

ARGAN INC  
Form 8-K/A  
November 15, 2004

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

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**FORM 8-K/A**

**CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): August 31, 2004

**ARGAN, INC.**  
(Exact Name of Registrant as Specified in Charter)

|   |                                       |  |
|---|---------------------------------------|--|
| Delaware<br>(State or Other Jurisdiction of<br>Incorporation)                           | 001-31756<br>(Commission File Number) | 13-1947195<br>(IRS Employer Identification<br>No.) |
| One Church Street, Suite 302, Rockville, MD<br>(Address of Principal Executive Offices) |                                       | 20850<br>(Zip Code)                                |

Not Applicable  
(Former Name or Former Address, if Changed Since Last Report)

Registrant's Telephone Number, including area code: (301) 315-0027

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))



NOTE: Argan, Inc. (AI or Company) is amending its Form 8-K (date of report - August 31, 2004) filed September 7, 2004 to include financial statements of businesses acquired and related pro forma financial information.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired

Audited balance sheets of Vitarich Laboratories, Inc. as of August 30, 2004, December 31, 2003 and 2002 and related statements of income, stockholders' equity and cash flows for the eight months ended August 30, 2004 and for the years ended December 31, 2003 and 2002.

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**Vitarich Laboratories, Inc.**  
**Financial Statements**  
**And**  
**Independent Auditors Report**  
**August 30, 2004**

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Independent Auditors Report

To the Director and Stockholder of  
Vitarich Laboratories, Inc.  
Naples, FL

We have audited the accompanying balance sheet of Vitarich Laboratories, Inc. as of August 30, 2004 and the related statements of income, changes in stockholders equity, and cash flows for the eight months then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vitarich Laboratories, Inc. as of August 30, 2004, and the results of its operations and its cash flows for the eight months then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Davidson & Nick CPA s

Naples, Florida

October 15, 2004

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**Vitarich Laboratories, Inc.**  
**Balance Sheet**  
**August 30, 2004**

**ASSETS**

|   |                     |
|---|---------------------|
| <b>Current Assets:</b>  |                     |
| Cash  | \$ 105,708          |
| Accounts receivable, net of allowance<br>of \$218,000 for doubtful accounts | 1,470,429           |
| Inventory   | 3,247,177           |
| Other Receivables   | 8,451               |
| Other Pre-Paid Assets   | 45,794              |
| Deposits on Inventory   | 224,000             |
| Deferred Taxes  | 42,785              |
|   | 5,144,344           |
| <b>Property &amp; Equipment:</b>  |                     |
| Machinery & Equipment   | 1,117,968           |
| Office Furniture & Fixtures   | 101,694             |
| Leasehold Improvements  | 184,682             |
|   | 1,404,344           |
| Less accumulated depreciation   | (340,704)           |
|   | 1,063,640           |
| Loan Receivable - Shareholder   | 34,889              |
| Other Deposits  | 58,332              |
| <b>Total Assets</b>   | <b>\$ 6,301,205</b> |

**Liabilities and Stockholder's Equity**

|  |            |
|--|------------|
| <b>Current Liabilities:</b>                    |            |
| Bank Overdraft                                 | \$ 161,604 |
| Accounts Payable                               | 2,319,628  |
| Accrued Payroll & Payroll Taxes                | 66,407     |
| Accrued Income Taxes                           | 424,561    |
| Accounts Payable - Affiliated Corporation      | 68,170     |
| Accrued Expenses and Other Current Liabilities | 275,687    |

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

**Vitarich Laboratories, Inc.**  
**Balance Sheet**  
**August 30, 2004**  
**(Continued)**

|   |                     |
|---|---------------------|
| Loan Payable -Shareholder   | 515,618             |
| Current Portion of Notes Payable  | 574,281             |
| Current Portion of Obligations under Capital Leases                               | 100,505             |
|   | 4,506,461           |
| <b>Other Liabilities</b>  |                     |
| Notes Payable, net of Current Portion   | 54,808              |
| Obligations Under Capital leases, net of Current Portions                         | 317,571             |
| Deferred Taxes  | 192,561             |
|   | 564,940             |
| <b>Stockholder's Equity</b>   |                     |
| Common Stock, \$1 Par Value,<br>100 shares authorized, 93 issued, and outstanding | 93                  |
| Additional Paid -in-Capital   | 77                  |
| Retained Earnings   | 1,229,634           |
|   | 1,229,804           |
| <b>Total Liabilities and Stockholder's Equity</b>                                 | <b>\$ 6,301,205</b> |

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

**Vitarich Laboratories, Inc.**  
**Statement of Income**  
**For the Eight Months Ended August 30, 2004**

|  |    |            |
|--|----|------------|
| Sales, Net of Discounts                          | \$ | 10,891,005 |
| Cost of Sales                                    |    | 8,017,092  |
| Gross Profit                                     |    | 2,873,913  |
| <b>Operating Expenses:</b>                       |    |            |
| General & Administrative                         |    | 1,267,876  |
| Selling Expenses                                 |    | 208,204    |
| Total Operating Expenses                         |    | 1,476,080  |
| Income From Operations                           |    | 1,397,833  |
| <b>Other Income (Expenses)</b>                   |    |            |
| Interest Expense                                 |    | (62,233)   |
| Interest Income                                  |    | 481        |
| Capital Gain/Loss on Disposition of Fixed Assets |    | (14,649)   |
| Other (Expense)                                  |    | ( 76,401)  |
| Income Before Income Taxes                       |    | 1,321,432  |
| <b>Provision for Income Tax</b>                  |    |            |
| Current Taxes                                    |    | 455,561    |
| Deferred Taxes                                   |    | 34,176     |
| Total Income Taxes                               |    | 489,737    |
| Net Income                                       | \$ | 831,695    |

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



**Vitarich Laboratories, Inc.**  
**Statement of Changes in Stockholder's Equity**  
**For the Eight Months**  
**Ended August 30, 2004**

|                               | Number of<br>Common Stock<br>Shares<br>Outstanding | Common<br>Stock Par Value | Additional<br>Paid-In Capital | Retained<br>Earnings |
|-------------------------------|--|---------------------------|-------------------------------|----------------------|
| Beginning Balance             | 100  | \$ 100                    | \$ 77                         | \$ 1,097,932         |
| Net Income                    |  |                           |                               | 831,695              |
| Acquisition of Treasury Stock |  |                           |                               |                      |
| )                             |  |                           |                               | ( 7                  |
| )                             |  |                           |                               | ( 7                  |
| )                             |  |                           |                               | ( 699,993            |
| Ending Balance                |  |                           |                               | 93                   |
| \$                            |  |                           |                               | 93                   |
| \$                            |  |                           |                               | 77                   |
| \$                            |  |                           |                               | 1,299,634            |

The accompanying notes are an integral part of the financial statements



**Vitarich Laboratories**  
**Statement of Cash Flows**  
**For the Eight Months Ended August 30, 2004**

**Cash Flows from Operating Activities**

|  |             |
|--|-------------|
| Net Income   | \$ 831,695  |
| Adjustments to reconcile net income to net cash provided by operations |             |
| Depreciation   | 123,158     |
| Loss on Disposal of Fixed Assets                                       | 14,649      |
| Deferred Income Tax  | 34,176      |
| Bad Debt Recoveries  | (248,000)   |
| Write off of Loan Receivable - Affiliated Corporation                  | 17,229      |
| Loan Payable - NFLL Charge   | (109,959)   |
| Changes in Assets and Liabilities                                      |             |
| Decrease in Accounts Receivables                                       | 1,180,797   |
| Increase in Inventory  | (2,233,002) |
| Increase in Other Receivable   | (8,457)     |
| Decrease in Prepaid Assets   | 102,798     |
| Increase in Deposit on Inventory                                       | (92,331)    |
| Decrease in Other Deposits   | 7,750       |
| Increase in Bank Overdraft   | 161,604     |
| Increase in Accounts Payable   | 432,106     |
| Decrease in Accrued Payroll & Payroll Taxes                            | (94,466)    |
| Increase in Accrued Income Taxes                                       | 372,561     |
| Increase in Accounts Payable-Affiliated Corporations                   | 9,645       |
| Increase in Accrued Expenses & Other Current Liabilities               | 72,010      |
| Net Cash provided by Operating Activities                              | 573,963     |

**Cash Flows from Investing Activities**

|                                       |           |
|---------------------------------------|-----------|
| Purchases of Fixed Assets             | (536,711) |
| Loan Receivable-Shareholder           | (34,889)  |
| Net cash used by Investing Activities | (571,600) |

**Cash Flows from Financing Activities**

|   |         |
|---|---------|
| Payments on Loan Payable-Affiliated Corporation | (8,105) |
| Proceeds from Loan Payable-Shareholder          | 2,274   |

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

**Vitarich Laboratories**  
**Statement of Cash Flows**  
**For the Eight Months Ended August 30, 2004**  
**(Continued)**

|  |    |                 |
|--|----|-----------------|
| Proceeds from Note Payable                               |    | 398,017         |
| Payments on Notes Payable                                |    | (34,133)        |
| Proceeds from Obligations Under Capital Leases           |    | 364,905         |
| Payments on Obligations Under Capital Leases             |    | (95,394)        |
| Acquisition of Treasury Stock                            |    | (700,000)       |
| <b>Net cash used by Financing Activities</b>             |    | <b>(72,436)</b> |
|  |    |                 |
| Net decrease in cash and cash equivalents for the period |    | (70,073)        |
| Cash and Cash Equivalents at the beginning of the period |    | 175,781         |
| Cash and Cash Equivalents at the end of the period       | \$ | 105,708         |
|  |    |                 |
| <b>Supplemental Disclosure of Cash Flows</b>             |    |                 |
| Cash paid during the period for interest expense         | \$ | 60,573          |
| Cash paid during the period for income taxes             | \$ | 83,000          |

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

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

**Vitarich Laboratories, Inc.**  
**Notes to the Financial Statements**  
**August 30, 2004**

Note 1- Organization

Vitarich Laboratories, Inc. (the Company) is in the business of formulating, packaging and distributing whole food dietary, herbal and nutritional supplements and related products, which are marketed globally to retail, wholesale and private label customers, including network marketing companies, health food stores, mass merchandisers, drug stores, food stores, internet and mail-order companies. The Company operates a manufacturing, warehousing, and laboratory facility in Naples, Florida. The Company was incorporated August 14, 1998.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Company prepares its financial statements in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents - Cash is defined to include money market investment funds.

Revenue Recognition - Sales are recognized when items are shipped to customers in accordance with supporting sales terms.

Accounts Receivable - The Company uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on management's analysis of possible bad debts. Trade receivables are analyzed through an aging of the accounts and an allowance is developed for individual doubtful accounts. Aging and status of accounts is based on how recently payments have been received. Unknown doubtful accounts have been allowed for by increasing the allowance account determined under the aging method by 4% of trade receivables. As of August 30, 2004 management had established an allowance of \$ 218,000. Accounts are charged off when management specifically identifies such accounts as uncollectible after significant collection efforts. The Company does not currently charge interest on its trade receivables.

Inventory - Inventories are stated at the lower of cost or market, using the first in, first out method. The cost of shipping and handling is included in cost of sales.

Property & Equipment - Property & Equipment are stated at cost. Depreciation is provided using the straight -line method. Estimated lives are as follows:

|                               |              |
|-------------------------------|--------------|
| Machinery & Equipment         | 5 to 7 years |
| Office Furniture and Fixtures | 5 to 7 years |
| Leasehold Improvements        | 20 years     |

Total depreciation and amortization of property and equipment, including leasehold improvements and assets held under capital leases for the eight months ended August 30, 2004 was \$ 123,158.

Income Tax - Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (using accelerated depreciation method for income tax purposes) and recognition of bad debt expense (using direct write off method for

tax purposes). The Company's provision for income taxes does not differ from applying the statutory US federal income tax and State of Florida income tax rate to income before income taxes by more than 1%, as the only reconciling item, meals and entertainment expense, is less than 1% of income before income taxes.

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Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results may differ from those estimates.

Advertising Costs - Advertising costs are expensed as incurred. Total advertising costs for the eight months ended August 30, 2004 was \$17,861 and is included in selling expense.

Interest Expense - Interest costs are expensed as incurred. Interest expense was \$62,233 for the eight months ended August 30, 2004.

Note 3 - Inventory

Inventory  
consists of the  
following:

|           |    |           |
|-----------|----|-----------|
| Raw       |    |           |
| Materials | \$ | 2,950,102 |
| Work in   |    |           |
| Process   |    | 106,162   |
| Finished  |    |           |
| Goods     |    | 190,913   |
|           | \$ | 3,247,177 |

Raw materials are those that are in the original conditions as when purchased, work in process consists of those items which the Company has started to process but has not completed as of August 30, 2004. Finished goods are completed units ready for delivery to customers.

Note 4 - Accrued Expenses and Other Current Liabilities

Accrued expenses and other liabilities consist of the following:

|   |      |                |
|---|------|----------------|
| <u>Accrued Interest</u>                     | - \$ | <u>1,660</u>   |
| <u>Obligation to Fund Inventory Deposit</u> | - -  | <u>109,000</u> |
| <u>Accrued Vacation Pay</u>                 | - -  | <u>40,685</u>  |
| <u>Other Accrued Expenses</u>               | - -  | <u>124,342</u> |
|   | - \$ | <u>275,687</u> |

Note 5 - Notes Payable

Notes Payable as of August 30, 2004 consists of the following:

Term Loan - Wachovia National Bank - The Company borrowed \$ 80,873 in order to finance the acquisition of machinery and equipment. The term loan is payable in 84 monthly installments of \$ 1,229 beginning October 11,

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1998. The interest on the term loan is a variable rate calculated at Wall Street Journal Prime Rate plus .25% per annum. The loan is secured by specified machinery and equipment. The interest rate was 4.75% at August 30, 2004.

Equipment Note - First Florida Bank - This note was used to fund the acquisition of diagnostic lab equipment which cost \$115,000. The note provides for 60 monthly installments of \$2,310 per month beginning November 10, 2002. The interest rate is 7.50% per annum.

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Term Loan - Key Bank - Company borrowed \$148,111 in order to finance the company's liability insurance. The term loan is payable in December 2004 with interest only payments thru term. Interest rate was 5% as of August 30, 2004.

Key Bank Line of Credit - In early 2004 Key Bank issued a line of credit for \$400,000. This was used for the purchase of additional inventory products. The interest rate was 5% at August 30, 2004.

Summary of Notes Payable

|                                   |    |         |
|-----------------------------------|----|---------|
| Term Loan Wachovia Nat. Bank      | \$ | 13,970  |
| Equipment Note First Florida Bank |    | 77,816  |
| Term Loan Key Bank                |    | 139,286 |
| Key Bank Line of Credit           |    | 398,017 |
|                                   | \$ | 629,089 |
| Current Portion                   |    | 574,281 |
| Notes Payable                     |    | 54,808  |
|                                   | \$ | 629,089 |

Notes Payable is expected to mature as follows for the years ending August 30:

|      |    |        |
|------|----|--------|
| 2006 | \$ | 24,080 |
| 2007 |    | 26,155 |
| 2008 |    | 4,573  |
|      | \$ | 54,808 |

NOTE 6 - Operating Leases

The Company leases each of its five operational buildings for remaining terms ranging from 2 months to 60 months. The monthly lease payments for each of these leases range from \$1,733 to \$10,600. The specific terms of each lease is as follows:

Property Leased From Controlling Shareholder -

4327 Building - property is currently leased from controlling shareholder for \$5,500 per month. Current lease expires in April 2007 with no proposed renewal or purchase option.

4206 Building - property is currently leased from controlling shareholder for \$6,625 per month. Current lease expires in August 2009 with no proposed renewal or purchase option. Lease agreement provides for significant improvements to be made to the property and increase the rent to \$13,250 per month. Management expects this to occur within the next 12 months.

Property Leased from Unrelated Parties -

4365 Building - property is currently leased for \$10,600 per month. Current lease expires in April 2005 and has an option for 2 one year renewal terms, and no option to purchase. Monthly lease amount is expected to increase to \$11,248 during this period.

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4405 Building - property is currently leased for \$3,433 per month. Current lease is verbal and expires in November 2004.

4344 Building- is currently leased for \$1,733 per month and originally expired August 31, 2004 but was extended for two months.

The total rent for the five properties was \$167,038, of which \$44,122 was paid to the controlling shareholder, for the eight months ended August 30, 2004. Future minimum lease payments for each of the five succeeding years and in the aggregate are:

|                                 | Controlling<br>Shareholder<br>Leases | Other<br>Leases   | Total               |
|---------------------------------|--------------------------------------|-------------------|---------------------|
| 12 months ended August 30, 2005 | \$ 145,500                           | \$ 140,966        | \$ 286,466          |
| 12 months ended August 30, 2006 | 145,500                              | 129,744           | 275,244             |
| 12 months ended August 30, 2007 | 123,500                              | 132,336           | 255,836             |
| 12 months ended August 30, 2008 | 79,500                               | 134,976           | 214,476             |
| 12 months ended August 30, 2009 | 79,500                               | -                 | 79,500              |
| Subsequent Years                | -                                    | -                 | -                   |
| <b>Total</b>                    | <b>\$ 573,500</b>                    | <b>\$ 538,022</b> | <b>\$ 1,111,522</b> |

NOTE - 7 - Stockholder Equity

Common stock, \$1 par value; authorized 100 shares; issued and outstanding 93 shares.

Pursuant to and prior to the merger discussed elsewhere within the footnotes, the Company reacquired 7 shares of stock from the minority stockholder for \$700,000 on August 26, 2004.

Retained earnings was reduced by the excess paid per share over the par value of the stock in the Statement of Changes in Stockholder s Equity for the Eight Months Ended August 30, 2004.

NOTE - 8 - Risk Concentrations

A substantial portion of the company s business is conducted with eleven of its customers. For the eight months ended August 30, 2004, sales to these customers were 93.3% of total sales. At August 30, 2004, Accounts Receivable from these customers before allowance for bad debts totaled \$1,545,915, which is unsecured. These customers sell whole dietary and nutritional supplements via wholesalers, retailers, and specialized multi-level marketing methods. The majority of these customers operations are within North America.

Sales directly to foreign sources are less than 5% and purchases from foreign sources are approximately 10%.

The Company s policy is to monitor risk based on each customer s qualifications.

The Company occasionally maintains deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions. As of August 30, 2004 the balance in excess of federally insured limits was \$0.



NOTE 9 - Related Party Transactions

Loan Receivable - Shareholder \$34,889

Balance represents amounts due to the Company for reimbursement of expenditures. Loan is unsecured and non-interest bearing.

Loan Payable- Shareholder \$515,618

Loan payable consists of funds advanced to the company by the shareholder on a short term basis. Interest rate is 6% and loan was paid off during September 2004. Interest expense recognized was \$20,301 for the eight months ended August 30, 2004.

|  |           |
|--|-----------|
| Accounts Payable - Biotech Analytical Laboratories, Inc. | \$ 10,300 |
| Accounts Payable - Vitarich Farms, Inc.                  | 57,870    |
| Accounts Payable - Affiliated Corporations               | \$ 68,170 |

Vitarich Farms, Inc. (farms) harvests and processes powdered vegetable grasses (wheat, barley, and hydrilla). During the eight months ended August 30, 2004, the company purchased 19,950 kilos of product for a total of \$176,468. Management estimates the purchase of each product was at fair market value. The majority shareholder of Farms is also the controlling shareholder of the Company.

Biotech Analytical Laboratories, Inc. is owned by the controlling shareholder of the Company and provides laboratory testing services to the Company. The Company incurred \$94,086 of expenses for these services for the eight months ended August 31, 2004.

Loan Receivable Affiliated Corporation as of December 31, 2003 the balance recorded for net advances from the Company to Farms was \$17,229. As a result of the pending merger discussed in Note 13, management estimated that this balance is no longer collectible and was written off during the eight months ended August 30, 2004.

NOTE 10 Loan Payable Nutrition for Life, LLC

Prior to December 31, 2003 management had elected to, write off \$1,295,559 of accounts receivable from Nutrition for Life, LLC (NFLL). NFLL filed for Chapter 7 bankruptcy on July 18, 2003.

As of December 31, 2003, NFLL also owed the Company \$109,959. As a result of progress with the bankruptcy case, management estimates this debt will not be enforced and recognized the credit against general and administrative expenses during the eight months ended August 30, 2004.

Additionally, Bactolac Pharmaceuticals, Inc., the vendor which provided the majority of the product which was sold to NFLL also agreed to reduce its accounts payable balance \$96,000 as of August 30, 2004 as a result of the activities described above. Management also charged the credit against general and administrative expense for the eight months ended August 30, 2004.

NOTE 11 Capital Leases

The company leases certain equipment under capital leases. The economic substance of these leases is that the Company is financing the acquisition of the equipment through the leases and accordingly, the equipment is recorded as assets and the leases are recorded as liabilities.

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The following is an analysis of the leased assets included in property and equipment:

|                                |            |
|--------------------------------|------------|
| Equipment Under Capital Leases | \$ 429,006 |
| Less: Accumulated Depreciation | 130,687    |
|                                | \$ 298,319 |

Future minimum lease payments under capital leases as of August 30, 2004 for each of the remaining years and in aggregate are as follows:

|   |            |
|---|------------|
| Year ended August 30, 2005              | \$ 134,470 |
| Year ended August 30, 2006              | 134,470    |
| Year ended August 30, 2007              | 97,285     |
| Year ended August 30, 2008              | 89,724     |
| Year ended August 30, 2009              | 41,834     |
|   | \$ 497,783 |
| Less: Amount representing interest      | \$ 79,707  |
| Present value of minimum lease payments | \$ 418,076 |

NOTE 12 Income Taxes

The deferred tax asset of \$42,785 as of August 30, 2004 is a result of the temporary difference of accounting for bad debt expense. No valuation allowance has been created for the deferred tax assets as management estimates it to be fully realized in subsequent periods. The deferred tax liability of \$192,561 as of August 30, 2004 is a result of the temporary difference of accounting for depreciation expense.

Income tax expense consists of the following:

|                         | <u>Current</u>    | <u>Deferred</u>  |
|-------------------------|-------------------|------------------|
| <u>Federal</u>          | <u>\$ 387,503</u> | <u>\$ 29,021</u> |
| <u>State of Florida</u> | <u>68,058</u>     | <u>5,155</u>     |
|                         | <u>\$ 455,561</u> | <u>\$ 34,176</u> |

Accrued income taxes as of August 30, 2004 consist of the following:

|                              |            |
|------------------------------|------------|
| Accrued federal income taxes | \$ 362,503 |
| Accrued state income taxes   | 62,058     |
|                              | \$ 424,561 |

The Company does not have any available tax loss carry forward or tax credit carry forward as of August 30, 2004.

NOTE 13 - Merger with Argan, Inc

Effective August 31, 2004 the sole director and shareholder of the Company agreed with Argan, Inc. (Argan) for Argan to acquire the Company by means of a merger of the Company with AGAX/VLI Acquisition Corporation (AGAX), a wholly owned subsidiary of Argan.

Consideration will be based on 5.5 times earnings before income taxes, interest expense, depreciation, amortization, shareholders compensation and other non-recurring expenses for the twelve months ending February 28, 2005. Per the terms of the merger, such consideration is expected to consist of approximate equal components of cash and Argan stock and may not be less than \$12,443,750.

For purposes of determining the number of shares of stock to be issued a value of \$7.75 per share of Argan stock was utilized. As of October 15, 2004 Argan, Inc. was trading at \$5.66 on the Bulletin Board.

Subsequent to the merger and with proceeds provided by Argan, the Company paid off all of its shareholders loans, long term debt and obligations under capital leases, with the exception of two capital leases which had a combined principal balance of \$334,755 at August 30, 2004.

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**Vitarich Laboratories, Inc.**  
**Financial Statements**  
**And**  
**Independent Auditors Report**  
**December 31, 2003**

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Independent Auditors Report

To the Board of Directors and Stockholders of  
Vitarich Laboratories, Inc.  
Naples, FL

We have audited the accompanying balance sheet of Vitarich Laboratories, Inc. as of December 31, 2003 and the related statements of income, changes in stockholders equity, and cash flows for the twelve months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vitarich Laboratories, Inc. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Davidson & Nick CPAs

Naples, FL

February 16, 2004

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**Vitarich Laboratories, Inc.**  
**Balance Sheet**  
**December 31, 2003**

**ASSETS**

**Current Assets:**

|  |    |           |
|--|----|-----------|
| Cash   | \$ | 175,781   |
| Accounts receivable, net of allowance of \$466,000 for doubtful accounts |    | 2,403,226 |
| Inventory  |    | 1,014,175 |
| Other Pre-Paid Assets  |    | 148,592   |
| Deposits on Inventory  |    | 131,669   |
|  |    | 3,873,443 |

**Property & Equipment:**

|  |  |           |
|--|--|-----------|
| Machinery & Equipment                  |  | 656,058   |
| Office Furniture & Fixtures            |  | 104,708   |
| Leasehold Improvements                 |  | 184,682   |
|  |  | 945,448   |
| Less accumulated depreciation          |  | (280,717) |
|  |  | 664,731   |
| Loan Receivable Affiliated Corporation |  | 17,229    |
| Other Deposits                         |  | 66,080    |

|                     |           |                  |
|---------------------|-----------|------------------|
| <b>Total Assets</b> | <b>\$</b> | <b>4,621,483</b> |
|---------------------|-----------|------------------|

**Liabilities and Stockholders' Equity**

**Current Liabilities:**

|   |    |           |
|---|----|-----------|
| Accounts Payable                                    | \$ | 1,887,521 |
| Accrued Payroll & Payroll Taxes                     |    | 160,873   |
| Accrued Income Taxes                                |    | 52,000    |
| Accounts Payable - Affiliated Corporation           |    | 58,525    |
| Accrued Expenses and Other Current Liabilities      |    | 203,677   |
| Loan Payable - Affiliated Corporation               |    | 8,105     |
| Loan Payable -Shareholder                           |    | 513,344   |
| Current Portion of Notes Payable                    |    | 161,573   |
| Current Portion of Obligations under Capital Leases |    | 63,507    |
|   |    | 3,109,125 |

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



**Vitarich Laboratories, Inc.**  
**Balance Sheet**  
**December 31, 2003**  
**(Continued)**

**Other Liabilities**

|   |         |
|---|---------|
| Notes Payable, net of Current portion                     | 213,591 |
| Obligations Under Capital Leases, net of Current portions | 85,058  |
| Deferred Tax  | 115,600 |
|   | 414,249 |

**Stockholders' Equity**

|  |           |
|--|-----------|
| Common Stock, \$1 Par Value,<br>100 shares authorized, issued, and outstanding | 100       |
| Additional Paid-in-Capital   | 77        |
| Retained Earnings  | 1,097,932 |
|  | 1,098,109 |

|   |                     |
|---|---------------------|
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 4,621,483</b> |
|---|---------------------|

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

**Vitarich Laboratories, Inc.**  
**Statement of Income**  
**For the Year Ended December 31, 2003**

|  |    |            |
|--|----|------------|
| Sales, Net of Discounts                        | \$ | 14,067,294 |
| Cost of Sales                                  |    | 10,252,403 |
| Gross Profit                                   |    | 3,814,890  |
| Operating Expenses:                            |    |            |
| Selling Expenses                               |    | 445,312    |
| General & Administrative Expenses              |    | 2,912,213  |
| Total Operating Expenses                       |    | 3,357,525  |
| Income From Operations                         |    | 457,366    |
| Other Income (Expenses)                        |    |            |
| Interest Income                                |    | 1,470      |
| Interest Expense                               |    | (16,268)   |
| Gain/Loss On Sale and Disposal of Fixed Assets |    | 1,673      |
| Income Before Income Taxes                     |    | 444,241    |
| Provision for Income Taxes                     |    |            |
| Current Taxes                                  |    | 119,900    |
| Deferred Taxes                                 |    | 50,431     |
| Total Taxes                                    |    | 170,331    |
| Net Income                                     | \$ | 273,910    |

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

**Vitarich Laboratories, Inc.**  
**Statement of Changes in Stockholders' Equity**  
**For the Year Ended December 31, 2003**

|                           | Number of<br>Common<br>Stock<br>Shares<br>Outstanding | Common<br>Stock<br>Par Value | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total        |
|---------------------------|---|------------------------------|----------------------------------|----------------------|--------------|
| Beginning Balance         | 100   | \$ 100                       | \$ 77                            | \$ 824,022           | \$ 824,199   |
| Net Income                |   |                              |                                  | 273,910              | 273,910      |
| Shareholder Distributions |   |                              |                                  |                      |              |
| Ending Balance            | 100   | \$ 100                       | \$ 77                            | \$ 1,097,932         | \$ 1,098,109 |

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

**Vitarich Laboratories, Inc.**  
**Statement of Cash Flows**  
**For the Twelve Months Ended December 31, 2003**

| <b>Cash Flows from Operating Activities</b>                            |    |             |
|--|----|-------------|
| Net Income   | \$ | 273,910     |
| Adjustments to Reconcile net income to net cash provided by operations |    |             |
| Depreciation   |    | 142,642     |
| Gain on Disposal of Fixed Assets                                       |    | (1,673)     |
| Deferred income Tax  |    | 50,431      |
| Provision for Bad Debt Expense   |    | 41,512      |
| Change in assets and liabilities                                       |    |             |
| Increase in Accounts Receivable  |    | (1,263,613) |
| Increase in Inventory  |    | (492,973)   |
| Increase in Other Prepaid Assets                                       |    | (105,463)   |
| Increase in Inventory Deposit  |    | (131,669)   |
| Decrease in Prepaid Taxes  |    | 51,002      |
| Increase in Other Deposits   |    | (50,480)    |
| Increase in Accounts Payable   |    | 921,977     |
| Decrease in Accrued Payroll & Payroll Taxes                            |    | (205,419)   |
| Increase in Accrued Income Taxes                                       |    | 52,000      |
| Increase in Accounts Payable-Affiliated Corporations                   |    | 13,786      |
| Increase in Accrued Expenses & Other Current Liabilities               |    | 9,837       |
| Net cash provided by operating activities                              |    | (694,193)   |
| <b>Cash flows from investing activities</b>                            |    |             |
| Loan receivable-affiliated corporation                                 |    | 109,444     |
| Proceeds from sale of fixed assets                                     |    | 113,303     |
| Purchase of fixed assets   |    | (265,854)   |
| Net cash used by Investing Activities                                  |    | (43,107)    |
| <b>Cash flows from financing activities</b>                            |    |             |
| Proceeds from Loan Payable- Shareholder                                |    | 500,230     |
| Proceeds from Notes Payable  |    | 150,000     |
| Payments on Notes Payable  |    | (32,918)    |
| Proceeds from Capital Leases   |    | 89,108      |
| Payments on Capital Leases   |    | (26,013)    |
| Net cash used by financing activities                                  |    | 680,407     |
| Net decrease in cash and cash equivalents for the period               |    | (56,893)    |
| Cash and Cash Equivalents at the beginning of the year                 |    | 232,674     |



|  |    |         |
|--|----|---------|
| Cash and Cash Equivalents at the end of the year | \$ | 175,781 |
|--|----|---------|

**Supplemental Disclosure of Cash Flow Information**

|  |    |        |
|--|----|--------|
| Cash paid during the period for interest expense | \$ | 16,268 |
|--|----|--------|

|  |    |         |
|--|----|---------|
| Cash paid during the period for income taxes | \$ | 119,900 |
|--|----|---------|

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

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**Vitarich Laboratories, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2003**

Note 1- Organization

Vitarich Laboratories, Inc. (the Company) is in the business of formulating, packaging and distributing whole food dietary, herbal and nutritional supplements and related products, which are marketed to retail, wholesale and private label customers, including network marketing companies, health food stores, mass merchandisers, drug stores, food stores, and Internet mail-order companies. The Company operates a manufacturing, warehousing, and laboratory facility in Naples, Florida. The Company was incorporated August 14, 1998.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Company prepares its financial statements in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents - Cash is defined to include money market investment funds.

Revenue recognition - Sales are recognized when items are shipped to customers in accordance with supporting sales terms.

Accounts Receivable - The Company uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on management's analysis of possible bad debts. Trade receivables are analyzed through an aging of the accounts and an allowance is developed for individual doubtful accounts. Aging and status of accounts is based on how recently payments have been received. As of December 31, 2003 management had established an allowance of \$466,000. Accounts are charged off when management specifically identifies such accounts as uncollectible after significant collection efforts. The Company does not currently charge interest on its trade receivables.

Inventory - Inventories are stated at the lower of cost or market, using the first in, first out method. The cost of shipping and handling is included in cost of sales.

Property & Equipment - Property & Equipment are stated at cost. Depreciation is provided using the straight-line method. Estimated lives are as follows:

|                               |               |
|-------------------------------|---------------|
| Machinery & Equipment         | 3 to 10 years |
| Office Furniture and Fixtures | 5 to 7 years  |
| Leasehold Improvements        | 40 years      |

Total depreciation and amortization of leasehold improvements and capital leases for the year ended December 31, 2003 was \$ 142,642.

Income Tax - Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (using accelerated depreciation method for income tax purposes). The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate, and State of Florida income tax rate to income before income taxes. The

primary differences result from deducting certain expenses for financial statement purposes but not for federal tax purposes. The Company's provision for income taxes does not differ from applying the statutory US federal income tax and State of Florida income tax rate to income before income taxes by more than 1%, as the only reconciling item, meals and entertainment expense, is less than 1% of income before income taxes.

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Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results may differ from those estimates.

Advertising Costs - Advertising costs are expensed as incurred. Total advertising costs for the Year ended December 31, 2003 was \$112,643 and is included in general and administrative expenses.

Interest Expense - Interest costs are expensed as incurred. Interest expense was \$16,268 for the year ended December 31, 2003.

Note 3 - Inventory

Inventory consists of the following:

|                                    |              |
|------------------------------------|--------------|
| Raw Materials                      | \$ 845,849   |
| Work in Process and Finished Goods | 168,326      |
|                                    | \$ 1,014,175 |

Raw materials are those that are in the original conditions as when purchased. Finished Goods are completed units ready for delivery to costumers. Work in process consists of those items which the Company has started to process but has not been completed as of December 31, 2003.

Note 4 - Accrued Expenses and Other Current Liabilities

|                        |            |
|------------------------|------------|
| Accrued Vacation Pay   | \$ 40,948  |
| Other Accrued Expenses | 162,729    |
|                        | \$ 203,677 |

Note 5 - Notes Payable

Notes Payable as of December 31, 2003 consists of the following:

Nutrition for Life International Inc. - On July 20, 1998, the Company and Nutrition for Life International, LLC. (NFLL), a customer of the Company, entered into an agreement which required NFLL to lend the Company \$ 400,000 and established a formula for determining future orders to allow the Company to purchase raw materials to fill orders from NFLL. The initial term of the agreement was for 3 years. During the third and fourth years, NFLL is not required to make further deposits and the Company is required to issue a credit for 10% of each purchase order placed by NFLL. The monies provided by NFLL are secured by all of the Company's inventory and accounts receivable. Credits were issued by the Company to NFLL in the amount of \$ 0 during 2003 the balance of the note at December 31, 2003 is \$109,959. Management is currently disputing the validity of this debt as NFLL has defaulted on significant accounts receivable.

Term Loan - Wachovia National Bank - The Company borrowed \$ 80,873 in order to finance the acquisition of machinery and equipment. The term loan is payable in 84 monthly installments of \$ 1,229 beginning October 11, 1998. The interest on the term loan is a variable rate calculated at Wall Street Journal Prime Rate plus .25% per annum. The interest rate was 5% at December 31, 2003. The loan is secured by specified machinery and equipment.

Equipment Note - First Florida Bank - This note was used to fund the acquisition of diagnostic lab equipment which cost \$115,000. The note provides for 60 monthly installments of \$2,310 per month beginning November 10, 2002. The interest rate is 7.50% per annum.

Term Loan - Key Bank - Company borrowed \$148,111 in order to finance the Company's liability insurance. The term loan is payable in May 2004 with interest only payments thru term. The interest rate was 5% at December 31, 2003.

Summary of Notes Payable

|                                   |            |
|-----------------------------------|------------|
| NFLI Note Payable                 | \$ 109,959 |
| Term Loan Wachovia Nat. Bank      | 25,158     |
| Equipment Note First Florida Bank | 91,936     |
| Term Loan Key Bank                | 148,111    |
|                                   | \$ 375,164 |
| Less Current portion              | 161,573    |
| Total Notes Payable               | 213,591    |
|                                   | \$ 375,164 |

Notes Payable is expected to mature as follows for the years ending December 31:

|      |            |
|------|------------|
| 2005 | \$ 88,264  |
| 2006 | 74,178     |
| 2007 | 43,219     |
| 2008 | 7,930      |
|      | \$ 213,591 |

NOTE 6 - Lease Commitments

The Company was obligated under a month to month verbal agreement for the current plant facility. The agreement was with the Company's controlling stockholder. The building was sold by the shareholder in 1999, and a five year lease agreement with a two year renewal option was initiated with the new owner commencing on April 25, 2000. The lease commitment ranges from \$9,245 to \$10,608 per month.

An additional storage unit was rented to store boxes, caps and bottles, at a cost of \$1,100 per month. The commitment for the lease is month to month. This storage was vacated October 2003. The building adjacent and West of the above property was rented November 1, 2001 for additional storage. The monthly rent is \$3,333. There is no signed lease and it is month to month. Additionally, the building adjacent and East of the above property was purchased by the Controlling Shareholder in May of 2002. A five year lease was signed and the monthly rent is \$5,500 per month with no provision in the lease for an increase.



Future minimum lease payments for each of the five succeeding years and in the aggregate are:

|                           | Controlling<br>Shareholder<br>Leases | Other<br>Leases |
|---------------------------|--------------------------------------|-----------------|
| 2004                      | \$ 66,000                            | \$ 118,460      |
| 2005                      | 66,000                               | 122,400         |
| 2006                      | 66,000                               | 126,064         |
| 2007                      | 27,500                               | 42,432          |
| 2008 and Subsequent years | 0                                    | 0               |
|                           | \$ 225,500                           | \$ 409,356      |

A total of \$243,086 was paid for plant facility rent in 2003, of which \$69,960 was paid to the Controlling Shareholder.

NOTE - 7 - Stockholder Equity

Common stock, \$1 par value; authorized 100 shares; issued and outstanding 100 shares.

NOTE - 8 - Risk Concentrations

A substantial portion of the Company's business is conducted with seven of its customers for the year ended December 31, 2003; sales to these customers were 88.16% of the total sales. At December 31, 2003, Accounts receivable from these customers before allowance for bad debts totaled \$2,647,466, which is unsecured. These customers sell whole dietary and nutritional supplements via wholesalers, retailers, and specialized multi level marketing methods. The majority of these customers' operations are within North America.

The Company's policy is to monitor risk based on each customer's qualifications.

The Company occasionally maintains deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions. As of December 31, 2003 the balance in excess of federally insured limits was \$ 7,266.

NOTE 9 - Related Party Transactions

Loan Receivable- Affiliated Corporation \$17,229

This is the balance due from Vitarich Farms inc. (Farms) for net advances to Farms. Loan is unsecured and non-interest bearing.

Loan Payable- Shareholder \$513,344

Loan payable consists of funds advanced to the company by the shareholder on a short term basis. Loan is expected to be paid off during 2004.

Accounts Payable - Vitarich Farms, Inc. 58,525

Accounts Payable - Affiliated Corporations \$58,525

Farms harvests and processes powdered vegetable grasses (wheat, barley, and hydrilla). 12 months ended December 31, 2003 the company purchased 23,615 kilos of product for a total of \$213,695. Management estimates the purchase of each product was at fair market value. The majority shareholder of Farms is also the shareholder of the Company.





Biotech Analytical Laboratories, Inc. is owned by the controlling shareholder of the Company and provides laboratory testing services to the Company. The Company incurred \$12,000 of expenses for these services for 2003.

NOTE 10 - Income Taxes

The deferred tax liability of \$115,000 is a result of the temporary differences in accounting for depreciation.

Income tax expense consists of the following:

|                  | Current    | Deferred  |
|------------------|------------|-----------|
| Federal          | \$ 101,000 | \$ 43,371 |
| State of Florida | 18,900     | 7,060     |
|                  | \$ 119,900 | \$ 50,431 |

Accrued income taxes as of December 31, 2003 consist of the following:

|                                       |           |
|---------------------------------------|-----------|
| Accrued federal income taxes          | \$ 36,000 |
| Accrued State of Florida income taxes | 16,000    |
|                                       | \$ 52,000 |

The Company does not have any available tax loss carryforward or tax credit carryforward as of December 31, 2003.

**Vitarich Laboratories, Inc.  
Financial Statements  
And  
Independent Auditors Report  
December 31, 2002**

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Independent Auditors Report

To the Board of Directors and Stockholders of  
Vitarich Laboratories, Inc.  
Naples, FL

We have audited the accompanying balance sheet of Vitarich Laboratories, Inc. as of December 31, 2002 and the related statements of income, changes in stockholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vitarich Laboratories, Inc. as of December 31, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Davison & Nick CPAs

Naples, FL

July 1, 2003

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**Vitarich Laboratories, Inc.**  
**Balance Sheet**  
**December 31, 2002**

**ASSETS**

**Current Assets:**

|   |    |           |
|---|----|-----------|
| Cash  | \$ | 232,674   |
| Accounts receivable, net of allowance<br>of \$460,839 for doubtful accounts |    | 1,154,819 |
| Inventory   |    | 521,202   |
| Prepaid Income Taxes  |    | 51,002    |
| Other Pre-Paid Assets   |    | 43,129    |
|   |    | 2,002,826 |

**Property & Equipment:**

|                               |  |           |
|-------------------------------|--|-----------|
| Machinery & Equipment         |  | 614,160   |
| Office Furniture & Fixtures   |  | 75,936    |
| Leasehold Improvements        |  | 164,299   |
|                               |  | 854,395   |
| Less accumulated depreciation |  | (201,246) |
|                               |  | 653,149   |

|  |  |         |
|--|--|---------|
| Loan Receivable - Affiliated Corporation |  | 126,673 |
| Other Deposits                           |  | 15,600  |

|                     |           |                  |
|---------------------|-----------|------------------|
| <b>Total Assets</b> | <b>\$</b> | <b>2,798,248</b> |
|---------------------|-----------|------------------|

**Liabilities and Stockholder's Equity**

**Current Liabilities:**

|   |    |           |
|---|----|-----------|
| Accounts Payable                                    | \$ | 965,544   |
| Accrued Payroll & Payroll Taxes                     |    | 366,292   |
| Accounts Payable - Affiliated Corporation           |    | 44,739    |
| Loan Payable - Affiliated Corporation               |    | 8,105     |
| Accrued Expenses and Other Current Liabilities      |    | 193,840   |
| Loan Payable -Shareholder                           |    | 13,114    |
| Current Portion of Notes Payable                    |    | 27,666    |
| Current Portion of Obligations under Capital Leases |    | 24,002    |
|   |    | 1,643,302 |

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

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**Vitarich Laboratories, Inc.**  
**Balance Sheet**  
**December 31, 2002**  
**(Continued)**

**Other Liabilities**

|   |         |
|---|---------|
| Notes Payable, net of Current Portion                     | 230,416 |
| Obligations Under Capital leases, net of Current Portions | 61,468  |
| Deferred Taxes  | 38,863  |
|   | 330,747 |

**Stockholder's Equity**

|  |         |
|--|---------|
| Common Stock, \$1 Par Value,<br>100 shares authorized, 100 issued, and outstanding | 100     |
| Additional Paid -in-Capital  | 77      |
| Retained Earnings  | 824,022 |
|  | 824,199 |

|   |           |                  |
|---|-----------|------------------|
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$</b> | <b>2,798,248</b> |
|---|-----------|------------------|

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

**Vitarich Laboratories, Inc.**  
**Statement of Income**  
**For the Year Ended December 31, 2002**

|  |               |
|--|---------------|
| Sales, Net of Discounts                        | \$ 14,340,620 |
| Cost of Sales                                  | 10,106,498    |
| Gross Profit                                   | 4,234,122     |
| Operating Expenses:                            |               |
| Selling Expenses                               | 306,149       |
| General & Administrative Expenses              | 3,576,138     |
| Total Operating Expenses                       | 3,882,287     |
| Income From Operations                         | 351,835       |
| Other Income (Expenses)                        |               |
| Interest Income                                | 11,207        |
| Interest Expense                               | (42,602)      |
| Gain/Loss On Sale and Disposal of Fixed Assets | 11,360        |
| Income Before Income Taxes                     | 331,800       |
| Provision for Income Taxes                     |               |
| Current Taxes                                  | 83,000        |
| Deferred Taxes                                 | 24,219        |
| Total Taxes                                    | 107,219       |
| Net Income                                     | \$ 224,581    |

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

**Vitarich Laboratories, Inc.**  
**Statement of Changes in Stockholders Equity**  
**For the Year Ended December 31, 2002**

|                           | Number of<br>Common<br>Stock Shares<br>Outstanding | Common<br>Stock Par<br>Value | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total      |
|---------------------------|--|------------------------------|----------------------------------|----------------------|------------|
| Beginning Balance         | 100  | \$ 100                       | \$ 77                            | \$ 599,441           | \$ 599,618 |
| Net Income                |  |                              |                                  | 224,581              | 224,581    |
| Shareholder Distributions |  |                              |                                  |                      |            |
| Ending Balance            | 100  | \$ 100                       | \$ 77                            | \$ 824,022           | \$ 824,199 |

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



**Vitarich Laboratories, Inc.**  
**Statement of Cash Flows**  
**For the Twelve Months Ended December 31, 2002**

**Cash Flows from Operating Activities**

|   |    |           |
|---|----|-----------|
| Net Income  | \$ | 224,581   |
| Non cash (income) expense included in net income:       |    |           |
| Depreciation and amortization                           |    | 76,801    |
| Provision for bad debt expense, net of direct write-off |    | 122,044   |
| Deferred income tax                                     |    | 24,219    |
| Change in assets and liabilities                        |    |           |
| (Increase) decrease in trade receivables                |    | 406,923   |
| (Increase) decrease in inventory                        |    | 26,964    |
| (Increase) decrease in other assets                     |    | (128,753) |
| Increase (decrease) in accounts payable                 |    | (334,793) |
| Increase (decrease) in accrued expenses                 |    | 186,282   |
| Net cash provided by (used in) Operations               |    | 604,268   |
| <b>Cash Flows from Investing Activities</b>             |    |           |
| Purchases of property and equipment                     |    | (409,320) |
| Net cash provided by (used in) investing activities     |    | (409,320) |
| <b>Cash Flows from Financing Activities</b>             |    |           |
| Proceeds from Loan Payable Shareholder                  |    | (331,358) |
| Long Term Debt  |    | (3,146)   |
| Net cash provided by (used in) financing activities     |    | (334,504) |
| Net Increase (Decrease) in Cash                         |    | (139,557) |
| Summary   |    |           |
| Cash Balance at End of Period                           |    | 232,674   |
| Cash Balance at Beginning of Period                     |    | 372,231   |
| Net Increase (Decrease) in Cash                         | \$ | (139,557) |
| Supplemental Disclosure of Cash Flows                   |    |           |
| Interest Paid   | \$ | 46,602    |
| Income Taxes Paid                                       | \$ | 225,000   |

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

**Vitarich Laboratories, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2002**

Note 1- Organization

Vitarich Laboratories, Inc. (the Company) is in the business of formulating, packaging and distributing whole food dietary, herbal and nutritional supplements and related products, which are marketed to retail, wholesale and private label customers, including network marketing companies, health food stores, mass merchandisers, drug stores, food stores, and Internet mail-order companies. The Company operates a manufacturing, warehousing, and laboratory facility in Naples, Florida. The company was incorporated August 14, 1998.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Company prepares its financial statements in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents - Cash is defined to include money market investment funds.

Revenue recognition - Sales are recognized when items are shipped to customers in accordance with supporting sales terms.

Accounts Receivable - The Company uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on management's analysis of possible bad debts. Trade receivables are analyzed through an aging of the accounts and an allowance is developed for individual doubtful accounts. Aging and status of accounts is based on how recently payments have been received. As of December 31, 2002 management had established an allowance of \$460,839. Accounts are charged off when management specifically identifies such accounts as uncollectible after significant collection efforts. The Company does not currently charge interest on its trade receivables.

Inventory - Inventories are stated at the lower of cost or market, using the first in, first out method. The cost of shipping and handling is included in cost of sales.

Property & Equipment - Property & Equipment are stated at cost. Depreciation is provided using the straight-line method. Estimated lives are as follows:

|                               |               |
|-------------------------------|---------------|
| Machinery & Equipment         | 3 to 10 years |
| Office Furniture and Fixtures | 5 to 7 years  |
| Leasehold Improvements        | 40 years      |

Total depreciation and amortization of leasehold improvements and capital leases for the year ended December 31, 2002 was \$ 76,801.

Income Tax - Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (using accelerated depreciation method for income tax purposes). The Company's provision for income taxes differs from applying the

statutory U.S. federal income tax rate, and State of Florida income tax rate to income before income taxes. The primary differences result from deducting certain expenses for financial statement purposes but not for federal tax purposes. The Company's provision for income taxes does not differ from applying the statutory U.S. federal income tax and State of Florida income tax rate to income before income taxes by more than 1%, as the only reconciling item, meals and entertainment expense, is less than 1% of income before income taxes.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results may differ from those estimates.

Advertising Costs - Advertising costs are expensed as incurred. Total advertising costs for the year ended December 31, 2002 was \$120,141 and is included in general and administrative expenses.

Interest Expense - Interest costs are expensed as incurred. Interest expense was \$42,602 for the year ended December 31, 2002.

Note 3 - Inventory

Inventory consists of the following:

|                                    |            |
|------------------------------------|------------|
| Raw Materials                      | \$ 432,700 |
| Work in Process and Finished Goods | 88,502     |
|                                    | \$ 521,202 |

Raw materials are those that are in the original conditions as when purchased. Finished Goods are completed units ready for delivery to costumers. Work in process consists of those items which the Company has started to process but has not been completed as of December 31, 2002.

Note 4 - Accrued Expenses and Other Current Liabilities

Accrued expenses and other liabilities consist of the following:

|                               |              |
|-------------------------------|--------------|
| <u>Accrued Vacation Pay</u>   | - \$ 43,840  |
| <u>Other Accrued Expenses</u> | - - 150,000  |
|                               | - \$ 193,840 |

Note 5 - Notes Payable

Notes Payable as of December 31, 2002 consists of the following:

Nutrition for Life International Inc. - On July 20, 1998, the Company and Nutrition for Life International, LLC. (NFLI), a customer of the Company, entered into an agreement which required NFLI to lend the Company \$ 400,000 and established a formula for determining future orders to allow the Company to purchase raw materials to fill orders from NFLI. The initial term of the agreement was for 3 years. During the third and fourth years, NFLI is not required to make further deposits and the Company is required to issue a credit for 10% of each purchase order placed by NFLI. The monies provided by NFLI are secured by all of the Company's inventory and accounts receivable. Credits

were issued by the Company to NFLL in the amount of \$74,500 during 2002. The balance of the note at December 31, 2002 is \$109,959.

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Term Loan - Wachovia National Bank - The Company borrowed \$ 80,873 in order to finance the acquisition of machinery and equipment. The term loan is payable in 84 monthly installments of \$ 1,229 beginning October 11, 1998. The interest on the term loan is a variable rate calculated at Wall Street Journal Prime Rate plus .25% per annum. The interest rate was 4.5% at December 31, 2002. The loan is secured by specified machinery and equipment.

Equipment Note - First Florida Bank - This note was used to fund the acquisition of diagnostic lab equipment which cost \$115,000. The note provides for 60 monthly installments of \$2,310 per month beginning November 10, 2002. The interest rate is 7.50% per annum.

Summary of Notes Payable

|                                   |            |
|-----------------------------------|------------|
| NFLL Note Payable                 | \$ 109,959 |
| Term Loan Wachovia Nat. Bank      | 38,859     |
| Equipment Note First Florida Bank | 109,264    |
|                                   | \$ 258,082 |
| Less Current portion              | 27,666     |
| Notes Payable                     | 230,416    |
|                                   | \$ 258,082 |

Notes Payable is expected to mature as follows for the years ending December 31:

|                           |            |
|---------------------------|------------|
| 2004                      | \$ 33,556  |
| 2005                      | 28,859     |
| 2006                      | 29,782     |
| 2007                      | 27,259     |
| 2008 and subsequent years | 110,960    |
|                           | \$ 230,416 |

NOTE 6 - Lease Commitments

The company was obligated under a month to month verbal agreement for the current plant facility. The agreement was with the Company's controlling shareholder. The building was sold by the shareholder in 1999, and a five year lease agreement with a two year renewal option was initiated with the new owner commencing on April 25, 2000. The lease commitment ranges from \$9,245 to \$10,608 per month.

An additional storage unit was rented to store boxes, caps and bottles, at a cost of \$1,100 per month. The commitment for the lease is month to month. The building adjacent and West of the above property was rented November 1, 2001 for additional storage. The monthly rent is \$3,333. There is no signed lease and it is month to month. Additionally, the building adjacent and East of the above property was purchased by the Controlling Shareholder in May of 2002. A five year lease was signed and the monthly rent is \$5,500 per month with no provision in the lease for an increase.

Future minimum lease payments for each of the five succeeding years and in the aggregate are:

|             |        |
|-------------|--------|
| Controlling | Other  |
| Shareholder | Leases |
| Leases      |        |

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|                           |    |         |    |         |
|---------------------------|----|---------|----|---------|
| 2003                      | \$ | 66,000  | \$ | 113,900 |
| 2004                      |    | 66,000  |    | 118,460 |
| 2005                      |    | 66,000  |    | 122,400 |
| 2006                      |    | 66,000  |    | 125,884 |
| 2007 and Subsequent years |    | 27,500  |    | 42,432  |
|                           | \$ | 291,500 | \$ | 523,076 |

A total of \$212,950 was paid for plant facility rent in 2002, of which \$40,810 was paid to the Controlling Shareholder.

NOTE - 7 - Stockholder Equity

Common stock, \$1 par value; authorized 100 shares; issued and outstanding 100 shares.

NOTE - 8 - Risk Concentrations

A substantial portion of the Company's business is conducted with seven of its customers for the year ended December 31, 2002; sales to these customers were 91% of the total sales. At December 31, 2002, accounts receivable from these customers before allowance for bad debts totaled \$1,464,048, which is unsecured. These customers sell whole dietary and nutritional supplements via wholesalers, retailers, and specialized multi level marketing methods. The majority of these customers' operations are within North America.

The Company's policy is to monitor risk based on each customer's qualifications.

The Company occasionally maintains deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions. As of December 31, 2002 the balance in excess of federally insured limits was \$132,674.

NOTE 9 - Related Party Transactions

Loan Receivable- Affiliated Corporation \$126,673

This is the balance due from Vitarich Farms inc. (Farms) for net advances to Farms. Loan is unsecured and non-interest bearing.

Loan Payable- Shareholder \$13,114

Loan payable consists of funds advanced to the company by the shareholder on a short term basis. The majority shareholder of Farms is also the shareholder of the Company.

Accounts Payable - Vitarich Farms, Inc. \$44,739

Farms harvests and processes powdered vegetable grasses (wheat, barley, and hydrilla). In 2002, the Company purchased 22,222 kilos of product for a total of \$241,894. Management estimates the purchase of each product was at fair market value.

Advertising Cost - Included in advertising is \$100,000 of advertising cost to a company owned by the Company's controlling shareholder.

NOTE 10 - Income Taxes

The deferred tax liability of \$38,863 is a result of the temporary differences in accounting for depreciation.

Income tax expense consists of the following:

|                         | <u>Current</u> | <u>Deferred</u> |
|-------------------------|----------------|-----------------|
| <u>Federal</u>          | \$ 71,000      | \$ 20,718       |
| <u>State of Florida</u> | 12,000         | 3,501           |
|                         | \$ 83,000      | \$ 24,219       |

Prepaid income taxes as of December 31, 2002 consist of the following:

|                                       |           |
|---------------------------------------|-----------|
| Prepaid federal income taxes          | \$ 50,616 |
| Prepaid State of Florida income taxes | 386       |
|                                       | \$ 51,002 |

The Company does not have any available tax loss carry forward or tax credit carryforward as of December 31, 2002.

NOTE 11 Capital Leases

The Company leases certain equipment under capital leases. The economic substance of these leases is that the Company is financing the acquisition of the equipment through the leases and accordingly, the equipment is recorded as assets and the leases are recorded as liabilities.

The following is an analysis of the leased assets included in property and equipment:

|                                |            |
|--------------------------------|------------|
| Equipment Under Capital Leases | \$ 119,260 |
| Less: Accumulated Depreciation | 29,284     |
|                                | \$ 89,976  |

Future minimum lease payments under capital leases as of December 31, 2002 for each of the remaining years and in aggregate are as follows:

|                              |           |
|------------------------------|-----------|
| Year ended December 31, 2003 | \$ 31,692 |
| Year ended December 31, 2004 | 31,692    |
| Year ended December 31, 2005 | 34,298    |
| Year ended December 31, 2006 | 0         |
|                              | \$ 97,682 |

|                                    |        |
|------------------------------------|--------|
| Less: Amount representing interest | 12,212 |
|------------------------------------|--------|

|   |           |
|---|-----------|
| Present value of minimum lease payments | \$ 85,470 |
|---|-----------|





(b) Pro Forma Financial Information

Unaudited condensed pro forma combined statements of income for the fiscal year ended January 31, 2004 and for the six months ended July 31, 2004. Unaudited condensed pro forma combined balance sheet as of July 31, 2004.

The accompanying unaudited condensed pro forma combined statements of income present the results of operations of AI and VLI as if the acquisition of VLI had occurred as of February 1, 2003. The pro forma information reflects the total consideration paid.

VLI reports its results of operations using a calendar year end. In preparing the pro forma information, the Company utilized VLI's December 31, 2003 and June 30, 2004 results of operations in the unaudited condensed pro forma combined statements for the year ended January 31, 2004 and the six months ended July 31, 2004. AI used VLI's June 30, 2004 balance sheet in the unaudited condensed pro forma combined balance sheet as of July 31, 2004. No material events occurred subsequent to VLI's December 31, 2003 and June 30, 2004 financial reporting periods which would require adjustment to the Company's unaudited condensed pro forma combined statements of income and unaudited condensed pro forma combined balance sheet. The pro forma data is not necessarily indicative of what the results would have been if the acquisition had occurred on the dates indicated.

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**Unaudited Condensed Pro Forma Combined  
Statement of Income for the Year Ended January 31, 2004**

|  | AI as<br>Reported <sup>(A)</sup> | VLI as<br>Reported <sup>(B)</sup> | Pro Forma<br>Adjustments                         | Consolidated<br>Pro Forma |
|--|----------------------------------|-----------------------------------|--|---------------------------|
| Net sales  | \$ 6,780,000                     | \$ 14,067,000                     | --   | \$ 20,847,000             |
| Cost of goods sold   | 5,184,000                        | 10,252,000                        | --   | 15,436,000                |
| Gross Profit   | 1,596,000                        | 3,815,000                         |  | 5,411,000                 |
|  |                                  |                                   | (1,389,000) <sup>(1)</sup>                       |                           |
|  |                                  |                                   | 400,000 <sup>(2)</sup>                           |                           |
| Selling, general and<br>administrative expenses                    | 1,912,000                        | 3,358,000                         | 833,000 <sup>(3)</sup><br>360,000 <sup>(4)</sup> | 5,474,000                 |
| (Loss) income from<br>operations                                   | (316,000)                        | 457,000                           | 204,000  | (63,000)                  |
| Interest expense   | 47,000                           | 16,000                            | --   | 63,000                    |
| Other income   | 51,000                           | 3,000                             | --   | 54,000                    |
| (Loss) income from<br>continuing operations<br>before income taxes | (312,000)                        | 444,000                           | (204,000)  | (72,000)                  |
| Income tax (benefit)<br>provision                                  | (289,000)                        | 170,000                           | (82,000) <sup>(5)</sup>                          | (201,000)                 |
| (Loss) income from<br>continuing operations                        | (\$23,000)                       | \$ 274,000                        | (\$122,000)                                      | \$ 129,000                |
| Earnings (loss) per share <sup>(6)</sup> :                         |                                  |                                   |  |                           |
| Basic - continuing operations                                      | (\$0.02)                         |                                   |  | \$ 0.06                   |
| Diluted - continuing operations                                    | (\$0.02)                         |                                   |  | \$ 0.06                   |

Notes to unaudited condensed pro forma combined statement of income.

(A) Report on Form 10-KSB filed on April 27, 2004.

(B) Report of Independent Accountants see Item 9.01(a) herein.

- (1) To adjust for the post closing revision of contractual executive compensation program.
- (2) To adjust for the amortization of the purchase accounting valuation of \$2.0 million for non- contractual customer relationships which is being amortized over five years.
- (3) To adjust for the amortization of the purchase accounting valuation of \$2.5 million for proprietary formulas which is being amortized over three years.
- (4) To adjust for amortization for the purchase accounting valuation of \$1.8 million for the non-compete agreement with the seller which is being amortized over the life of the five-year contract.
- (5) To reflect the tax impact, assuming an effective tax rate of 40% arising from the change in pretax income from net pro forma adjustments.
- (6) Assumes 825,000 shares issued in connection with the transaction were outstanding for the entire period in calculating consolidated pro forma earnings per share.



**Unaudited Condensed Pro Form Combined  
Statement of Income for the Six Months Ended July 31, 2004**

|  | AI as<br>Reported <sup>(C)</sup> | VLI <sup>(D)</sup> | Pro Forma<br>Adjustments  | Consolidated<br>Pro Forma |
|--|----------------------------------|--------------------|---|---------------------------|
| Net sales  | \$ 3,634,000                     | \$ 8,261,000       | --  | \$ 11,895,000             |
| Cost of goods sold                                     | 3,214,000                        | 6,013,000          | --  | 9,227,000                 |
| Gross profit   | 420,000                          | 2,248,000          |   | 2,668,000                 |
| Selling, general and<br>administrative expenses        |                                  |                    | \$ (5,000) <sup>(1)</sup><br>200,000 <sup>(2)</sup><br>417,000 <sup>(3)</sup><br>180,000 <sup>(4)</sup> | 3,223,000                 |
| Impairment loss  | 1,942,000                        | --                 | --  | 1,942,000                 |
| Loss from operations                                   | (3,000,000)                      | 1,295,000          | 792,000   | (2,497,000)               |
| Interest expense                                       | 30,000                           | 27,000             | --  | 57,000                    |
| Other income   | 55,000                           | 68,000             | --  | 123,000                   |
| Loss from continuing<br>operations before income taxes | (2,975,000)                      | 1,336,000          | 792,000   | (2,431,000)               |
| Income tax benefit (provision)                         | (864,000)                        | 519,000            | (317,000) <sup>(5)</sup>  | (662,000)                 |
| Loss from continuing<br>operations                     | (\$2,111,000)                    | \$ 817,000         | (\$475,000)   | (\$1,769,000)             |
| Basic and diluted loss per share <sup>(6)</sup> :      |                                  |                    |   |                           |
| Basic and Diluted -<br>continuing operations           | (\$1.17)                         |                    |   | (\$0.67)                  |

Notes to unaudited condensed pro forma combined statement of income.

(C) Report on Form 10-QSB filed on September 14, 2004.

(D) VLI unaudited internally prepared results of operations are for the six months ended June 30, 2004.

(1) To adjust for the post closing revision of contractual executive compensation program.

- (2) To adjust for the amortization of the purchase accounting valuation of \$2.0 million for non-contractual customer relationships which is being amortized over five years.
- (3) To adjust for the amortization of the purchase accounting valuation of \$2.5 million for proprietary formulas which is being amortized over three years.
- (4) To adjust for the amortization of the purchase accounting valuation of \$1.8 million for the non-compete agreement with the Seller which is being amortized over the life of the five year contract.
- (5) To reflect the tax impact, assuming an effective tax rate of 40%, arising from the change in pretax income from net pro forma adjustments.
- (6) Assumes 825,000 shares issued in connection with the transaction were outstanding for the entire period in calculating consolidated pro forma basic and diluted loss per share.

**Unaudited Condensed Pro Forma Combined  
Balance Sheet as of July 31, 2004**

|   | AI as<br>Reported <sup>(E)</sup> | VLI <sup>(F)</sup>  | Pro Forma<br>Adjustments     | Consolidated<br>Pro Forma |
|---|----------------------------------|---------------------|------------------------------|---------------------------|
| <b>CURRENT ASSETS:</b>  |                                  |                     | (\$6,050,000) <sup>(1)</sup> |                           |
| Cash and cash equivalents   | \$ 6,704,000                     | \$ 202,000          | (600,000) <sup>(2)</sup>     | \$ 256,000                |
| Accounts receivable   | 1,035,000                        | 2,109,000           |                              | 3,144,000                 |
| Escrowed cash   | 601,000                          | --                  |                              | 601,000                   |
| Estimated earnings in excess<br>of billings   | 538,000                          | --                  |                              | 538,000                   |
| Inventory   | --                               | 2,712,000           |                              | 2,712,000                 |
| Prepaid expenses and other current<br>assets  | 345,000                          | 69,000              |                              | 414,000                   |
| <b>TOTAL CURRENT ASSETS</b>   | <b>9,223,000</b>                 | <b>5,092,000</b>    | <b>(6,650,000)</b>           | <b>7,665,000</b>          |
| Property and equipment, net   | 1,779,000                        | 1,072,000           |                              | 2,851,000                 |
| Contractual customer<br>relationships   | 616,000                          | --                  |                              | 616,000                   |
| Non-contractual customer<br>relationships   |                                  |                     | 2,000,000 <sup>(3)</sup>     | 2,000,000                 |
| Proprietary formulas  |                                  |                     | 2,500,000 <sup>(4)</sup>     | 2,500,000                 |
| Non-compete agreement   |                                  |                     | 1,800,000 <sup>(5)</sup>     | 1,800,000                 |
| Trade name  | 224,000                          | --                  |                              | 224,000                   |
| Goodwill  | 940,000                          | --                  | 6,086,000 <sup>(6)</sup>     | 7,026,000                 |
| <b>TOTAL ASSETS</b>   | <b>\$ 12,782,000</b>             | <b>\$ 6,164,000</b> | <b>\$ 5,736,000</b>          | <b>\$ 24,682,000</b>      |
| <b>CURRENT LIABILITIES:</b>   |                                  |                     |                              |                           |
| Accounts payable  | \$ 374,000                       | \$ 1,994,000        |                              | \$ 2,368,000              |
| Billings in excess of estimated<br>earnings   | 2,000                            | --                  |                              | 2,000                     |
| Accrued expenses  | 308,000                          | 713,000             |                              | 1,021,000                 |
| Deferred income tax liability   | 181,000                          | --                  |                              | 181,000                   |
| Line of Credit  | --                               | 495,000             |                              | 495,000                   |
| Current portion of long-term debt   | 894,000                          | 487,000             |                              | 1,381,000                 |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>1,759,000</b>                 | <b>3,689,000</b>    |                              | <b>5,448,000</b>          |
| Deferred income tax liability   | 202,000                          | 116,000             | (2,520,000) <sup>(7)</sup>   | 2,838,000                 |
| Long-term debt  | 62,000                           | 443,000             |                              | 505,000                   |
| <b>STOCKHOLDERS EQUITY</b>  |                                  |                     |                              |                           |
| Common stock par value \$.15<br>per share 12,000,000 shares<br>authorized - 1,806,046 issued at<br>July 31, 2004 and January 31,<br>2004 and 1,802,813 shares<br>outstanding at July 31,<br>2004 and January 31, 2004 | 270,000                          | --                  | (124,000) <sup>(1)</sup>     | 394,000                   |
| Warrants outstanding  | 849,000                          | --                  |                              | 849,000                   |
| Additional paid-in capital  | 14,121,000                       | --                  | (5,008,000) <sup>(1)</sup>   | 19,129,000                |
| Accumulated deficit retained earnings   | (4,448,000)                      | 1,916,000           | 1,916,000 <sup>(1)</sup>     | (4,448,000)               |
| Treasury stock at cost: 3,233<br>shares at July 31, 2004 and  | (33,000)                         | --                  | --                           | (33,000)                  |

January 31, 2004

|  |               |              |               |               |
|--|---------------|--------------|---------------|---------------|
| <b>TOTAL STOCKHOLDERS EQUITY</b>                 | 10,759,000    | 1,916,000    | (3,216,000)   | 15,891,000    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b> | \$ 12,782,000 | \$ 6,164,000 | (\$5,736,000) | \$ 24,682,000 |

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Notes to unaudited condensed pro forma balance sheet.

- (E) Report on Form 10-QSB filed on September 14, 2004.
  - (F) VLI's unaudited internally prepared balance sheet is as of June 30, 2004.
    - (1) To adjust for the purchase of VLI using cash of \$6,050,000 and 825,000 shares issued for an aggregate purchase price of \$11,183,000.
    - (2) To record estimated costs associated with legal, accounting and other fees incurred to consummate the acquisition of VLI.
    - (3) To adjust for the purchase accounting valuation of \$2.0 million for non-contractual customer relationships.
    - (4) To adjust for the purchase accounting valuation of \$2.5 million for proprietary formulas.
    - (5) To adjust for the purchase accounting valuation of \$1.8 million for non-compete agreement.
    - (6) To adjust for the purchase accounting valuation of \$6,086,000 for goodwill.
    - (7) To adjust for deferred tax liabilities related to the purchase accounting valuation of non-contractual customer relationships, not-to-compete agreement and proprietary formulas. A rate of 40% is assumed.
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**Exhibit No.   Description**

2.1 Agreement and Plan of Merger, dated as of August 31, 2004, by and between Kevin J. Thomas, Vitarich Laboratories, Inc., Argan, Inc. and AGAX/VLI Acquisition Corporation (exhibits and schedules to the Agreement and Plan of Merger are omitted from this filing, but will be filed with the Commission supplementally upon request)

Incorporated by reference herein to Exhibit 2.1 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

10.1 Registration Rights Agreement, dated as of August 31, 2004, by and among Argan, Inc. and Kevin J. Thomas

Incorporated by reference herein to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

10.2 Employment Agreement, dated as of August 31, 2004, by and between AGAX/VLI Acquisition Corporation and Kevin J. Thomas

Incorporated by reference herein to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

10.3 Third Amendment to Financing and Security Agreement, dated as of August 31, 2004, by the among Argan, Inc., Southern Maryland Cable, Inc., and AGAX/VLI Acquisition Corporation, as borrowers, and Bank of America, N.A., as lender

Incorporated by reference herein to Exhibit 10.3 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

10.4 Amended and Restated Revolving Credit Note, dated August 31, 2004, in the amount of \$3,500,000, by Argan, Inc., Southern Maryland Cable, Inc., and AGAX/VLI Acquisition Corporation, as borrowers, in favor of Bank of America, N.A., as lender

Incorporated by reference herein to Exhibit 10.4 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

10.5 First Amendment to Term Note, dated as of June 29, 2004, by and among Argan, Inc., and Southern Maryland Cable, Inc., as borrowers, and Bank of America, N.A., as lender

Incorporated by reference herein to Exhibit 10.5 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

10.6 Additional Borrowers Joinder Supplement, dated as of August 31, 2004, by and among Argan, Inc., the other Existing Borrowers (as such term is defined in the agreement) and AGAX/VLI Acquisition Corporation, as borrowers, and Bank of America, N.A., as lender

Incorporated by reference herein to Exhibit 10.6 to the Company's Current Report on Form 8-K dated August 31, 2004, filed on September 7, 2004

23.01 Consent of Davidson and Nick, CPA's





99.1 Press Release of Argan, Inc., dated September 1, 2004, announcing the acquisition of Vitarich Laboratories, Inc.

Incorporated by reference herein to Exhibit 99.1 to the Company's Current Report on Form 8-K dated August 31, 2004 filed on September 7, 2004

### 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 hereunto duly authorized.

ARGAN, INC.

Date: November 12, 2004

By: /s/ Rainer H. Bosselmann

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Rainer H. Bosselmann  
Chairman of the Board and  
Chief Executive Officer

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