ARGAN INC
Form 10KSB
April 26, 2007

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

FORM 10-KSB

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended January 31, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____________ to _____________

Commission file number 001-31756

ARGAN, INC.
(Name of Small Business Issuer in Its Charter)

Delaware	13-1947195
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One Church Street, Suite 401, Rockville, Maryland	20850
(Address of Principal Executive Offices)	(Zip Code)

301-315-0027
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each Class	Name of Each Exchange on Which Registered
Common Stock, $0.15 par value	Boston Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

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

State issuer's revenues for its most recent fiscal year: $68,867,000

The aggregate market value of the Common Stock held by non-affiliates of the Registrant was approximately $22,864,000 as of April 23, 2007, based upon the closing price on the NASDAQ Electronic Bulletin Board System reported for such date. Shares of Common Stock held by each Officer and Director and by each person who owns 5% or more of the outstanding Common Shares have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of Common Stock outstanding as of April 23, 2007: 11,094,012

DOCUMENTS INCORPORATED BY REFERENCE

None

Transitional Small Business Disclosure Format (check one): Yes o No x

ARGAN, INC.
2007 FORM 10-KSB ANNUAL REPORT
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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Argan, Inc. ("AI," "the Company" or "we") provides a broad range of engineering, procurement and construction services to the power industry, telecommunications infrastructure services, and manufacturing and distribution of nutritional supplements. We conduct our operations through our wholly owned subsidiaries, Gemma Power Systems, LLC ("GPS LLC"), Gemma Power, Inc., ("GPI") and Gemma Power Systems California, Inc. ("GPS-California") (collectively referred to as, "GPS"), Southern Maryland Cable, Inc. (SMC) and Vitarich Laboratories, Inc. (VLI) that we acquired in, December 2006, July 2003 and August 2004, respectively.

<u>Power Industry Services</u>

Through GPS, we provide a full range of development, consulting, engineering, procurement, construction, commissioning, operating and maintenance services to the energy market for a wide range of customers including public utilities, independent power project owners, municipalities, public institutions and private industry.

We plan to participate in the rapidly growing alternative fuel industry, including biodiesel, ethanol and other power energy systems. We provide engineering, procurement and construction services to the owners of alternative power energy systems.

We intend to emphasize our expertise in the alternative fuel industry as well as our proven track record developing facilities and services for traditional power energy systems. We believe that we are uniquely positioned to assist in the development and delivery of innovative renewable energy solutions as world energy needs grow and efforts to combat global warming increase.

<u>Telecom Infrastructure Services</u>

Through SMC, we provide telecommunications infrastructure services. We currently provide inside plant and premise wiring services to the Federal Government and have plans to expand that work to commercial customers who regularly need upgrades in their premise wiring systems to accommodate improvements in security, telecommunications and network capabilities.

We continue to participate in the expansion of the telecommunications industry by working with various telecommunications providers. We are actively pursuing contracts with a wide variety of telecommunications providers. We provide maintenance and upgrade services for their outside plant systems that increase the capacity of existing infrastructure. We also provide outside plant services to the power industry by providing maintenance and upgrade services to utilities.

We intend to emphasize our high quality reputation, outstanding customer base and highly motivated work force in competing for larger and more diverse contracts. We believe that our high quality and well maintained fleet of vehicles and construction machinery and equipment is essential to meet customers' needs for high quality and on-time service. We are committed to invest in our repair and maintenance capabilities to maintain the quality and life of our equipment. Additionally, we invest annually in new vehicles and equipment.

<u>Nutritional Products</u>

Through Vitarich, we are dedicated to providing research, development, manufacturing and distribution of premium nutritional supplements, whole-food dietary supplements and personal care products. Our customers include health food store chains, mass merchandisers, network marketing companies, pharmacies and major retailers.

We intend to enhance our position in the fast growing global nutrition industry through our innovative product development and research. We believe that we will be able to expand our distribution channels by providing continuous quality assurance and by focusing on timely delivery of superior nutraceutical products.

Holding Company Structure

We intend to make additional acquisitions and/or investments. We intend to have more than one industrial focus and to identify those companies that are in industries with significant potential to grow profitably both internally and through acquisitions. We expect that companies acquired in each of these industrial groups will be held in separate subsidiaries that will be operated in a manner that best provides cashflow and value for Argan.

We are a holding company with no operations other than our investments in GPS, SMC and Vitarich. At January 31, 2007, there were no restrictions with respect to intercompany payments from GPS, SMC and VLI to Argan.

We were organized as a Delaware corporation in May 1961. On October 23, 2003, our shareholders approved a plan providing for the internal restructuring of the Company whereby we became a holding company, and our operating assets and liabilities relating to our Puroflow Incorporated ("Puroflow") business were transferred to a newly-formed, wholly owned subsidiary. The subsidiary then changed its name to "Puroflow Incorporated" and we changed our name from Puroflow Incorporated to "Argan, Inc."

On October 31, 2003, pursuant to a certain Stock Purchase Agreement ("Stock Purchase Agreement"), we completed the sale of Puroflow to Western Filter Corporation (WFC) for approximately $3.5 million in cash, of which $300,000 is being held in escrow to indemnify WFC from losses if a breach of the representations and warranties made by us pursuant to that sale should occur. During the twelve months ended January 31, 2005, WFC asserted that the Company and its executive officers breached certain representations and warranties under the Stock Purchase Agreement. On March 15, 2007, the District Court granted the Company and its executive officers' motion for summary judgment, thereby dismissing WFC's lawsuit against the Company and its executive officers in its entirety. WFC has appealed this decision (Discussed further in Item 3 below).

Merger of Gemma Power Systems, LLC and its affiliates

On December 8, 2006 (Closing Date), pursuant to Agreements and Plans of Merger the Company acquired GPS, which provides a full range of development, consulting, engineering, procurement, construction, commissioning, operating and maintenance services to the power energy market for a wide range of customers including public utilities, independent power project owners, municipalities, public institutions and private industry. The results of operations for GPS have been included in the Company's consolidated financial statements since the Closing Date.

The acquisition purchase price was $31.1 million, consisting of $10.9 million in cash and $20.2 million from the issuance of 3,666,667 shares of AI common stock, with a fair market value at the closing date, of $5.50 per share (The Company used a $3.75 per share value in negotiating the purchase price with the former owners of GPS). The purchase price was funded by a new $8.0 million secured 4-year term loan which carries an interest rate of LIBOR plus 3.25% (as discussed below). In addition, the Company raised $10.7 million through the private offering of 2,853,335 shares of AI common stock at a purchase price of $3.75 per share (as discussed below). Pursuant to the acquisition agreement $12.0 million was deposited into an escrow account. Of this amount, $10.0 million secures a letter of credit to support the issuance of bonding (as discussed below) and the remaining amount for the payment of up to $2.0 million of additional purchase price payable if, for the twelve months ended December 31, 2007, the earnings of GPS before interest, taxes, depreciation and amortization ("EBITDA") adjusted for AI's corporate overhead charge, is more than $12.0 million.

Private Sales of Stock in 2006

On December 8, 2006, the Company completed a private offering of 2,853,335 shares of common stock at a price of $3.75 per share for aggregate proceeds of $10.7 million. The proceeds were used towards the purchase of GPS (as discussed above). Two of the investors, MSRI SBIC, L.P. ("MSRI") and MSR Fund II, L.P., which acquired 92,793 and

440,540 shares in the offering, respectively, are controlled by Daniel Levinson, a director of the Company. Two other investors, Allen & Company LLC and Allen SBH Investments, LLC which acquired 80,000 and 266,667 shares in the offering, respectively, are affiliates of James Quinn, a director of the Company. In addition, James Quinn acquired 26,667 shares for his own account.

On May 4, 2006, the Company completed a private offering of 760,000 shares of common stock at a price of $2.50 per share for aggregate proceeds of $1.9 million. The Company used $1.8 million of the proceeds to pay down an equal notional amount of the subordinated note due Kevin Thomas. The remainder of the proceeds were used for general corporate purposes. Allen SBH and James Quinn acquired 120,000 and 40,000 shares in the offering, respectively. In addition, MSRI acquired 240,000 shares in the offering.

Amendment of Financing Arrangements

On December 11, 2006, Argan amended its financing arrangements with the Bank of America (Bank). The new financing arrangement includes an amended 3-year term loan for VLI in the amount of $1.4 million with interest at LIBOR plus 3.25%. The original term loan was in the amount of $1.5 million with interest at LIBOR plus 3.45%, pursuant to an amendment dated May 2006. On August 31, 2006, the Company borrowed $1.5 million under the 3-year Term Loan and paid the remaining principal and interest due on the subordinated note with Thomas. The amended financing arrangements also provide for a new 4-year term loan used in the acquisition of GPS in the amount of $8.0 million with interest at LIBOR plus 3.25% ($2.0 million of this loan was deposited in escrow with the Bank, as discussed above) and a revolving loan with a maximum amount of $4.25 million available until May 31, 2008, with interest at LIBOR plus 3.25%.

The Company may obtain standby letters of credit from the Bank in the ordinary course of business not to exceed $10.0 million for security bonding. On December 11, 2006, the Company pledged $10.0 million to the Bank to secure a standby letter of credit issued by the Bank on behalf of Argan for the benefit of Travelers Casualty and Surety Company of America in connection with the $200.0 million bonding facility provided to GPS.

The financing arrangements provide for the measurement at the Company's fiscal year end and at each of the Company's fiscal quarter ends (using a rolling 12-month period) of certain financial covenants including requiring that the ratio of total funded debt to EBITDA not to exceed 2.25 to 1 for the year ended January 31, 2007 and not to exceed 2 to 1 for future quarters, requiring a fixed charge coverage ratio of not less than 1.25 to 1, and requiring the ratio of senior funded debt to EBITDA not to exceed 1.75 to 1 for the year ended January 31, 2007 and not to exceed 1.50 to 1 for future quarters. The Bank's consent continues to be required for acquisitions and divestitures. The Company continues to pledge the majority of the Company's assets to secure the financing arrangements.

The amended financing arrangement contains a subjective acceleration clause which allows the Bank to declare amounts outstanding under the financing arrangements due and payable if certain material adverse changes occur. The Company believes that it will continue to comply with its financial covenants under the financing arrangements. If the Company's performance does not result in compliance with any of its financial covenants, or if the Bank seeks to exercise its rights under the subjective acceleration clause referred to above, the Company would seek to modify its financing arrangements, but there can be no assurance that the Bank would not exercise their rights and remedies under the financing arrangements including accelerating payment of all outstanding senior debt due and payable.

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

Competition

GPS competes with numerous, well capitalized private and public firms in the construction and engineering services industry. Competitors include SNC Lavalin, a diversified Canadian construction and engineering firm with over 12,000 employees generating over $5.0 billion in revenues; Emcor Group, Inc., a provider of mechanical and electrical construction and facilities services internationally with over 26,000 employees and over $5.0 billion in revenue; Fluor Corp., an international engineering, procurement, construction and maintenance company with over 22,000 employees and over $14 billion in revenues; and Shaw Group, a diversified firm providing consulting, engineering, construction and facilities management services to an international clientele with over $4.0 billion in annual revenues.

Other large competitors in this industry include Washington Group, Granite Corp., Foster Wheeler and Perini Corp.

SMC operates in the fragmented and competitive telecom and infrastructure services industry. We compete with service providers ranging from small regional companies, which service a single market, to larger firms servicing multiple regions, as well as large national and multi-national contractors. We believe that we compete favorably with the other companies in the telecom and utility infrastructure services industry.

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The market for nutritional products is highly competitive. Our direct competition consists primarily of publicly and privately owned companies which tend to be highly fragmented in terms of both geographical market coverage and product categories. These companies compete with us on different levels in the development, manufacture and marketing of nutritional supplements. Many of these companies have broader product lines and larger sales volume, are significantly larger than us, have greater name recognition, financial, personnel, distribution and other resources than we do and may be better able to withstand volatile market conditions. There can be no assurance that our customers and potential customers will regard our products as sufficiently distinguishable from competitive products. Our inability to compete successfully would have a material adverse effect on our business.

Materials

Concurrent with the engineering and construction of biodiesel and ethanol production facilities and power energy systems, we procure materials on behalf of our customers. Although we are not dependent upon any one source for materials that we use to complete the project, we may experience pricing and availability pressures with respect to key components of the project. In the rapidly growing alternative energy industry as well as in the traditional power energy systems industry, materials are becoming increasingly expensive and not always available when needed. We are not currently experiencing difficulties in procuring the necessary materials for our contracted projects. We cannot guarantee that in the future there will not be unscheduled delays in the delivery of ordered materials and equipment.

Generally, our telecom infrastructure services customers supply most or all of the materials required for a particular contract and we provide the personnel, tools and equipment to perform the installation services. However, with respect to a portion of our contracts, we may supply part or all of the materials required. In these instances, we are not dependent upon any one source for the materials that we customarily utilize to complete the job. We are not presently experiencing, nor do we anticipate experiencing, any difficulties in procuring an adequate supply of materials.

Raw materials used in VLI's products consist of nutrient powders, excipients, adaptogens, empty capsules and necessary components for packaging and distribution of finished nutritional and whole-food dietary supplements and personal care products.

We purchase the raw materials and empty capsules from manufacturers in the United States and foreign countries. Although we purchase raw materials from reputable suppliers, we continuously evaluate samples, certificates of analysis, material safety data sheets and the support research and documentation of both active and inactive ingredients. We have not experienced difficulty in obtaining adequate sources of supply, and generally a number of suppliers are available for most raw materials. Although we cannot assure that adequate sources will continue to be available, we believe we should be able to secure sufficient raw materials in the future.

Research and Development Expenditures

Research and development is a key component of VLI's business development efforts. VLI develops product formulations for its customers. VLI focuses its research and development capabilities particularly on new and emerging raw materials and products. Research and development expenses relate primarily to VLI's proprietary formulations and are expensed as incurred. The Company recorded $153,000 and $90,000 of research and development expenses during the years ended January 31, 2007 and 2006, respectively.

Customers

AI's largest customers for the fiscal year ended January 31, 2007 included three power industry services customers, ALTRA Nebraska, LLC (ALTRA), Roseville Energy Park (REP) and Green Earth Fuels of Houston, LLC (GEF); two nutraceutical customers, TriVita Corporation (TVC) and Rob Reiss Companies (RRC); and three telecommunication customers, Electronic Data Systems (EDS), Southern Maryland Electric Cooperative (SMECO) and Verizon

Communications (VZ). ALTRA, REP, TVC, EDS, GEF, RRC, VZ and SMECO accounted for 29%, 9%, 9%, 7%, 7%, 6%, 6% and 5% of consolidated net sales for the year ended January 31, 2007. TVC, SMECO, RRC, General Dynamics Corp. (GD), CyberWize.com, Inc. (C), Orange Peel Enterprises (OPE) and VZ accounted for 21%, 12%, 12%, 7%, 6%, 6% and 6%, respectively of consolidated net sales for the year ended January 31, 2006.

Backlog

At January 31, 2007, we had a backlog of $171.3 million to perform power industry services, $4.3 million for manufacturing nutraceutical products and $6.5 million to perform telecom infrastructure services in the next year. At January 31, 2006, we had a backlog of $3.7 million for manufacturing nutraceutical products and $6.3 million to perform telecom infrastructure services during fiscal year 2007.

Regulation

Our power industry services and telecom infrastructure services operations are subject to various federal, state and local laws and regulations including: licensing for contractors; building codes; permitting and inspection requirements applicable to construction projects; regulations relating to worker safety and environmental protection; and special bidding, procurement and security clearance requirements on government projects. Many state and local regulations governing construction require permits and licenses to be held by individuals who have passed an examination or met other requirements. We believe that we have all the licenses required to conduct our operations and that we are in substantial compliance with applicable regulatory requirements. Our failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses.

The formulation, manufacturing, packaging, labeling, advertising, distribution and sale of our products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the U.S. Department of Agriculture, the Environmental Protection Agency, and also by various agencies of the states, localities and foreign countries in which our products are sold. In particular, the FDA, pursuant to the Federal Food, Drug and Cosmetic Act (FDCA), regulates the formulation, manufacturing, packaging, labeling, distribution and sale of dietary supplements, including vitamins, minerals and herbs, and of over-the-counter (OTC) drugs, while the FTC has jurisdiction to regulate advertising of these products, and the Postal Service regulates advertising claims with respect to such products sold by mail order. The FDCA has been amended several times with respect to dietary supplements, most recently by the Nutrition Labeling and Education Act of 1990 and the Dietary Supplement Health and Education Act of 1994. Our inability to comply with these federal regulations may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions.

In addition, our products are also subject to regulations under various state and local laws that include provisions governing, among other things, the formulation, manufacturing, packaging, labeling, advertising and distribution of dietary supplements and OTC drugs.

Safety, Risk Management, Insurance and Performance Bonds

We are committed to ensuring that our power industry and telecom infrastructure services and nutraceutical products and employees perform their work in a safe environment. We regularly communicate with our employees to promote safety and to instill safe work habits. GPS and SMC each have an experienced full time safety director committed to ensuring a safe work place, compliance with applicable contracts, insurance and local and environmental laws.

Contracts in the power industry and telecom infrastructure services industry which we serve may require performance bonds or other means of financial assurance to secure contractual performance. If we are unable to obtain surety bonds or letters of credit in sufficient amounts or at acceptable rates, we might be precluded from entering into additional contracts with certain of our customers. We have a $10.0 million irrevocable letter of credit in place as collateral to support $200.0 million of backlog for bonding purposes. See further discussion in Note 9 of the accompanying financial statements.

Employees

At January 31, 2007, we had approximately 525 employees, all of whom were full-time. Of these employees, approximately 190 are represented by various labor unions in the state of California. We believe that our employee relations are good.

Materials Filed with the Securities and Exchange Commission

The public may read any materials that we file with the Securities and Exchange Commission (SEC) at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at **http://www.sec.gov**. We maintain a website on the Internet at www.arganinc.com. Information on our website is not incorporated by reference into this report.

Copies of the Annual Report on Form 10-KSB as filed with the Securities and Exchange Commission are available without charge upon written request to:

Corporate Secretary
Argan, Inc.
Suite 401
One Church Street
Rockville, Maryland 20850
(301) 315-0027

Risk Factors

You should carefully consider the following risk factors before making an investment decision. If any of the following risks actually occur, our business, financial condition, or results of operations could be materially and adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

General Risks Relating to our Company

Our officers and directors have limited experience in managing our business and, as a result, may be unsuccessful in doing so.

In April 2003, Rainer H. Bosselmann became Chairman and Chief Executive Officer, H. Haywood Miller, III became Executive Vice President and Arthur F. Trudel became our Senior Vice President and Chief Financial Officer. Upon consummation of the private placement in April 2003, four of our directors resigned and were replaced by Mr. Bosselmann and three new directors designated by Mr. Bosselmann (DeSoto S. Jordan, James W. Quinn and Daniel A. Levinson). In addition, in June 2003, Peter L. Winslow was elected by the Board of Directors to fill a vacancy, and in October, 2003, W.G. Champion Mitchell was elected to our Board of Directors at our 2003 Annual Meeting. On April 7, 2006, Mr. Miller resigned his position with us. Although Messrs. Bosselmann, Trudel, Jordan, Quinn, Levinson, Winslow and Mitchell have experience as executive officers and directors of other public companies, they have limited experience in managing our business and, as a result, may be unsuccessful in doing so.

Purchasers of our common stock will be unable to evaluate future acquisitions and/or investments.

We completed our acquisition of Gemma in December 2006. Prior to our acquisition of Gemma, we acquired Vitarich in August 2004 and SMC in July 2003. Accordingly, purchasers of our common stock may be unable to evaluate the business, prospects, operating results, management or other material factors relating to future acquisitions and/or investments that we make. In addition, there can be no assurance that future acquisitions will occur, or if they occur, will be beneficial to us and our stockholders.

We may be unsuccessful at integrating companies that we acquire.

We may not be able to successfully integrate companies that we acquire with our other operations without substantial costs, delays or other operational or financial problems. Integrating acquired companies involves a number of special risks which could materially and adversely affect our business, financial condition and results of operations, including:

- failure of acquired companies to achieve the results we expect;
- diversion of management's attention from operational matters;

- difficulties integrating the operations and personnel of acquired companies;

- inability to retain key personnel of acquired companies;
- risks associated with unanticipated events or liabilities;
- the potential disruption of our business; and
- the difficulty of maintaining uniform standards, controls, procedures and policies.

If one of our acquired companies suffers customer dissatisfaction or performance problems, the reputation of our entire company could be materially and adversely affected. In addition, future acquisitions could result in issuances of equity securities that would reduce our stockholders' ownership interest, the incurrence of debt, contingent liabilities, deferred stock based compensation or expenses related to the valuation of goodwill or other intangible assets and the incurrence of large, immediate write-offs.

We may not be able to raise additional capital and, as a result, may not be able to successfully execute our business plan.

We will need to raise additional capital to finance future business acquisitions and/or investments. Additional financing may not be available on terms that are acceptable to us or at all. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders would be reduced. Additionally, these securities might have rights, preferences and privileges senior to those of our current stockholders. If adequate funds are not available on terms acceptable to us, our ability to finance future business acquisitions and/or investments and to otherwise pursue our business plan would be significantly limited.

We cannot readily predict the timing, size and success of our acquisition efforts and therefore the capital we will need for these efforts. Using cash for acquisitions limits our financial flexibility and makes us more likely to seek additional capital through future debt or equity financings. When we seek additional debt or equity financings, we cannot be certain that additional debt or equity will be available to us at all or on terms acceptable to us.

We may not be able to comply with certain of our debt covenants, which as a result, may interfere with our ability to successfully execute our business plan.

We are borrowing funds from a lender. We must be in compliance with certain debt covenants in order to draw on these loans. We are currently in compliance with our debt covenants, but there can be no assurance that we will continue to be in compliance. If we are not in compliance, we will not have adequate liquidity to successfully execute our business plan.

We may be unsuccessful at generating internal growth.

Our ability to generate internal growth will be affected by, among other factors, our success in:

- expanding the range of services and products we offer to customers to address their evolving needs;
- attracting new customers;
- hiring and retaining employees; and
- reducing operating and overhead expenses.

Many of the factors affecting our ability to generate internal growth may be beyond our control. Our strategies may not be successful and we may not be able to generate cash flow sufficient to fund our operations and to support internal growth. Our inability to achieve internal growth could materially and adversely affect our business, financial condition and results of operations.

Our business growth could outpace the capability of our corporate management infrastructure. Our operations and ability to execute our business plan could be adversely effected as a result.

We cannot be certain that our infrastructure will be adequate to support our operations as they expand. Future growth also could impose significant additional responsibilities on members of our senior management, including the need to recruit and integrate new senior level managers and executives. We cannot be certain that we can recruit and retain such additional managers and executives. To the extent that we are unable to manage our growth effectively, or are unable to attract and retain additional qualified management, we may not be able to expand our operations or execute our business plan. Our financial condition and results of operations could be materially and adversely affected as a result.

Loss of key personnel could prevent us from successfully executing our business plan and otherwise adversely affect our business.

Our ability to maintain productivity and profitability will be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of these skilled personnel. Labor shortages or increased labor costs could impair our ability or maintain our business or grow our revenues.

We depend on the continued efforts of our executive officers and on senior management of the businesses we acquire. We cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

We have experienced losses in the past and may experience additional losses in the future.

As of January 31, 2007, we had an accumulated deficit of approximately $15.2 million resulting primarily from past losses. We may experience additional losses in the future.

Any general increase in interest rate levels will increase our cost of doing business. Our results of operations, cash flow and financial condition may suffer as a result.

As of January 31, 2007, we have approximately $4.3 million of unhedged variable rate debt. Any general increase in interest rate levels will increase our cost of doing business.

Spec