses for the three months ended October 31, 2021 and 2020 were \$11.6 million, or 9.3% of corresponding consolidated revenues, and \$9.4 million, or 7.4% of corresponding consolidated revenues, respectively.

Due primarily to the increase in consolidated pre-tax book income to \$15.7 million for the three months ended October 31, 2021 from \$11.1 million for the three months ended October 31, 2020, we reported income tax expense in the amount of \$3.3 million for the current period. Income tax expense for the three months ended October 31, 2020 was \$1.7 million.

For the three months ended October 31, 2021, our favorable overall operating profit performance resulted in net income attributable to our stockholders in the amount of \$12.4 million, or \$0.78 per diluted share. For the comparable period last year, we reported net income attributable to our stockholders in the amount of \$9.5 million, or \$0.60 per dilutive share.

Consolidated revenues for the nine-month period ended October 31, 2021 were \$383.8 million; this amount represented a 39.6% improvement from the amount of revenues for the nine months ended October 31, 2020. The revenues of the power industry services segment increased by \$68.3 million to \$295.7 million for the nine months ended October 31, 2021, from \$227.4 million reported for the nine months ended October 31, 2020. The revenues of the power industry services segment represented 77.1% and 82.7% of consolidated revenues for the nine months ended October 31, 2021 and 2020, respectively. The industrial services business reported revenues of \$78.2 million for the nine months ended October 31, 2021. This amount represented an increase of \$36.0 million, or 85.5%, from revenues of \$42.2 million reported by this business for the nine months ended October 31, 2020. Revenues provided by this reportable business segment represented 20.4% and 15.3% of corresponding consolidated revenues for the nine months ended October 31, 2021 and 2020, respectively.

Consolidated gross profit for the nine months ended October 31, 2021 was \$77.5 million, or 20.2% of the corresponding consolidated revenues, which reflected primarily the favorable impact of higher consolidated revenues. For the nine months ended October 31, 2020, our consolidated gross profit was \$40.0 million, or 14.5% of corresponding consolidated revenues for the period.

Selling, general and administrative expenses were \$31.8 million and \$28.8 million for the nine months ended October 31, 2021 and 2020, respectively, or 8.3% and 10.5% of revenues for the corresponding periods, respectively.

Due primarily to the consolidated pre-tax book income reported for the nine months ended October 31, 2021 in the amount of \$47.3 million, we reported income tax expense in the amount of \$11.2 million for the period. For the nine months ended October 31, 2020, we recorded an income tax benefit in the amount of \$1.4 million which reflected primarily a net operating loss carryback benefit of \$4.4 million, most of which was recorded in the first quarter last year.

For the nine months ended October 31, 2021, our improved overall operating performance resulted in net income attributable to our stockholders in the amount of \$36.0 million, or \$2.25 per diluted share. For the comparable period last year, we reported net income attributable to our stockholders in the amount of \$14.3 million, or \$0.91 per dilutive share.

The primary drivers of our strong financial performance for the three and nine months ended October 31, 2021 were the revenues and gross margin contributions associated with the construction projects of GPS. These projects represented the major portion of our business for the periods.

We believe that all of our businesses have been adversely impacted, to some degree, by difficulties presented by the COVID-19 pandemic, especially last year when the outbreak commenced. For example, the results for APC were hurt by the slow resumption of postponed Irish works projects and the suspension and restart of construction activities on a certain major project. The challenges of managing the continuing activities of the Guernsey Power Station project during the periods of various health and safety restrictions have resulted in modifications to construction plans and schedules. In addition, our consolidated revenues for the nine months ended October 31, 2020 in particular suffered from the effects of project delays by customers of both TRC and SMC attributable to the restrictive work environments caused by the pandemic.

We believe that all of our operating companies have managed the challenges presented by this ongoing pandemic with relative success so far. A significant amount of effort has been spent by senior and project management to ensure the safety of our employees during the COVID-19 pandemic while we continued to satisfy our customer obligations. While our pro-



active efforts varied depending on the particular job or office location, and other factors including the severity of the outbreak, we implemented a number of different safety measures, including COVID-19 testing onsite at a major job site, remote work, staggered shifts in various offices, contract tracing and quarantines. Meanwhile, our commitment to the maintenance of our operations and support teams, and the dedication to performance that our employees maintained during the crisis, positioned us well to satisfy the performance requirements of our customers as general business conditions improved during the nine months ended October 31, 2021. However, the recent resurgence of new COVID-19 virus variants represents uncertainty regarding our realizing expected financial results for the remainder of the year if the new outbreak prevents our work crews from completing project work as scheduled.

### **Engineering, Procurement and Construction Service Contracts**

While the positive financial results for the three and nine months ended October 31, 2021 have been encouraging to us, third quarter events that may affect the level of future business have been mixed.

At October 31, 2021, the project backlog for the power industry services reporting segment was approximately \$0.8 billion. The comparable backlog amount as of January 31, 2021 was also \$0.8 billion. Our reported amount of project backlog at a point in time represents the total value of projects awarded to us that we consider to be firm as of that date less the amounts of revenues recognized to date on the corresponding projects (project backlog is larger than the value of remaining unsatisfied performance obligations, or RUPO, on active contracts; see Note 2 to the accompanying consolidated financial statements).

Typically, we include the total value of EPC services and other major construction contracts in project backlog when we receive a corresponding notice to proceed from the project owner. However, we may include the value of an EPC services contract prior to the receipt of a notice to proceed if we believe that it is probable that the project will commence within a reasonable timeframe, among other factors. Projects that are awarded to us may remain included in our backlog for extended periods of time as customers experience project delays. However, cancellations or reductions may occur that would reduce project backlog and that could adversely affect our expected future revenues.

A meaningful amount of the project backlog amount at October 31, 2021 was represented by the Guernsey Power Station. The ramp-up of activity on this project since August 2019 has favorably impacted our consolidated operating results since then. Substantial completion of this project is currently scheduled to occur during the second half of the fiscal year ending January 31, 2023.

Despite our commitment to the construction of state-of-the-art, natural gas-fired power plants as important elements of our country's electricity-generation mix in the future, we have been directing certain business development efforts to winning projects for the erection of utility-scale wind farms and solar fields and for the construction of hydrogen-based and other renewable energy projects. We have successfully completed these types of projects in the past and we renewed efforts to obtain new work in the renewable power sector that will complement our natural gas-fired EPC services projects going forward. During Fiscal 2021, GPS began exclusive negotiations with the owners of several significant renewable projects in anticipation of beginning the corresponding EPC services contract activities during the fiscal year ending January 31, 2022 ("Fiscal 2022") and beyond.

Our efforts led to our announcement in May 2021 that GPS entered into an EPC services contract with CPV Maple Hill Solar, LLC, an affiliate of Competitive Power Ventures, Inc., to construct the Maple Hill Solar facility, which we believe will be among the largest solar-powered energy plants in Pennsylvania. Project activities were begun by GPS immediately. Project completion is currently scheduled to occur during the second half of calendar year 2022. The unique Maple Hill Solar project, which is located in Cambria County, will be constructed using over 235,000 photovoltaic modules to generate approximately 100 MW of electrical power.

The business development efforts conducted by our APC subsidiary have resulted in an increase in the project backlog of this business from \$13.8 million at January 31, 2021 to \$124.2 million as of October 31, 2021. The most significant award occurred in October 2021 as APC entered into an engineering and construction services contract with EPUKI London, UK, to construct a 2 x 330 MW natural gas-fired power plant in Carrickfergus, Belfast, Northern Ireland that will replace coal-fired units at the site. The power trains will be provided by Siemens Energy which will utilize SGT5-4000F gas turbines. The facility is being developed by EPNI Energy Limited. A notice to proceed was received and project activities have commenced. The overall project completion date is expected in the latter half of calendar 2023.

As discussed at previous reporting dates, GPS has been awarded certain EPC services contracts where the commencement of the projects has been delayed.

In January 2020, GPS entered into an EPC services contract with Harrison Power, LLC (“Harrison Power”) to construct a 1,085 MW natural gas-fired power plant in the Village of Cadiz, Harrison County, Ohio. The project is being developed by EmberClear, the parent company of Harrison Power, and Advanced Power Services (NA) Inc. We anticipate adding the value of this new contract to project backlog closer to its financial close and expected start date. Previously, we anticipated that the start of construction activities for this project would occur before the end of Fiscal 2022. However, delays continue and we cannot predict with certainty when the project will commence. As with most projects, the start dates for construction are generally controlled by the project owners.

On March 12, 2020, we announced that GPS had entered into an EPC services contract with NTE Connecticut, LLC to construct the Killingly Energy Center, a 650 MW natural gas-fired power plant, in Killingly, Connecticut. The facility is being developed by NTE Energy, LLC (“NTE”). However, in November 2021, the New England electricity grid operator requested that the Federal Energy Regulatory Commission (“FERC”) grant it permission to terminate its capacity supply contract with NTE because it does not believe that NTE will meet its critical path schedule milestones as required. Such termination would jeopardize the future of this project.

As announced in Fiscal 2019, GPS entered into an EPC services contract to construct the Chickahominy Power Station, a 1,740 MW natural gas-fired power plant, in Charles City County, Virginia. Even though we have been providing financial and technical support to the project development effort through a consolidated VIE and significant project development milestones have been achieved, we have not included the value of this contract in our project backlog. Due to several factors that have interrupted the pace of the development of this project, including additional costs and time being required to secure the fuel-supply for the plant and to obtain the necessary equity financing, we currently cannot predict when construction will commence, if at all.

In May 2019, GPS entered into an EPC services contract to construct a 625 MW power plant in Harrison County, West Virginia. Caithness is partnered with ESC Harrison County Power, LLC to develop this project. As a limited notice to proceed with certain preliminary activities was received from the owner of this project at the time, the value of the contract was added to our project backlog. However, meaningful project development activities for the facility appear to have been discontinued, including the lapse of the project owner’s option to purchase the land for the plant. If development milestones are not achieved over the next several quarters, our evaluation will most likely result in the removal of the value of this power plant from project backlog.

We have maintained that the delays in new business awards to GPS and the project construction starts of certain previously awarded projects relate to a variety of factors, especially in the northeastern and mid-Atlantic regions of the US. Currently, we believe that the ability of the owners of fully developed gas-fired power plant projects to close on equity and permanent debt financing was challenged by uncertainty in the capital markets caused by multiple factors including delayed capacity auctions and mounting public and political opposition to fossil-fuel energy projects.

The current year announcement by the PJM of a new capacity auction schedule may remove some amount of uncertainty for project developers in forecasting future streams of revenues. In fact, the results of the first capacity auction conducted by PJM in over 3 years were announced on May 2, 2021. Even though pricing was significantly lower than in prior years, over 5.6 GW of new combined cycle, gas-fired power plants cleared the auction, representing over 75% of all new capacity units. The remaining new capacity was comprised of solar and wind powered energy plants. Despite these results, new gas-fired power plant EPC projects may continue to be delayed until the visibility regarding future capacity revenue streams is further restored with the results of the next capacity auction for the PJM region, that has been rescheduled to January 25, 2022.

Other headwinds for future gas-fired power plant developments remain including an increase in the amount of power generating capacity provided by renewable energy assets, improvements and decreasing prices in renewable energy storage solutions including battery resources, increased environmental activism and the results of the 2020 presidential election in the US.

Protests against fossil-fuel related energy projects continue to garner media attention and stir public skepticism about new projects resulting in delays due to onsite protest demonstrations, indecision by local officials and lawsuits. In the New England and mid-Atlantic regions of the US, power plant operators are challenged by the requirements of the Regional Greenhouse Gas Initiative, or “RGGI,” which is a cooperative effort by states in these regions to cap and reduce power sector carbon dioxide emissions. In addition, various cities, counties and states have adopted clean energy and carbon-free goals or objectives with achievement expected by a certain future date, typically 10 to 30 years out. These aspirational goals may increase the risk of a new power plant becoming a stranded asset long before the end of its otherwise useful economic life, which is a risk that potential equity capital providers may be unwilling to take. The difficulty in obtaining project equity financing and the other factors identified above may be adversely impacting the planning and initial phases for the construction of new natural gas-fired power plants which continue to be deferred by project owners.

Perhaps the most significant uncertainty relates to the policies of President Biden who is proposing to make the electricity production in the US carbon free by 2035 and to put the country on the path to achieve net zero carbon emissions by 2050. Mr. Biden caused the US to re-join the Paris Climate Agreement and he has cancelled the permit allowing the Keystone XL Pipeline to cross the border from Canada into the US. In addition, Mr. Biden ordered a pause on the US government entering into new oil and natural gas leases on public lands or offshore waters to the extent possible, the launch of a rigorous review of all existing leasing and permitting practices related to fossil fuel development on public lands and waters, and the identification of steps that can be taken to double renewable energy production from offshore wind by 2030.

### **Market Outlook**

The overall growth of our power business has been based substantially on the number of combined cycle gas-fired power plants built by us, as many coal-fired plants have been shut down. In 2010, coal-fired power plants accounted for about 45% of total electricity generation. By 2020, coal accounted for less than 20% of total electricity generation. On the other hand, natural-gas fired power plants provided approximately 39% of the electricity generated by utility-scale power plants in the US in 2020, representing an increase of 64% from the amount of electrical power generated by natural gas-fired power plants in 2010, which provided approximately 24% of net electricity generation for 2010. In the reference case of its *Annual Energy Outlook 2021*, the Energy Information Administration (“EIA”) projects average increases to utility-scale electricity generation in the US of slightly less than 1% per year from 2021 through 2050. It projects that coal-fired generation will continue to decline through 2050, and will represent only 11% of the electricity generation mix by 2050. The projection for natural gas-fired plants is that they will supply 36% of the larger net electricity generation amount in the US for 2050. Undoubtedly, the long-term historic decline in the use of coal as a power source in the US has been caused, to a significant extent, by the plentiful supply of domestic and generally inexpensive natural gas which made it the fuel of choice for power plant developers over this period.

However, the share of electricity generation provided by natural gas is particularly reactive in the short term to changing natural gas prices. The EIA has explained that natural gas prices have risen recently primarily because of growth in liquified natural gas exports while the production of natural gas has not kept the same pace. The increased natural gas prices in the US prompted certain firms controlling electricity generation facilities to switch fuel sources from gas to coal. The EIA reports that coal-fired electrical power generation increased by nearly 27% in the US during the first eight months of calendar year 2021 compared with the same period in 2020 and accounted for 23% of total generation during the period compared with 19% for the same period in 2020. Natural gas-fired power generation declined by 5% in the US during the first eight months of calendar 2021 and accounted for 38% of total utility-scale net electricity generation during the first eight months of 2021; down from a 41% share during the same period in calendar 2020.

Depleted supplies of natural gas may have dangerous consequences. The North American Electric Reliability Corp. (NERC) recently warned that much of the central US, from the Great Lakes region to southern Texas, may face critical power shortages during extreme weather conditions this winter as natural gas supply disruptions and low hydropower conditions could also imperil power reliability in New England and the western US.

Average natural gas spot prices for all of calendar 2021 are expected to remain high for the remainder of calendar 2021, then generally decline through 2022. Nonetheless, a long-term rise in natural gas prices and the resulting reduction in the demand for natural gas-fired electricity generation, could have adverse effects on the ability of independent power producers to obtain construction and permanent financing for new natural gas-fired power plants.

The pace of the ten-year increase in the preference for natural gas as an electricity generating fuel source was energized by environmental activism and restrictive regulations targeting coal-fired power plants. Now, the environmentalist opposition against coal-fired power generation has expanded meaningfully and effectively to target all fossil fuel energy projects, including power plants and pipelines, and has evolved into powerful support for renewable energy sources.

The share of electricity generation in the US provided by utility-scale wind and solar photovoltaic facilities continues to rise meaningfully. Together, such power facilities provided approximately 8.8% and 10.6% of the total amount of electricity generated by utility-scale power facilities in calendar 2019 and calendar 2020, respectively. In EIA's 2021 reference case, net electricity generation from all renewable power sources is expected to increase by more than 175%, representing over 42% of such generation, by 2050. Impetus for this growth is provided by public concerns about climate change and favorable economic factors.

Environmental activism has resulted in the passage of laws and the establishment of regulations that discourage new fossil-fuel burning power plants and provide income tax advantages that promote the growth of wind and solar power. Declines in the amount of renewable power plant component and power storage costs and an increase in the scale of energy storage capacity (i.e., battery farms) have also occurred. Should the pace of development for renewable energy facilities, including wind and solar power plants, accelerate at faster rates than projected, the number of future natural gas-fired construction project opportunities may fall.

Nonetheless, we believe that relatively low natural gas prices will persist over the long-term. Together with the lower operating costs of natural gas-fired power plants, the higher energy generating efficiencies of modern gas turbines, and the requirements for grid resiliency should sustain the demand for modern combined cycle and simple cycle gas-fired power plants in the future. Natural gas is relatively clean burning, cost-effective and reliable. We believe that its benefits as a source of power are compelling, especially as a complement to the growing deployment of wind and solar powered energy sources. We continue to believe that the future long-term prospects for natural gas-fired power plant construction remain generally favorable as natural gas continues to be the primary source for power generation in our country. New gas-fired power plants incorporate major advances in gas-fired turbine technologies that have provided increased power plant efficiencies while providing the quick starting capabilities and the reliability that are necessary to balance the inherent intermittencies of wind and solar power plants.

It has been reported that renewables currently provide approximately 36% of electricity generation in California. Yet, last summer's experience is that the increasing dependence on intermittent renewable energy sources, especially solar, is making it harder to ensure reliable power in California as millions of its residents lost power during a late summer heat wave. Analysis of the causes of this past winter's widespread power outages in Texas during a frigid stretch of weather is complex. The residents of Texas suffered as the severe cold froze wind turbines and the lack of sun diminished the power contributions of solar powered facilities. However, natural gas-fired power plants in Texas were forced offline as well primarily due to frozen well-site equipment and the decisions by regulators to prioritize natural gas for residential use, which caused interruptions to the supply of natural gas to the plants.

However, in both states, the significant amount of renewable power capacity failed to rise to the occasion. A diversity lesson from both power crises may be that fossil-fuel electricity generation sources remain critical elements of the power generation mix in order to assure grid reliability and the avoidance of power outages. With hopes of preventing future rolling blackouts in California, regulators there approved the acquisition of five emergency natural gas-fueled electricity generators with an aggregate power output of approximately 150 MW.

Solar and wind energy plant developers continue to confront the problems caused by grid congestion, often unsuccessfully. Many of these projects have been canceled because renewable plants need to be sited where the resources are optimal, often in remote locations where the transmission systems are not robust. The costs associated with the necessary grid upgrades may be prohibitive. US offshore wind projects progress inconsistently, facing challenges in the areas of environmental and fishery impacts, grid connection and capability and federal permitting processes. Further, projects are confronted by shipping regulations in the US that may limit the ability of developers to replicate successful European construction and installation models. Proponents of clean energy also face political challenges. Recently, voters in the state of Maine were energized by local residents seeking to preserve pristine woodlands and rejected a project that would transmit hydropower from Canada into New England.

Major advances in the safe combination of horizontal drilling techniques and hydraulic fracturing led to the boom in natural gas supplies which have been available generally at consistently low prices. The abundant availability of cheap, less carbon-intensive and higher efficiency natural gas in the US should continue to be a significant factor in the economic assessment of future power generation capacity additions although the pace of new opportunities emerging may be restrained and the starts of awarded EPC projects may be delayed.

We believe that it is also important to note that the plans for certain natural gas-fired power plant projects include the adoption of integrated green hydrogen solution packages. While the plants will initially burn natural gas alone, it is planned by the respective project owners that the plants will eventually burn a mixture of natural gas and green hydrogen, thereby establishing power-generation flexibility for these plants.

We believe this is a winning combination that provides inexpensive and efficient power, enhances grid reliability and addresses the clean-air concerns of environmentalists. The building of state-of-the-art power plants with flex-fuel capability replaces coal-fired power plants in the short term with relatively clean gas-fired electricity generation. Further, such additions to the power generation fleet provide the potential for the plants to burn 100% green hydrogen gas, which would provide both base load power and long duration backup power, when the sun is not shining and the wind is not blowing, for extended periods of time and without certain harmful air emissions.

The foregoing discussion of our *Market Outlook* does focus on the state of the domestic power market as the EPC services business of GPS provides the predominant amount of our revenues. However, we cannot ignore the possibilities that overseas power markets may provide important new power construction opportunities for us in the future. The management of APC has growing enthusiasm for opportunities in the electricity generation markets across Ireland and the UK. While both of these countries are committed to the increase in energy consumption sourced from wind and the sun on the pathway to net zero emissions by 2050, there appears to be recognition that these sources of electrical power are inherently variable. Other technologies will be required to support these power sources and to provide electricity when power demands exceed the amount of electricity supplied by these renewables. The existence of the necessary power reserve will require conventional power generation sources, typically natural gas-fired power plants. As discussed above, APC was awarded a significant contract during the quarter ended October 31, 2021 to build a clean burning natural gas-fired power plant in Northern Ireland so that existing coal-fired power sources there can be shut-down.

The Irish government recently issued a policy statement on the security of the electricity supply in Ireland which confirms the requirement for the development of new support technologies to deliver on its commitment to have 80% of the country's electricity generated from renewables by 2030. The report emphasizes that this will require a combination of conventional generation (typically powered by natural gas), interconnection to other jurisdictions, demand flexibility and other technologies such as energy storage (i.e., batteries) and generation from renewable gases (i.e., biomethane and/or hydrogen produced from renewable sources). The Irish government has approved that the development of new conventional generation (including gas-fired and gasoil distillate-fired generation) is a national priority and should be permitted and supported in order to ensure the security of electricity supply while supporting the growth of renewable electricity generation.

Further, the Irish government has recognized that the successful development of data centers in the country is a key aspect in promoting Ireland as a digital economy hot-spot in Europe. In the absence of data centers, Ireland would be experiencing much more modest electricity demand growth, consistent with population growth and the general development of industrial demand. However, the stewards of the electricity supply in Ireland recognize that the large increase in electricity demand presented by the growth of the data center industry represents an evolving, significant risk to the security of the supply.

Accordingly, guidelines have been published recently with the intent to protect both electricity consumers and the security of supply while continuing to allow data centers to connect to the electricity system. Assessment criteria for applications of data centers to obtain grid connections include, among other items, the ability of data center applicants to bring onsite dispatchable power generation (and/or storage) equivalent to or greater than their demand in order to support the security of supply. It is expected that any dispatchable on-site generation that uses fossil fuel sources developed by data center operators will use natural gas as the fuel source; again, natural gas is considered to be a transitional fuel in Ireland's efforts to meet its climate action plan targets. Earlier this year, APC was awarded a project to install natural gas-fired power generation for a major data center in the Dublin area.

APC is actively pursuing new business opportunities in both the renewable and support sectors with its existing and new clients. The governments of both countries have already made funds available to develop and support specific projects with notable announcements in the north east region of the UK. The engineering and construction teams of APC are engaged in continuous discussions with particular stakeholders in certain of these projects and they are confident that APC will be part of their eventual execution.

We are committed to the rational pursuit of new construction projects, including those with overseas locations and unique deployments of power-generation turbines, and the future growth of our revenues. This may result in our decision to make investments in the development and/or ownership of new projects. Because we believe in the strength of our balance sheet, we are willing to consider certain opportunities that include reasonable and manageable risks in order to assure the award of the related engineering, procurement, construction or equipment installation services contracts to us. The competitive landscape for our core EPC services business related to natural gas-fired power plants has changed significantly over the last five years. While the market remains dynamic, we are moving into an era where there may be fewer competitors for new gas-fired power plant EPC services project opportunities. Several major competitors have exited the market for a variety of reasons or have been acquired. Others have announced intentions to avoid entering into fixed-price contracts. Nonetheless, the competition for new utility-scale gas-fired power plant construction opportunities is fierce and still includes multiple global firms.

We believe that the Company has a reputation as an accomplished, dependable and cost-effective provider of EPC and other large project construction contracting services. With the proven ability to deliver completed power facilities, particularly combined cycle, natural gas-fired power plants, we are focused on expanding our position in the power markets where we expect investments to be made based on forecasts of electricity demand covering decades into the future. We believe that our expectations are valid and that our plans for the future continue to be based on reasonable assumptions.

#### **Comparison of the Results of Operations for the Three Months Ended October 31, 2021 and 2020**

We reported net income attributable to our stockholders of \$12.4 million, or \$0.78 per diluted share, for the three months ended October 31, 2021. For the comparable period of the prior year we reported net income attributable to our stockholders of approximately \$9.5 million, or \$0.60 per diluted share.

The following schedule compares our operating results for the three months ended October 31, 2021 and 2020 (dollars in thousands):

	Three Months Ended October 31,			
	2021	2020	\$ Change	% Change
<b>REVENUES</b>				
Power industry services	\$ 99,560	\$ 109,712	\$ (10,152)	(9.3)%
Industrial fabrication and field services	21,402	15,730	5,672	36.1
Telecommunications infrastructure services	3,489	1,889	1,600	84.7
Revenues	<u>124,451</u>	<u>127,331</u>	<u>(2,880)</u>	<u>(2.3)</u>
<b>COST OF REVENUES</b>				
Power industry services	76,517	91,263	(14,746)	(16.2)
Industrial fabrication and field services	18,703	14,218	4,485	31.5
Telecommunications infrastructure services	3,096	1,507	1,589	105.4
Cost of revenues	<u>98,316</u>	<u>106,988</u>	<u>(8,672)</u>	<u>(8.1)</u>
<b>GROSS PROFIT</b>	<u>26,135</u>	<u>20,343</u>	<u>5,792</u>	<u>28.5</u>
Selling, general and administrative expenses	11,590	9,398	2,192	23.3
<b>INCOME FROM OPERATIONS</b>	<u>14,545</u>	<u>10,945</u>	<u>3,600</u>	<u>32.9</u>
Other income, net	1,117	175	942	538.3
<b>INCOME BEFORE INCOME TAXES</b>	<u>15,662</u>	<u>11,120</u>	<u>4,542</u>	<u>40.8</u>
Income tax expense	(3,269)	(1,666)	(1,603)	(96.2)
<b>NET INCOME</b>	<u>\$ 12,393</u>	<u>\$ 9,454</u>	<u>\$ 2,939</u>	<u>31.1 %</u>

## Revenues

### *Power Industry Services*

The revenues of the power industry services segment, representing the businesses of GPS and APC, decreased by 9.3%, or \$10.2 million, to \$99.6 million for the three months ended October 31, 2021 compared with revenues of \$109.7 million for the three months ended October 31, 2020 as the quarterly revenues associated with the Guernsey Power Station project have passed peak levels and APC completed its construction activities associated with the TeesREP project earlier this year. These reductions in revenues between the quarters were substantially offset by revenues associated with the new Maple Hill solar energy project, new projects at APC and the settlement of a legal matter. The revenues of this business represented approximately 80.0% of consolidated revenues for the quarter ended October 31, 2021 and 86.2% of consolidated revenues for the prior year quarter.

The primary drivers for the revenues of this segment for the three months ended October 31, 2020 were the revenues associated with the construction of the Guernsey Power Station project and the TeesREP project. Each of these projects reported significant quarterly revenues for last year's third quarter. Together, the revenues associated with these two projects represented approximately 78.8% of consolidated revenues for the three-month period ended October 31, 2020.

### *Industrial Fabrication and Field Services*

The revenues of our industrial fabrication and field services segment (representing the business of TRC) increased by \$5.7 million, or 36.1%, to \$21.4 million for the period compared to revenues of \$15.7 million for the three months ended October 31, 2020. For the three months ended October 31, 2021 and 2020, the revenues of this segment represented 17.2% and 12.4% of consolidated revenues for the corresponding periods. TRC's strong performance for the three-month period ended October 31, 2021 reflected a significant rise in revenues earned on field services projects during the period. However, we expect the revenues of TRC to decline over the remainder of the current fiscal year as TRC recently completed a number of major projects. The major customers of TRC include some of North America's largest fertilizer producers, as well as other chemical, mining, forest products, construction and energy companies with plants, facilities and other sites located primarily in the southeastern region of the US. The project backlog amounts for TRC as of October 31, 2021 and January 31, 2021 were \$51.1 million and \$54.0 million, respectively.

### ***Telecommunications Infrastructure Services***

The revenue results of this business segment (representing the business of SMC) were \$3.5 million for the three-month period ended October 31, 2021, an increase of \$1.6 million, or 84.7%, from the amount of revenues earned during the three months ended October 31, 2020. The improvement in revenues between the quarters related to increased project activities for both inside-premises and outside-premises customers.

### **Cost of Revenues**

With the decrease in consolidated revenues for the three months ended October 31, 2021 compared with last year's third quarter ended October 31, 2020, the consolidated cost of revenues also decreased between the quarters. These costs were \$98.3 million and \$107.0 million for the three month periods ended October 31, 2021 and 2020, respectively, representing an decrease of approximately 8.1%.

For the three month period ended October 31, 2021, we reported a consolidated gross profit of approximately \$26.1 million which represented a gross profit percentage of approximately 21.0% of corresponding consolidated revenues. Most significantly, the gross profit for the period reflected the profit contributions of the construction activities related to the major projects of the power industry services segment, the recovery of TRC's business from its low level of activity last year during the early months of the COVID-19 pandemic and the revenues recorded for the current quarter related to the settlement of the legal matter identified above. The gross profit percentages of corresponding revenues for the power industry services, industrial services and the telecommunications infrastructure segments were 23.1%, 12.6% and 11.3%, respectively, for the quarter ended October 31, 2021.

Our consolidated gross profit reported for the three-month period ended October 31, 2020 was \$20.3 million, which represented a gross profit percentage of approximately 16.0% of corresponding consolidated revenues. The gross profit for the three months ended October 31, 2020 included the profit contribution of the construction activities related to the Guernsey Power Station. It was also favorably impacted by the profit contributions of APC, which reflected the final significant change to the contractual arrangements covering the construction activities of the TeesREP Project subcontract. For the three months ended October 31, 2020, the gross profit percentages of corresponding revenues for the power industry services, industrial services and the telecommunications infrastructure segments were 16.8%, 9.6% and 20.2%, respectively.

### **Selling, General and Administrative Expenses**

These costs were \$11.6 million and \$9.4 million for the three months ended October 31, 2021 and 2020, respectively, representing a 23.3% increase between the quarters which occurred within each of our reporting segments due primarily to increased personnel and associated costs, including cash incentive and stock compensation expenses, and increased business development costs.

### **Other Income, Net**

We reported other income, net, in the amount of \$1.1 million for the three months ended October 31, 2021 which reflected primarily a cost reimbursement grant from the Irish government related to the COVID-19 pandemic.

### **Income Taxes**

We reported income tax expense for the three months ended October 31, 2021 in the amount of approximately \$3.3 million, which represents an effective income tax rate of 20.9% for the period. We estimate that our annual effective income tax rate for the year ending January 31, 2022, before discrete items, will approximate 23.3%. This estimated tax rate differs from the statutory federal tax rate of 21% due primarily to the unfavorable effects of state income taxes and permanent differences, including primarily certain nondeductible executive compensation and overseas income deemed to be Global Intangible Low-Taxes Income ("GILTI").

For the three months ended October 31, 2020, we recorded income tax expense in the amount of approximately \$1.7 million, which reflected an annual effective income tax rate of approximately 23.9% for the year, before discrete items, that was estimated at the time. This tax rate differed from the statutory federal tax rate of 21% due primarily to the unfavorable effects of permanent differences, including certain nondeductible executive compensation.



## **Comparison of the Results of Operations for the Nine Months Ended October 31, 2021 and 2020**

We reported net income attributable to our stockholders of \$36.0 million, or \$2.25 per diluted share, for the nine months ended October 31, 2021. For the nine months ended October 31, 2020, we reported net income attributable to our stockholders of \$14.3 million, or \$0.91 per diluted share.

The following schedule compares our operating results for the nine months ended October 31, 2021 and 2020 (dollars in thousands):

	<b>Nine Months Ended October 31,</b>			
	<b>2021</b>	<b>2020</b>	<b>\$ Change</b>	<b>% Change</b>
<b>REVENUES</b>				
Power industry services	\$ 295,736	\$ 227,363	\$ 68,373	30.1 %
Industrial fabrication and field services	78,213	42,163	36,050	85.5
Telecommunications infrastructure services	9,851	5,445	4,406	80.9
Revenues	<u>383,800</u>	<u>274,971</u>	<u>108,829</u>	<u>39.6</u>
<b>COST OF REVENUES</b>				
Power industry services	233,682	192,583	41,099	21.3
Industrial fabrication and field services	64,519	38,096	26,423	69.4
Telecommunications infrastructure services	8,098	4,310	3,788	87.9
Cost of revenues	<u>306,299</u>	<u>234,989</u>	<u>71,310</u>	<u>30.3</u>
<b>GROSS PROFIT</b>	<u>77,501</u>	<u>39,982</u>	<u>37,519</u>	<u>93.8</u>
Selling, general and administrative expenses	31,813	28,827	2,986	10.4
<b>INCOME FROM OPERATIONS</b>	<u>45,688</u>	<u>11,155</u>	<u>34,533</u>	<u>309.6</u>
Other income, net	1,569	1,714	(145)	(8.5)
<b>INCOME BEFORE INCOME TAXES</b>	<u>47,257</u>	<u>12,869</u>	<u>34,388</u>	<u>267.2</u>
Income tax (expense) benefit	(11,228)	1,391	(12,619)	NM
<b>NET INCOME</b>	<u>\$ 36,029</u>	<u>\$ 14,260</u>	<u>\$ 21,769</u>	<u>152.7 %</u>

NM – Not meaningful.

### **Revenues**

#### ***Power Industry Services***

The revenues of the power industry services segment increased by 30.1%, or \$68.4 million, to \$295.7 million for the nine months ended October 31, 2021, compared with revenues of \$227.4 million for the nine months ended October 31, 2020. The revenues of this segment represented approximately 77.1% of consolidated revenues for the nine-month period ended October 31, 2021, and approximately 82.7% of consolidated revenues for the nine-month period ended October 31, 2020.

The primary drivers for the strong performance by this reportable segment for the nine months ended October 31, 2021 were increased revenues associated with the construction of the Guernsey Power Station and the new Maple Hill solar energy facility, which together represented 66.8% of consolidated revenues. Last year, the revenues of this segment included primarily revenues associated with the construction of the Guernsey Power Station project, the TeesREP project and other projects of APC. Together, the revenues related to the Guernsey power station and the TeesREP project represented 77.4% of consolidated revenues for the nine months ended October 31, 2020.

#### ***Industrial Fabrication and Field Services***

The revenues of our industrial fabrication and field services segment provided 20.4% of consolidated revenues for the nine-month period ended October 31, 2021, which reflected an increase in revenues of \$36.1 million, or 85.5%, to \$78.2 million compared to revenues of \$42.2 million for the nine-month period ended October 31, 2020. The improved current year business of TRC reflects increased project activity for several customers, primarily in field services.

### ***Telecommunications Infrastructure Services***

The revenues of this business segment were \$9.9 million for the nine-month period ended October 31, 2021 compared with revenues of \$5.4 million for the nine-month period ended October 31, 2020, which represented an increase of 80.9% between the periods and which reflected strong performance by both the inside-premises and outside-premises groups.

#### **Cost of Revenues**

With the increase in consolidated revenues for the nine-month period ended October 31, 2021 compared with last year's corresponding period, the consolidated cost of revenues also increased between the periods by 30.3%. These costs were \$306.3 million and \$235.0 million for the nine-month periods ended October 31, 2021 and 2020, respectively.

For the nine-month period ended October 31, 2021, we reported a consolidated gross profit of approximately \$77.5 million, which represented a gross profit percentage of approximately 20.2% of corresponding consolidated revenues. The gross profit for the period reflected primarily the profit contributions of efficient construction activities related to the major projects of the power industry services reporting segment and the settlement of a legal matter in the third quarter. The gross profit percentages of corresponding revenues for the power industry services, industrial services and the telecommunications infrastructure segments were 21.0%, 17.5% and 17.8%, respectively, for the nine-month period ended October 31, 2021.

For the nine months ended October 31, 2020, we reported a consolidated gross profit of approximately \$40.0 million which represented a gross profit percentage of approximately 14.5% of corresponding consolidated revenues which was adversely affected primarily by the low level of revenues reported by TRC for the period. The gross profit percentages of corresponding revenues for the power industry services, industrial services and the telecommunications infrastructure segments were 15.3%, 9.6% and 20.8%, respectively, for the nine-month period ended October 31, 2020.

#### **Selling, General and Administrative Expenses**

These costs were \$31.8 million and \$28.8 million for the nine-month periods ended October 31, 2021 and 2020, respectively, which represented an increase of approximately \$3.0 million, or 10.4%, between the periods, and which occurred substantially during the third quarter of the current year as identified above.

#### **Other Income, Net**

For the nine months ended October 31, 2021 the amount of other income, net, was approximately \$1.6 million, due substantially to two transactions related to APC. As disclosed above, APC received COVID-19 relief from the Irish government, which amounted to approximately \$1.1 million, that was recognized during the third quarter of the current year. In April 2021, APC received a research and development credit payment from the government of the UK related to certain qualifying works performed during Fiscal 2019. Net of associated costs, the payment amount of \$0.7 million, much like a grant, was included in other income for the nine-month period ended October 31, 2021. This line item also included our share of the net loss reported by the solar fund investment for the nine months ended October 31, 2021 in the amount of \$0.4 million that is discussed in Note 10 to the accompanying condensed consolidated financial statements.

Typically, the amounts reported on this line include primarily income earned on funds maintained in money market accounts and interest income earned on CDs. Adverse economic reactions to the uncertainties of the COVID-19 pandemic commenced during the middle of last year's first quarter ended April 30, 2020, including sharp reductions in investment interest rates. Other income from earnings on our temporary investments of excess cash for the nine-month period ended October 31, 2021 was insignificant although the aggregate amount of invested funds increased between the periods. For the nine-month period ended October 31, 2020, the net amount of other income of \$1.7 million included primarily earnings on our temporary investments of excess cash before the pandemic.

## **Income Taxes**

We reported income tax expense for the nine-month period ended October 31, 2021 in the amount of approximately \$11.2 million, which represents an actual effective income tax rate of 23.8%. As indicated above, we estimate that our annual effective income tax rate for the year ending January 31, 2022, before discrete items, will approximate 23.3%. The estimated annual effective tax rate differs from the statutory federal tax rate of 21% due primarily to the unfavorable effects of state income taxes and permanent differences, including certain nondeductible executive compensation and overseas income deemed to be GILTI.

For the nine-month period ended October 31, 2020, we recorded an income tax benefit in the amount of approximately \$1.4 million, which reflected primarily the net operating loss carryback benefit amount of \$4.4 million discussed in Note 10 to the accompanying condensed consolidated financial statements.

### **Liquidity and Capital Resources as of October 31, 2021**

At October 31 and January 31, 2021, our balances of cash and cash equivalents were \$391.6 million and \$366.7 million, respectively. During the nine months between these dates, our working capital increased by \$30.5 million to \$300.7 million as of October 31, 2021 from \$270.1 million as of January 31, 2021.

The net amount of cash provided by operating activities for the nine months ended October 31, 2021 was \$41.7 million. Our net income for the nine months ended October 31, 2021, adjusted favorably by the net amount of non-cash income and expense items, represented a source of cash in the total amount of \$45.6 million. The sources of cash from operations for the nine months ended October 31, 2021 also included a decrease in the balance of contract assets in the amount of \$16.7 million. A reduction in the combined level of accounts payable and accrued expenses and an increase in accounts receivable during the nine-month period ended October 31, 2021, in the respective amounts of \$20.0 million and \$7.1 million, represented uses of cash for the period. Contract liabilities increased by \$4.4 million during the nine months ended October 31, 2021, representing a source of cash. It is important to note that the amount of contract liabilities related to the Guernsey Power Station are expected to decline during the remainder of the current fiscal year, representing a use of cash, as the project moves past the peak level of construction activities. The amount of prepaid expenses and other assets decreased by \$2.1 million during the nine months ended October 31, 2021, which also represented a source of cash for the period.

Another source of cash for the nine months ended October 31, 2021 were the proceeds associated with the exercise of stock options in the amount of \$1.4 million. Non-operating activities used cash during the nine months ended October 31, 2021, including the payment of regular cash dividends in the amount of \$11.8 million, investment payments made to a solar energy fund in the amount of \$4.1 million and capital expenditures in the amount of \$1.1 million. As of October 31, 2021, there were no restrictions with respect to inter-company payments between GPS, TRC, APC, SMC and the holding company. However, certain loans made by Argan to APC have been determined to be uncollectible.

The net amount of cash provided by operating activities for the nine months ended October 31, 2020 was \$142.6 million. Our net income for the nine months ended October 31, 2020, adjusted favorably by the net amount of non-cash income and expense items, represented a source of cash in the total amount of \$30.2 million. However, the sources of cash from operations for the prior year period included primarily a temporary increase in the balance of contract liabilities associated with the early phases of the Guernsey Power Station construction and new project awards at TRC in the amount of \$87.9 million. Reductions in the balances of accounts receivable and contract assets, primarily at the TRC and APC operations, provided cash in the amounts of \$6.6 million and \$6.2 million, respectively. In addition, the combined level of accounts payable and accrued expenses increased by \$27.7 million during the nine months ended October 31, 2020, a source of cash for the period.

As discussed above, our income tax accounting for the nine months ended October 31, 2020 reflected an entry to record the carryback of our net operating loss incurred for the year ended January 31, 2020 to prior income tax years. The loss carryback should result in a refund of federal income taxes in the amount of \$12.7 million. This tax refund receivable was included in the balance of other current assets as of October 31, 2020, which was the primary cause of the increase in this balance of \$16.0 million during the period, a use of cash.

Primary sources of cash for the nine months ended October 31, 2020 were the net maturities of short-term investments, certificates of deposit issued by the Bank, in the amount of \$70.0 million. Non-operating activities used cash during the nine months ended October 31, 2020, including the payment of regular and special cash dividends in the total amount of \$27.4 million and capital expenditures in the amount of \$1.4 million. Partially offsetting these uses of cash, we received cash proceeds related to the exercise of stock options during the nine months ended October 31, 2020 in the amount of \$1.2 million.

At October 31, 2021, most of our balance of cash and cash equivalents was invested in government and prime money market funds with most of their total assets invested in cash, US Treasury obligations and repurchase agreements secured by US Treasury obligations. The major portion of our domestic operating bank account balances are maintained with the Bank. We do maintain certain Euro-based bank accounts in Ireland and certain pound sterling-based bank accounts in the UK in support of the operations of APC.

The original term of our Amended and Restated Replacement Credit Agreement with the Bank was scheduled to expire on May 31, 2021. During April 2021, the Company and the Bank agreed to an amendment to the Credit Agreement which extended the expiration date of the Credit Agreement to May 31, 2024 and reduced the borrowing rate. The Credit Agreement, as amended, includes the following features, among others: a lending commitment of \$50.0 million including a revolving loan with interest at the 30 day LIBOR plus 1.6% (reduced from 2.0%), and an accordion feature which allows for an additional commitment amount of \$10.0 million, subject to certain conditions. We may also use the borrowing ability to cover other credit instruments issued by the Bank for our use in the ordinary course of business as defined by the Bank. At October 31, 2021, we had no outstanding borrowings, however, subsequent to October 31, 2021, the Bank issued letters of credit in the total amount of \$19.9 million in support of the activities of APC under a new customer contract. In connection with the current project development activities of the VIE, the Bank issued a letter of credit, outside the scope of the Credit Agreement, in the approximate amount of \$3.4 million for which we have provided cash collateral.

We have pledged the majority of our assets to secure the financing arrangements. The Bank's consent is not required for acquisitions, divestitures, cash dividends or significant investments as long as certain conditions are met. The Credit Agreement, as amended, requires that we comply with certain financial covenants at our fiscal year-end and at each fiscal quarter-end, and includes other terms, covenants and events of default that are customary for a credit facility of its size and nature, including a requirement to achieve positive adjusted earnings before interest, taxes, depreciation and amortization, as defined, over each rolling twelve-month measurement period. At October 31, 2021 and January 31, 2021, we were compliant with the covenants of the Credit Agreement, as amended.

In the normal course of business and for certain major projects, we may be required to obtain surety or performance bonding, to provide parent company guarantees, or to cause the issuance of letters of credit (or some combination thereof) in order to provide performance assurances to clients on behalf of one of our contractor subsidiaries.

If our services under a guaranteed project would not be completed or would be determined to have resulted in a material defect or other material deficiency, then we could be responsible for monetary damages or other legal remedies. As is typically required by any surety bond, we would be obligated to reimburse the issuer of any surety bond issued on behalf of a subsidiary for any cash payments made thereunder. The commitments under performance bonds generally end concurrently with the expiration of the related contractual obligation. Not all of our projects require bonding.

As of October 31, 2021, the value of the Company's unsatisfied bonded performance obligations, covering all of its subsidiaries, was approximately \$272.4 million. In addition, as of October 31, 2021, there were bonds outstanding in the aggregate amount of approximately \$0.8 million covering other risks including warranty obligations related to completed activities; these bonds expire at various dates over the next twelve (12) months.

We have also provided a financial guarantee on behalf of GPS to an original equipment manufacturer in the amount of \$3.6 million to support project developmental efforts.

When sufficient information about claims related to our performance on projects would be available and monetary damages or other costs or losses would be determined to be probable, we would record such losses. As our subsidiaries are wholly-owned, any actual liability related to contract performance is ordinarily reflected in the financial statement account balances determined pursuant to the Company's accounting for contracts with customers. Any amounts that we may be required to pay in excess of the estimated costs to complete contracts in progress as of October 31, 2021 are not estimable.

As noted above, returns on money market instruments and certificates of deposit are currently minimal due to market conditions. With the desire to increase the amount of return on its available cash, the Company invested approximately \$4.1 million during the nine months ended October 31, 2021 in a limited liability company that makes equity investments in solar energy projects that are eligible to receive energy tax credits. During Fiscal 2021, we made a similar investment in the amount of \$1.3 million. The current year investment is expected to provide an overall return of approximately 20% over the six-year expected life of our investment. It is likely that we will evaluate opportunities to make larger solar energy investments of this type in the future.

We believe that cash on hand, our cash equivalents, cash that will be provided from the maturities of short-term investments and cash generated from our future operations, with or without funds available under our Credit Agreement, will be adequate to meet our general business needs in the foreseeable future. In general, we maintain significant liquid capital in our balance sheet to ensure the maintenance of our bonding capacity and to provide parent company performance guarantees for EPC and other construction projects.

However, any significant future acquisition, investment or other unplanned cost or cash requirement, may require us to raise additional funds through the issuance of debt and/or equity securities. There can be no assurance that such financing will be available on terms acceptable to us, or at all.

### **Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”)**

We believe that EBITDA is a meaningful presentation that enables us to assess and compare our operating cash flow performance on a consistent basis by removing from our operating results the impacts of our capital structure, the effects of the accounting methods used to compute depreciation and amortization and the effects of operating in different income tax jurisdictions. Further, we believe that EBITDA is widely used by investors and analysts as a measure of performance.

The table following immediately below presents the determinations of EBITDA for the three and nine months ended October 31, 2021 and 2020, respectively (amounts in thousands).

	<b>Three Months Ended October 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income, as reported	\$ 12,393	\$ 9,454
Income tax expense	3,269	1,666
Depreciation	819	940
Amortization of purchased intangible assets	227	226
EBITDA	<u>16,708</u>	<u>12,286</u>
EBITDA of non-controlling interests	—	—
EBITDA attributable to the stockholders of Argan, Inc.	<u>\$ 16,708</u>	<u>\$ 12,286</u>

  

	<b>Nine Months Ended October 31,</b>	
	<b>2021</b>	<b>2020</b>
Net income, as reported	\$ 36,029	\$ 14,260
Income tax expense (benefit)	11,228	(1,391)
Depreciation	2,560	2,798
Amortization of purchased intangible assets	680	677
EBITDA	<u>50,497</u>	<u>16,344</u>
EBITDA of non-controlling interests	—	(40)
EBITDA attributable to the stockholders of Argan, Inc.	<u>\$ 50,497</u>	<u>\$ 16,384</u>

However, as EBITDA is not a measure of performance calculated in accordance with US GAAP, we do not believe that this measure should be considered in isolation from, or as a substitute for, the results of our operations presented in accordance with US GAAP that are included in our condensed consolidated financial statements. In addition, our EBITDA does not necessarily represent funds available for discretionary use and is not necessarily a measure of our ability to fund our cash needs.

As we believe that our net cash flow provided by operations is the most directly comparable performance measure determined in accordance with US GAAP, the table below reconciles the amounts of EBITDA for the applicable periods to the corresponding amounts of net cash flows provided by operating activities that are presented in our condensed consolidated statements of cash flows for the nine months ended October 31, 2021 and 2020 (amounts in thousands).

	Nine Months Ended October 31,	
	2021	2020
EBITDA	\$ 50,497	\$ 16,344
Current income tax (expense) benefit	(10,845)	9,757
Stock compensation expense	2,521	2,199
Other non-cash items	3,407	1,911
(Increase) decrease in accounts receivable	(7,084)	6,585
Decrease (increase) in other assets	2,070	(15,976)
(Decrease) increase in accounts payable and accrued expenses	(19,966)	27,725
Change in contracts in progress, net	21,099	94,015
Net cash provided by operating activities	<u>\$ 41,699</u>	<u>\$ 142,560</u>

### **Critical Accounting Policies**

Critical accounting policies are those related to the areas where we have made what we consider to be particularly subjective or complex judgments in arriving at estimates and where these estimates can significantly impact our financial results under different assumptions and conditions. These estimates, judgments, and assumptions affect the reported amounts of assets, liabilities and equity, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

We consider the accounting policies related to revenue recognition on long-term construction contracts; income tax reporting; the accounting for business combinations; the subsequent valuation of goodwill, other indefinite-lived assets and long-lived assets; the valuation of employee common stock-based awards; and the financial reporting associated with any significant claims or legal matters to be most critical to the understanding of our financial position and results of operations, as well as the accounting and reporting for special purpose entities including joint ventures and variable interest entities. An expanded discussion of our critical accounting policies is included in Item 7 of Part II of our Annual Report. During the nine months ended October 31, 2021, there have been no material changes in the way we apply the critical accounting policies described therein.

### **Recently Issued Accounting Pronouncements**

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which, among other changes, eliminates the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the expected loss for the entire year. In these instances, the estimated annual effective income tax rate shall be used to calculate the tax without limitation. The new standard also requires the recognition of a franchise (or similar) tax that is partially based on income as an income-based tax and the recording of any incremental tax that is incurred by us as a non-income based tax. Our adoption of this new guidance, effective on February 1, 2021, did not alter our accounting for income taxes.

There are no other recently issued accounting pronouncements that have not yet been adopted that we consider material to our consolidated financial statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the normal course of business, our results of operations may be subject to risks related to fluctuations in interest rates. As of October 31, 2021, we had no outstanding borrowings under our financing arrangements with the Bank as amended (see Note 6 to the accompanying condensed consolidated financial statements), which provide a revolving loan with a

maximum borrowing amount of \$50.0 million that is available until May 31, 2024 with interest at 30-day LIBOR plus 1.6% going forward. During the nine months ended October 31, 2021 and 2020, we did not enter into derivative financial instruments for trading, speculation or other purposes that would expose us to market risk.

Financial markets around the globe are preparing for the discontinuation of LIBOR at the end of 2021, which is the widely used indicator of basis for short-term lending rates. The transition from LIBOR is market-driven, not a change required by regulation. The US and other countries are currently working to replace LIBOR with alternative reference rates. We do not expect that the replacement of LIBOR as the basis for the determination of our short-term borrowing rate will have significant effects on the financial arrangements with the Bank, as amended, or our financial reporting.

We maintain a substantial amount of our temporarily investable cash in certificates of deposit and in government and prime money market funds (see Note 3 of the accompanying condensed consolidated financial statements). The weighted average number of days until maturity for the short-term investments and money market funds is 341 days. As of October 31, 2021, the weighted average annual interest rate of our certificates of deposit of \$90.0 million, which are classified as short-term investments, and money market funds of \$262.5 million was 0.07%. To illustrate the potential impact of changes in interest rates on our results of operations, we present the following hypothetical analysis, which assumes that our condensed consolidated balance sheet as of October 31, 2021 remains constant, and no further actions are taken to alter our existing interest rate sensitivity, including reinvestments. As the blended weighted average interest rate was 0.07% at October 31, 2021, the largest decrease in the interest rates presented below is 7 basis points (dollars in thousands).

<b>Basis Point Change</b>	<b>Increase (Decrease) in Interest Income</b>	<b>Increase (Decrease) in Interest Expense</b>	<b>Net Increase (Decrease) in Income (pre-tax)</b>
Up 300 basis points	\$ 9,850	\$ —	\$ 9,850
Up 200 basis points	6,566	—	6,566
Up 100 basis points	3,283	—	3,283
Down 7 basis points	(186)	—	(186)

With the consolidation of APC, we are subject to the effects of translating the financial statements of APC from its functional currency (Euros) into our reporting currency (US dollars). Such effects are recognized in accumulated other comprehensive loss, which is net of tax when applicable. APC remeasures transactions and subsidiary financial statements denominated in local currencies to Euros. Gains and losses on the remeasurements are recorded as other income or expense in our condensed consolidated statement of earnings.

In our Annual Report, we included a discussion of risks to our fixed price contracts if actual contract costs rise above the estimated amounts of such costs that support corresponding contract prices. Identified as factors that could cause contract cost overruns, project delays or other unfavorable effects on our contracts, among other circumstances and events, are delays in the scheduled deliveries of machinery and equipment ordered by us or project owners, unforeseen increases in the costs of labor, warranties, raw materials, components or equipment or the failure or inability to obtain resources when needed.

We are subject to fluctuations in prices for commodities including steel products, copper, concrete and fuel. Although we attempt to secure firm quotes from our suppliers, we generally do not hedge against increases in prices for these commodities. Commodity price risks may have an impact on our results of operations due to the fixed-price nature of many of our contracts. We attempt to include the anticipated amounts of price increases or decreases in the costs of our bids. In times of increased supply cost volatility, we may take other steps to reduce our risks. For example, we may hold quotes related to materials in our industrial fabrication and field services segment for only three days. For major fixed price contracts in our power industry services segment, we may mitigate material cost risks by procuring the majority of the equipment and construction supplies during the early phases of a project. The profitability of our active jobs has not suffered meaningfully from the periodic global surges in non-residential construction material costs.

For the current year, our operations have been challenged by the well-publicized global supply chain disruptions. While the management of the risks associated with the inability to obtain machinery, equipment and other materials when needed continues to include our best efforts, we are concerned that the supply chain uncertainties may be impacting project owners' confidence in commencing new work which may adversely affect our expected levels of revenues until the supply chain disruptions dissipate.

## **ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures.** Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of October 31, 2021. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of October 31, 2021, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified by the SEC, and the material information related to the Company and its consolidated subsidiaries is made known to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure in the reports.

**Changes in internal controls over financial reporting.** There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) during the fiscal quarter ended October 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS**

Included in Note 8 to the condensed consolidated financial statements that are included in Item 1 of Part I of this Quarterly Report on Form 10-Q is the discussion of the status of the legal proceeding that was settled in September 2021. In the normal course of business, we may have other pending claims and legal proceedings. It is our opinion, based on information available at this time, that any other current claim or proceeding will not have a material effect on our condensed consolidated financial statements.

### **ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in our Annual Report.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On June 24, 2020, we made a filing on Current Report Form 8-K announcing that our board of directors authorized the repurchase of up to \$25.0 million of our issued and outstanding common stock through June 2022 (the “Repurchase Plan”). The repurchases may occur in the open market or through investment banking institutions, privately-negotiated transactions, or direct purchases, and the timing and amount of stock repurchased will depend on market and business conditions, applicable legal and credit requirements and other corporate considerations.

In accordance with the SEC’s Rule 10b5-1, we have allowed, and may in the future allow, the repurchase of our common stock during trading blackout periods by an investment banking firm or other institution agent acting on our behalf pursuant to predetermined parameters.

Subsequent to October 31, 2021, we made our initial repurchases of common stock pursuant to the Repurchase Plan. As of December 7, 2021, we had repurchased approximately 70,000 shares for an aggregate price of approximately \$2.8 million.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

### **ITEM 4. MINE SAFETY DISCLOSURES (not applicable)**



## ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Title</u>
Exhibit 31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934.
Exhibit 31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934.
Exhibit 32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350. *
Exhibit 32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350. *
Exhibit 101:	
Exhibit 101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH	Inline XBRL Taxonomy Extension Schema.
Exhibit 101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
Exhibit 101.LAB	Inline XBRL Taxonomy Label Linkbase.
Exhibit 101.PRE	Inline XBRL Taxonomy Presentation Linkbase.
Exhibit 101.DEF	Inline XBRL Taxonomy Extension Definition Document.
Exhibit 104	Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

---

\* The certification is being furnished and shall not be considered filed as part of this report.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ARGAN, INC.**

December 8, 2021

By: /s/ Rainer H. Bosselmann  
Rainer H. Bosselmann  
Chairman of the Board and Chief Executive Officer

December 8, 2021

By: /s/ David H. Watson  
David H. Watson  
Senior Vice President, Chief Financial Officer,  
Treasurer and Secretary

XBRL-Only Content Section

Element	Value	
dei:EntityCentralIndexKey#	0000100591	
dei:CurrentFiscalYearEndDate	01-31	
dei:DocumentFiscalYearFocus	2022	
dei:DocumentFiscalPeriodFocus	Q3	
dei:AmendmentFlag	false	
Entity Registrant Name	ARGAN INC	