GSI TECHNOLOGIES USA INC /DE
Form 10QSB
September 22, 2003

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

FORM 10-QSB

(MARK ONE)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2003.

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to ________

COMMISSION FILE NUMBER: 0-31229

GSI TECHNOLOGIES USA INC.

(Exact name of small business issuer as specified in its charter)

Delaware	65-0902449
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 St Jacques West, Suite 500, Montreal, Quebec H2Y 1S1, Canada
(Address of principal executive offices)

(514) 282-9292
(Issuer's Telephone Number, including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes[ ] No[ ]

As of September 22nd, 2003, there were 43,827,823 shares of the issuer's $.001 par value common stock issued and outstanding.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No[X]

INDEX TO FORM 10-QSB

FOR THE QUARTER ENDED JULY 31, 2003

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	
Balance Sheet as of July 31, 2003	3
Statement of Operations for the Three and Nine Months ended July 31, 2003 and 2002	4
Statements of Cash Flows for the Nine Months ended July 31, 2003 and 2002	5
Notes to Financial Statements for the Nine Months Ended July 31, 2003.	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS	7-10
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	10
Item 2. Changes in Securities	10
Item 3. Defaults Upon Senior Securities	10
Item 4. Submission of Matters to a Vote of Security Holders	10
Item 5. Other Information	11
Item 6. Exhibits and Reports on Form 8-K	11
Certifications	12
Signature	13
Exhibit 99.1	14

2

GSI TECHNOLOGIES USA, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)
BALANCE SHEET
AT JULY 31, 2003
(UNAUDITED)

ASSETS

Current Assets	
Cash and cash equivalents	$ 707
Receivables, net	103,913
Total current assets	104,620
Property and equipment, net	77,618
Other assets	2,570

TOTAL ASSETS	184,808

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable and accrued expenses	241,959
Notes Payable	300,000
Total current liabilities	541,959
Stockholder's Equity	
Common Stock, class A, $1.00 par value; authorized 5,000,000 shares; issued and outstanding none	-
Common Stock, class B, $.001 par value; authorized 55,000,000 shares; issued and outstanding - 43,827,823	43,828
Paid in Capital	6,547,021
Accumulated deficit	(6,923,923)
Accumulated other comprehensive income	(24,077)
Total Shareholder's Equity	(357,151)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 184,808

Read the accompanying summary of significant accounting notes to Financial statements, which are an integral part of this financial statement.

3

GSI TECHNOLOGIES USA INC
(A COMPANY IN THE DEVELOPMENT STAGE)
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED JULY 31, 2003 AND 2002
(UNAUDITED)

	Three months ended July 31,		Nine mont ended July	
	2003	2002	2003	
Revenues	$ -	$ -	$ 15,000	$
Cost of Sales	-	-	-	
Gross Profit	-	-	15,000	
Operating Expenses:				

Marketing	78,359	-	111,662	
Salaries and related costs	-	-	-	
Rent	31,104	-	61,491	
Software costs	153,641	-	273,714	
Professional fees	25,100	-	80,467	
Consulting	112,087	-	224,505	
Depreciation	2,011	973	6,034	
Amortization	2,252	23,845	30,495	
Loss on licensing agreement write off	-	-	164,872	
Other selling, general and administrative	72,324	1,556	137,513	
Total operating expenses	476,878	26,374	1,090,754	
Loss before other income (expense)	(476,878)	(26,374)	(1,075,754)	
Other income (expense):				
Interest income (principally related party)				
Interest expense (principally related party)	(50,000)	(8,863)	(121,968)	
Foreign exchange gain/(loss)		-		
Equity in net earnings (loss) of affiliates	-	-	-	
Total other income (expense)	(50,000)	(8,863)	(121,968)	
Net Loss	(526,878)	(35,237)	(1,197,721)	
Basic weighted average common shares outstanding	35,317,110	25,802,134	30,102,012	2
Basic and diluted Loss per common share	$ (0.01)	$ (0.00)	$ (0.04)	$

Read the accompanying summary of significant accounting notes to Financial statements, which are an integral part of this financial statement

4

GSI TECHNOLOGIES USA, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED JULY 31, 2003 AND 2002
(UNAUDITED)

	For the nine months ended July 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$(1,197,721)	$(267,715)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	36,529	74,457
Issuance of stock for contract settlement		38,996
Issuance of stock for interest/penalty	100,000	-

Accrued Interest Expense		12,179
Loss on licensing agreement write off	164,872	-
Changes in Operating assets and liabilities:		
Receivables and other current assets	(103,913)	(4,871)
Other assets	(2,570)	
Accounts Payable and Accrued Liabilities	165,737	140,937
Net cash provided by/(used in) operating activities	(837,065)	(6,019)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash provided by/(used in) investing activities		
Loan Receivable, principally related parties	-	-
Purchase of property and equipment	-	-
Net cash provided by/(used in) investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Notes payable	-	-
Investment proceeds	732,792	-
Sales of common stock	104,980	-
Net cash provided by/(used in) financing activities	837,772	-
Net increase (decrease) in cash and cash equivalents	707	(6,019)
Cash and cash equivalents, beginning of period	-	6,019
Cash and cash equivalents, end of period	$ 707	$ (0)

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:
None

5

GSI TECHNOLOGIES USA, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
JULY 31, 2003

NOTE 1 -BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of GSI Technologies USA, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. The financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles

for complete financial statements.

These financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in GSI Technologies USA, Inc.'s 10K-SB as filed with the Securities and Exchange Commission.

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 statements and that effect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - NET EARNINGS (LOSS) PER SHARE

Earnings (Loss) per common share are calculated under the provisions of SFAS No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires the Company to report both basic earnings (loss) per share, which is based on the weighted-average number of common shares outstanding during the period, and diluted earnings (loss) per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. Options and warrants are not considered in calculating diluted earnings (loss) per share since considering such items would have an anti-dilutive effect.

NOTE 3 - IMPAIRMENT AND WRITE OFF OF LICENSING RIGHTS

The Company's only intangible asset, licensing rights, were reviewed for impairment and determined to be impaired since the software and technology behind the licensing rights would no longer be available due to financial difficulties and constraints associated with the licensor. The unamortized amount of $164,872 of licensing rights has been written off and reflected in the statement of operations as a loss for the current year.

NOTE 4 - GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of $1,197,721 for the nine months ended July 31, 2003 (unaudited). As reported on the statement of cash flows, the Company incurred negative cash flows from operating activities of $837,065 for nine months ended July 31, 2003 (unaudited). Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital for its planned activity. Additional capital and/or borrowings will be necessary in order for the Company to continue in existence until attaining and sustaining profitable operations. The Company is aggressively pursuing strategic alliances which will bring a cash infusion, restructuring and forward looking business plan.

6

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS.

This report contains forward-looking statements that are based on the Company's beliefs as well as assumptions made by and information currently available to the Company. When used in this report, the words "believe," "expect," "anticipate," "estimate," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions, including without limitation, the overall

strength of the national securities markets, the Company's present financial condition and the risks and uncertainties concerning the availability of additional capital as and when required, technological changes, increased competition, international war and terrorism and general economic conditions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. The Company cautions potential investors not to place undue reliance on any such forward-looking statements, all of which speak only as of the date made.

OVERVIEW

GSI Technologies USA Inc. is an Information Technology Company that offers products and solutions to the Out-of-Home Digital Signage Industry. The Company has developed a proprietary, enterprise scale, Digital Signage Network Management Software Suite. The Company is a Value Added Reseller for various related hardware products that make up its end-to-end Digital Signage Solution. The Company also offers various services related to the installation, management, operation and maintenance of large Digital Signage Networks worldwide.

Research firm iSupply/Stanford Resources sees the worldwide Digital Signage market growing from just over $ 3 billion this year to about $ 5 billion in 2006 and about $ 7 billion in 2008. CAP Ventures Inc., a research firm that tracks retail digital signage as a separate category, sees this niche growing still faster, from North America revenue of $ 388 million this year to nearly $ 2 billion in 2006; an increase of more than 400 percent.

GSI Technologies USA Inc. is particularly well positioned to exploit this growth as it offers one of the only true enterprise scale solutions in the world. The technology is being field tested by Clear Channel International, which is the largest player in the Industry.

RESULTS FROM OPERATIONS

Three and nine months ending July 31, 2003 and 2002

During GSI's third quarter from May 1,2003 to July 31, 2003, GSI USA incurred a loss of $526,878 versus a loss of $35,237 in the same period in 2002 due to the increase of activities with respects to our new product.

During GSI's nine month's from November 1, 2002 to July 31, 2003, GSI USA incurred a loss of $1,197,721 versus a loss of $267,715 in the same period in 2002, this too reflects the increase of activities with respects to our new product.

REVENUES

Zero in revenue was recognized during the current year quarter, versus zero for the same period in the prior year.

$15,000 in revenue was recognized during the current year nine month period versus $23,750 for the same period in the prior year. This is related to sub-licensing agreements realized over the respective terms.

OPERATING EXPENSES

During the three months ended July 31, 2003, GSI USA has incurred $476,878

in operating expenses versus 26,374 for the same period in 2002. The increase was mainly attributable to marketing, software costs and consulting.

During the nine months ended July 31, 2003, GSI USA has incurred $1,090,754 in operating expenses versus 247,250 for the same period in 2002. The increase was mainly attributable to marketing, software costs, consulting and the write off of unamortized impaired licensing rights.

LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2003 GSI USA had $707 in cash. Cash used in operating activities during the nine months ending July 31, 2003 was $837,065, which was mainly attributable to the net cash loss from operations plus changes in net operating assets and liabilities.

Net Cash provided from financing activities during the period was $837,772.

The result of all activities during the nine-month period ending July 31, 2003 was a net increase of $707 in our cash position.

MANAGEMENT DISCUSSION

GSI Technologies USA Inc. was created in 1998, with goals of supplying complete turn-key solutions to out-of-home advertising network operators. The company's offering went from digital signage network management software to installed screen, displays or street furniture, interacting with targeted audiences. GSI was then offering integration of network services but dealing with hardware suppliers for integration of computers and screens (plasma, LCD, LED or plain TV set).

The Company operates within the overall Information and Communication Technology (ICT) field, offering software, hardware and related services to manage dynamic and efficient communications networks. The information delivered can be advertising messages targeted to consumers while out of their homes or messages of more general interest like traffic and weather information.

The Company offers solutions principally for media operators, advertisers and others seeking to reach the greatest number of "viewers per day" at the street level. Street level advertising is the strategic placement of signage, so it is readily visible to pedestrians and motorists. In addition to addressing potential consumers in busy urban and suburban settings, public service messages can also be conveyed using our technology.

To address the changing market and technology landscape, we initiated a comprehensive review of our position in the industry. During this exercise we drew upon the collective experiences of our own team as well as soliciting input from various individuals we believed to be knowledgeable about the industry. We concluded that in order to be in the forefront of the industry we would have to narrow our business focus and develop an entirely new software package.

We initially began offering products and services for sale in 2000. Our product offerings at that time included both software to manage a digital signage network and related hardware such as installed screens, displays or kiosks. In addition, we also owned and operated our own network of digital signage kiosks. The software products were offered pursuant to a Master License agreement with GSI Canada, the creator of the initial software, Multi Media Pack, or in short as MMP. The hardware products were purchased for resale from various brand name manufactures on an as needed basis. The Kiosk products were designed and built by GSI Canada.

At that time we also offered value-added services such as the integration of network services and the ability to deal with hardware suppliers to integrate and install computers and screens (plasma, LCD, LED or plain TV set). In other words, if a client came to us with an idea about something he would like to do, we would problem solve the matter and design an integrated solution, including managed services, which would allow the client to reach his goal. In cases where clients did not need any of our software or hardware products, we were still available to provide consulting services for operators to develop digital signage networks

The Company has re-evaluated its overall market approach and decided to focus more heavily on developing and selling digital network operations software rather than actually developing networks, installing and managing physical hardware, and actually selling and managing the digital content. With the re-focus of GSI in mid-2002, came a new philosophy and re-positioning of the company's activities. GSI is returning to the core expertise of its past, focusing on its original concept and vision, building the software that will help users store, inventory, deliver and use visual digital content on a variety of devices in a variety of applications. The Company now has a much clearer product and sales vision.

As a result, in early 2003, we changed our Product and Services Offering. Our main focus will now be to develop and sell a network based digital signage management software solution. We will also, in some cases, offer Digital Signage and Network Managed Services as well as related hardware. We will no longer supply or manufacture kiosks or design/develop networks. We will continue to leverage our market knowledge by providing strategic consulting services for operators of digital signage networks.

As part of our comprehensive review, we decided to re-evaluate our core product, the GSI Multi Media Pack acquired under the Master Licensing Agreement with GSI Canada. We hired LTS Networks Inc. to perform a technical review of the software code. The report recommended that we rework the architecture of the product to take advantage of newer development tools and database tools to ensure that the product would be up to date and as technically advanced as possible. If undertaken, it was believed that our new product would also be well positioned for growth and enhancement in the future. In June 2003, we purchased a 40% equity interest in LTS Networks

As a result of their report, we hired LTS Networks to build for us a next generation product, based on our design, to offer to the Out-of-Home advertising industry. We solicited the assistance of Mr. de Montigny, to leverage his past experience with the Advertising and Media industry to work with LTS to design the functional requirements for the new software. It was anticipated that the new software would differ from the previous product in several key ways. The programming language would be different; the software design and architecture would be different; and the new product would pay close attention to standards, such as the Human Interface Guidelines and Data Warehouse Standards. We proceeded to implement this project and the resulting newly developed proprietary software product is expected to be released by the end of September 2003 and will be known as Digital Media Logistics Suite, or DMLS.

We also revised our pricing and licensing structure. We will now sell and distribute our new software product on a per player software license basis. This is a significant departure from our previous revenue model of territorial licensing as we believe it better reflects the standard pricing and licensing model for our industry, and therefore should make our solution more competitive. In first 3 quarters of fiscal 2003 we spent $300,000 on Research and Development

as compared to nothing in all of fiscal 2002.

In April 2003, we signed a special agreement with MCSI, a publicly traded corporation specialized in Technology Integration, whereby we have agreed to sell to MCSI up to 12,000 licenses of our DMLS software at a discounted price. The agreement is valid for a term of 24 months.

In May 2003, we initiated negotiations with Arcanes Technologies, a France-based corporation to act as sales agent to distribute our new line of products in France. Negotiations are in preliminary stage and the Company can not state when or whether an agreement will be reached.

In May 2003, we received a Letter Of Intent from TSA, a France-based corporation, specialized in Network Integration and Satellite Transmission to act as installation contractors and service corporation for our European based customers. We are currently negotiating contract agreements and anticipate conclusion by the end of 2003.

9

On May 15, 2002, Mr. Craig Perry advanced $330,000.00 to the Company. In consideration to this loan the Guarantor (Michel de Montigny) transferred 2,000,000 shares to Mr. Perry. This note has a term of 60 days bearing interest at prime rate plus 2% and a collateral / late payment penalty of 1,000,000 shares. On March 28, 2003 the Company issued 1,000,000 shares to Mr. Perry representing the Collateral /late payment penalty on this note. On May 8, 2003, Mr. Perry agreed to cancel his $351,000 payable note ($330,000 debt + 21,000 interest to date) and to invest a supplementary amount of $165,000 for the following considerations: 2,000,000 shares at a price per share of $0.25 plus 500,000 warrants exercisable at $0.25 and 516,000 warrants exercisable at $1.00. Mr. Craig Perry became a Director on April 28, 2003.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES TO AUTHORIZED SHAREHOLDERS' CAPITAL

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

In August, 2003, we signed a one year renewable Sales Representative agreement with Petters Group LLC. The agreement provides for us to act as a non-exclusive sales representative in the United States, Canada and Mexico in regards to their new suite of Digital Displays Products, branded under the name of Polaroid.

We have currently concluded sales of an approximate quantity of 600 units including Polaroid 42" Digital plasma screens, compact computers and DMLS

software licenses. These sales have an approximate value of $2,700,000 and are subject to financing approval of the customers. We expect to make an approximate gross profit of $600,000 on these sales.

MANAGEMENT

In May 2003, Mr. Ren Arbic resigned from his position as Chairman of the Board of GSI Technologies USA Inc.

In May 2003, the Board of Directors appointed Mr. Craig Perry, who is currently General Manager of InMetal and a shareholder of GSI, to join the Board of Directors as a Director and Chairman.

In June 2003, the Board of Directors appointed Mr. Gilles Addison to the position of President and Chief Executive Officer. Mr. Addison's contract is valid for one year period.

In June 2003, GSI Board of Directors appointed an Executive Advisory Board to manage and build the value of the Corporation on a day to day basis with the input of experienced individuals in various field of activities. We believe our Corporation will grow in a team environment and deliver positive results to the benefit of our shareholders. The Executive Advisory Board will report to the Board of Directors through the CEO, Mr. Addison. GSI's management is seeking to identify a Chief Financial Officer that will suit the needs of our Corporation. The Executive Advisory Board is composed by the following individuals:

- Mr. Gilles Addison, President and CEO
- Mrs. Marie El-Ahmar Eid, Business Development and Investor Relations Director
- Glen Pearson, Operations Director
- Michel de Montigny, Product, Sales and Marketing Director
- Paola Salcedo, Administration Director

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are contained in this 10-QSB:

99.1 Sarbans-Oxley Certifications.

CERTIFICATION

I, Gilles Addison, hereby certifie that:

I have reviewed this quarterly report on Form 10-QSB of GSI Technologies USA Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact, or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

respects the financial position, results of operations, and cash flows of the issuer as of, and for, the periods presented in this report.

I am responsible for establishing and maintaining disclosure controls and procedures for the issuer and have:

Designed such disclosure controls and procedures to ensure that material information relating to the issuer is made known to me, particularly during the period in which the periodic reports are being prepared;
Evaluated the effectiveness of the issuer's disclosure controls and procedures as of July 31, 2003; and
Presented in the report our conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

I have disclosed, based on my most recent evaluation, to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function):

All significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and
Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 22nd, 2003

/s/ Gilles Addison

Gilles Addison
President and CEO

12

SIGNATURES

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

Dated: September 22nd, 2003 GSI TECHNOLOGIES USA INC.

By: /s/ Gilles Addison

Gilles Addison

President and CEO

13

2.75pt">

Long-term debt	832,000	-
Noncurrent liabilities of discontinued operations	-	145,000
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.10 per share - authorized 500,000 shares - issued - none	-	-
Common stock, par value $.15 per share, authorized - 12,000,000 shares - issued		
1,801,304 shares at October 31, 2003 and 497,536 shares at January 31, 2003 and		

outstanding - 1,798,071 shares at October 31, 2003 and 494,306 shares at January 31, 2003	270,000	74,000
Warrants outstanding	849,000	-
Additional paid-in capital	14,092,000	5,502,000
Accumulated deficit	(2,173,000)	(1,740,000)
Notes receivable from stockholders	-	(6,000)
Treasury stock, at cost	(33,000)	(33,000)

TOTAL STOCKHOLDERS' EQUITY	13,005,000	3,797,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,482,000	$ 4,635,000

See accompanying notes to the condensed consolidated financial statements

ARGAN, INC
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended October 31,		Nine months ended October 31,	
	2003 Restated	2002	2003 Restated	2002
Net sales	$ 3,734,000	$ -	$ 4,298,000	$ -
Cost of goods sold	2,779,000	-	3,243,000	-
Gross profit	955,000	-	1,055,000	-
Selling, general and administrative expenses	652,000	48,000	954,000	148,000
Operating (loss) income	303,000	(48,000)	101,000	(148,000)
Interest expense	(27,000)	-	(31,000)	-
Other income	19,000	-	46,000	-
Pretax income (loss) from continuing operations	295,000	(48,000)	116,000	(148,000)
Income tax benefit	(25,000)	-	(25,000)	-
Income (loss) from continuing operations	320,000	(48,000)	141,000	(148,000)
Income (loss) from discontinued operations, net of income tax provision of $ 506,000, $ 4,000, $751,000 and $ 18,000, respectively	(351,000)	122,000	(574,000)	448,000
Net income (loss)	$ (31,000)	$ 74,000	$ (433,000)	$ 300,000
Earnings per share:				
Basic earnings per share from continuing operations	$ 0.18	$ (0.10)	$ 0.10	$ (0.30)
Basic earnings per share from discontinued operations	$ (0.20)	$ 0.25	$ (0.42)	$ 0.91
Basic net income (loss) per common share	$ (0.02)	$ 0.15	$ (0.32)	$ 0.61
Diluted earnings per share from continuing operations	$ 0.18	$ (0.10)	$ 0.10	$ (0.30)
Diluted earnings per share from discontinued operations	$ (0.20)	$ 0.25	$ (0.42)	$ 0.91
Diluted net income (loss) per common share	$ (0.02)	$ 0.15	$ (0.32)	$ 0.61
Weighted average number of shares:				
Basic	1,798,000	494,000	1,373,000	494,000
Diluted	1,801,000	494,000	1,376,000	494,000

See accompanying notes to the condensed consolidated financial statements

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

	Nine Months Ended October 31, 2003 Restated	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	($433,000)	$300,000
Adjustments to reconcile net (loss) income to net cash		
(used in) provided by operating activities:		
Depreciation and amortization	156,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(102,000)	-
Estimated earnings in excess of billings	(897,000)	-
Deferred income taxes	(25,000)	-
Prepaid expenses and other current assets	(72,000)	(19,000)
Accounts payable & accrued expenses	595,000	-
Billings in excess of earnings	15,000	-
Non-cash charges and working capital changes of discontinued operations	677,000	(72,000)
Net cash (used in) provided by operating activities	(86,000)	209,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of Southern Maryland Cable, Inc.	(3,705,000)	-
Funds escrowed from acquisition	(260,000)	
Proceeds from sale of subsidiary, net of escrow funds held	3,200,000	
Purchases of property and equipment	(233,000)	-
Investing activities of discontinued operations	(88,000)	(160,000)
Net cash used in investing activities	(1,086,000)	(160,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from private placement of common stock, net of offering costs	9,634,000	-
Proceeds from long-term debt facility	1,200,000	
Principal payments on credit lines	(964,000)	
Financing activities of discontinued operations	(180,000)	(49,000)
Net cash provided by / (used for) financing activities	9,690,000	(49,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	-
NET INCREASE IN CASH	8,518,000	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,518,000	-

See accompanying notes to the condensed consolidated financial statements

-

ARGAN, INC
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	2003 Restated
Supplemental disclosure of non-cash investing and financing activities:	
Issuance of warrants	$849,000
Acquisition of Businesses:	
Fair value of net assets acquired	
Accounts receivable	$1,590,000
Other current assets	101,000
Property and equipment	1,664,000
Other non-current assets	6,000
Total non-cash assets	3,361,000
Accounts payable and accrued expenses	775,000
Short-term borrowings and current maturities of debt	427,000
Other current liabilities	555,000
Other non-current liabilities	1,583,000
Long-term debt	544,000
	3,884,000
Net non-cash assets acquired	(523,000)
Cash, cash equivalents and escrow funds	334,000
Fair value of net assets acquired	(189,000)
Excess of costs over fair value of net assets acquired	3,894,000
Purchase price	$3,705,000
Cash paid	$4,039,000
Cash, cash equivalents and escrow funds acquired	(334,000)
Purchase Price	$3,705,000

See accompanying notes to the condensed consolidated financial statements

6

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

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

SALE OF SUBSIDIARY

Prior to October, 2003, Argan, Inc. (AI or the Company), operated under the name "Puroflow Incorporated". On October 23, 2003 the shareholders of the Company approved a plan whereby the Company became a holding company and its operating assets and liabilities were assigned to a wholly owned operating subsidiary. Accordingly, the Company transferred substantially all of its Puroflow Incorporated operating assets and liabilities to a newly-formed, wholly owned subsidiary of the Company, and the Company changed its name to "Argan, Inc.".The subsidiary then adopted the name "Puroflow Incorporated" (PI). The Company's other wholly owned operating subsidiary is Southern Maryland Cable, Inc. (SMC) which it acquired in July, 2003. (See note 3 for details.)

On October 31, 2003, the Company completed the sale of PI to Western Filter Corporation (WFC) for approximately $3.5 million in cash of which $300,000 is being held in escrow for one year to indemnify WFC from any damages resulting from the breach of representations and warranties under the Stock Purchase Agreement.

BASIS OF PRESENTATION

The condensed consolidated balance sheet as of October 31, 2003 and the condensed consolidated statements of operations for the three and nine months ended October 31, 2003 and 2002, respectively, and the condensed consolidated statements of cash flows for the nine months ended October 31, 2003 and 2002 are unaudited. In the opinion of management, the accompanying financial statements contain all adjustments, which are of a normal and recurring nature, considered necessary to present fairly the financial position of the Company as of October 31, 2003 and the results of its operations and its cash flows for the periods presented. The Company prepares its interim financial information using the same accounting principles as it does for its annual financial statements.

These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the footnotes contained in the Company's consolidated financial statements for the year ended January 31, 2003, together with the auditors' report, included in the Company's Annual Report contained in Form 10-KSB, as filed with the Securities and Exchange Commission. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Cash and equivalents - Cash and equivalents include cash balances on deposit in banks, overnight investments in mutual funds, and other financial instruments having an original maturity of three months or less. For purposes of the condensed consolidated financial statements of cash flow, the Company considers these amounts to be cash equivalents.

Revenue recognition - Revenues on unit-price contracts are recognized when the related service is provided to the customer. Revenues on fixed price contracts are recognized using an efforts expended method. "Estimated earnings in excess of billings", which aggregated $1,074,000 at October 31, 2003, represents revenues recognized in excess of amounts billed.

Cost Recognition - Direct contract costs includes all direct material, labor, subcontractor costs and those indirect costs related to contract performance, such as equipment, supplies and tools where a reasonable allocation of such costs to contracts can be made. Selling, general and administrative costs are charged to expense when incurred. Provisions for estimated losses on uncompleted contracts are recognized in the period in which losses are determined. At October 31, 2003, the Company did not have uncompleted contracts for which it anticipated a loss.

Trucks, Machinery and Equipment - Trucks, machinery and equipment are stated at cost. Depreciation is provided principally using the straight-line method over the estimated useful lives of the assets, which are generally from three to seven years.

Goodwill and Other Intangible Assets - In June 2001, FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets", which supersedes APB Opinion No.17, "Intangible Assets". SFAS No. 142 establishes new standards for goodwill and other intangible assets acquired in a business combination, eliminates amortization of goodwill, and sets forth methods to periodically evaluate goodwill and other intangible assets for impairment. The Company adopted SFAS No. 142 during the year ended January 31, 2003. In accordance with SFAS No. 142, the Company will conduct on at least an annual basis a review of its intangible assets to determine whether their carrying value exceeds their fair market value. Should this be the case, a detailed analysis will be performed to determine if the goodwill and other intangible assets are impaired.

Segment Information - SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assessing performance.

After the disposition of PI, the Company's operates in one reportable segment. The Company conducts its telecom infrastructure services operations through its wholly owned subsidiary, SMC, which it acquired in July, 2003. The Company provides telecommunications and other infrastructure services, including project management, construction and maintenance through SMC for the Federal Government, telecommunications and broadband service providers as well as electric utilities. Senior management evaluates SMC's performance and makes decisions with respect to capital resource allocations and business strategies using enterprise level information.

Income Taxes- The Company files a consolidated federal income tax return. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of its assets and liabilities.

Seasonality - The Company's telecom infrastructure services operations are expected to have seasonally weaker results in the first and fourth quarters of the year, and may produce stronger results in the second and third quarters. This seasonality is primarily due to the effect of winter weather on outside plant activities as well as reduced daylight hours and customer budgetary constraints. Certain customers tend to complete budgeted capital expenditures before the end of the year, and postpone additional expenditures until the subsequent fiscal period.

Stock Issued to Employees -The Company follows Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees,* to account for stock option plans, which generally does not require income statement recognition of options granted at the market price on the date of issuance.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) 123, *Accounting for Stock-Based Compensation.*

	For the three months ended October 31, 2003	For the nine months ended October 31, 2003
Net Loss:	$(31,000)	$(433,000)
Less: Stock-based employee compensation cost included in the determination of net loss as reported if the fair value method had been applied	----	----
Pro forma stock based compensation expense	46,000	138,000
Pro forma net loss	$(77,000)	$(571,000)
Basic earnings per share:		
As reported	$(.02)	$(.32)
Pro forma	$.(04)	$.(42)

Prior to the nine months ended October 31, 2003, stock options issued did not have a material effect on the Company's pro forma net income and earnings per share.

NOTE 3- ACQUISITION OF SOUTHERN MARYLAND CABLE, INC.

The Company is actively pursuing acquisitions in the telecom infrastructure services industry. On July 17, 2003, the Company acquired all of the common stock of Southern Maryland Cable, Inc. ("SMC"), a provider of telecommunications and other infrastructure services including project management, construction and maintenance to the Federal Government, telecommunications and broadband service providers as well as electric utilities. The Company's purchase of SMC was focused on acquiring long-standing customer relationships and the well established reputation in a strategic geographic area, which supported the premium paid over the fair value of the tangible assets.

The results of operations of the acquired company are included in the consolidated results of the Company from July 17, 2003, the date of the acquisition. The estimated purchase price was approximately $4 million in cash, plus the assumption of approximately $971,000 in debt. The purchase price is also based on SMC achieving a pro forma net worth of $950,000 as of the July 17, 2003 acquisition date. Funds aggregating $260,000 have been held in escrow and classified as a current asset. If SMC does not have the minimum pro forma net worth, the purchase price will be reduced by amount of the shortfall. The Company leases the SMC headquarters at an annual rent of $72,000 from the former owners. The lease term is through January, 2006.

The Company accounted for the acquisition of SMC using the purchase method of accounting whereby the excess of cost over the net amounts assigned to assets acquired and liabilities assumed is allocated to goodwill and intangible assets based on their estimated fair values. Such intangible assets include $1,600,000 and $680,000 allocated to Contractual Customer Relationships ("CCR") and Trade Name, respectively, and $1,607,000 to Goodwill. The Company is amortizing the CCR over seven years. Amortization expense for the three months ended October 31, 2003 was approximately $61,000 As of October 31, 2003, accumulated amortization was $61,000. The Trade Name was determined to have an indefinite useful life and is not being amortized.

The following unaudited pro forma statements of operations summarizes the results of operations for the nine months ended October 31, 2003 and 2002, respectively, as if the acquisition of SMC had been completed on February 1, 2002. The unaudited pro forma statements of operations do not include the operating results of PI which have been reflected as discontinued operations in the condensed consolidated statements of operations. The unaudited pro forma statements of operations do not purport to be indicative of the results that would have actually been obtained if the aforementioned acquisition had occurred on February 1, 2002, or that may be obtained in the future.

	Nine Months Ended October 31,	
Pro Forma Statement of Operations	**2003**	**2002**
Net sales	$ 8,574,000	$ 6,504,000
Cost of goods sold	6,543,000	5,072,000
Gross profit	2,031,000	1,432,000
Selling general and administrative expenses	1,686,000	1,312,000
Operating income from continuing operations	345,000	120,000
Other expense	------	(53,000)
Pretax income from continuing operations	345,000	67,000
Provision for income taxes	138,000	27,000
Net income from continuing operations	$ 207,000	$ 40,000
Net income per share		
- basic	$ .12	$ .02
- diluted	$ .12	$ .02
Weighted average shares Outstanding		
- basic	1,798,000	1,798,000
- diluted	1,801,000	1,798,000

NOTE 4- DISCONTINUED OPERATIONS

On October 31, 2003, AI, as part of its plan to reallocate its capital to its acquisition program, sold PI to WFC. The sales price of approximately $3,500,000 was satisfied in cash of which $300,000 is being held in escrow for one year to indemnify WFC from any damages resulting from a breach of representation and warranties under the Stock Purchase Agreement. AI recognized a gain on sale of approximately $167,000, net of income taxes of $506,000. The Company utilized net operating losses to offset the gain on sale and thus, has no current tax liability. The $506,000 is the amount of the deferred tax assets related to the PI which has been sold. In accordance with SFAS No. 144 "Accounting for the impairment or disposal of Long-Lived Assets", the Company classified the operating results of PI as discontinued operations in the accompanying statements of operations.

The results of the discontinued operations are as follows for the nine months ended October 31,

		2003		2002
Net sales	$	5,050,000	$	4,999,000
Cost of goods sold		3,834,000		3,233,000
Gross profit		1,216,000		1,766,000
Selling, general and administrative expenses		1,701,000		1 335,000
Operating income (loss) from discontinued operations		(485,000)		431,000
Other income (expense)				
Other income		----		57,000
Interest expense		(11,000)		(22,000)
Pretax income (loss) from discontinued operations		(496,000)		466,000
Income tax expense		245,000		18,000
Income (loss) from discontinued operations		(741,000)		448,000
Net gain on disposal of discontinued operations, net of income tax expense of $506,000		167,000		----
Net loss from discontinued operations	$	(574,000)	$	448,000

The results of the discontinued operations are as follows for the three months ended October 31,

		2003		2002
Net sales	$	1,447,000	$	1,642,000
Cost of goods sold		1,317,000		1,051,000
Gross profit		130,000		591,000

Selling, general and administrative expenses	645,000	460,000
Operating income (loss) from discontinued operations	(515,000)	131,000
Other income (expense)		
Other income	----	2,000
Interest expense	(3,000)	(7,000)
Pretax income (loss) from discontinued operations	(518,000)	126,000
Income tax expense	----	4,000
Income (loss) from discontinued operations	(518,000)	122,000
Net gain on disposal of discontinued operations, net of income tax expense of $506,000	167,000	----
Net loss from discontinued operations	$(351,000)	$122,000

Company had assets and liabilities held for sale comprised of the following

	2003
CURRENT ASSETS OF DISCONTINUED OPERATIONS	
Cash	$ 265,000
Accounts receivable	1,160,000
Deferred tax benefit, current	145,000
Inventories	1,655,000
Prepaid expenses and deposits	97,000
TOTAL CURRENT ASSETS	3,322,000
NONCURRENT ASSETS OF DISCONTINUED OPERATIONS	
PROPERTY AND EQUIPMENT	
Leasehold improvements	291,000
Machinery and equipment	3,706,000
Tooling and dies	401,000
	4,398,000
Less accumulated depreciation and amortization	3,730,000
NET PROPERTY AND EQUIPMENT	668,000
DEFERRED TAX BENEFIT	590,000
OTHER ASSETS	30,000
	1,288,000
ASSETS HELD FOR SALE	**$ 4,610,000**
CURRENT LIABILITIES OF DISCONTINUED OPERATIONS	
Line of credit,	$ 120,000
Notes payable, current,	62,000
Current portion of capital lease	7,000
Accounts payable	327,000
Accrued expenses	177,000
	693,000
LONG TERM LIABILITIES OF DISCONTINUED OPERATIONS	145,000
LIABILITIES HELD FOR SALE	**$ 838,000**

12

NOTE 5 - EARNINGS PER SHARE:

Basic earnings per share are computed by dividing income (loss) from continuing operations, income (loss) from discontinued operations and net income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed by dividing income (loss) from continuing operations, income (loss) from discontinued operations and net income (loss) by the weighted average number of common shares and all dilutive securities. Outstanding stock options were anti-dilutive during the three and nine months ended October 31, 2002 due to the Company's net loss position.

Nine Months Ended
October 31, 2003

Basic:			Shares		Per Share
Income from continuing operations	$	141,000	1,373,000	$	.10
Loss from discontinued operations		(574,000)	1,373,000		(.42)
Net loss	$	(433,000)	1,373,000	$	(.32)
Diluted:					
Income from continuing operations	$	141,000	1,376,000(1)	$	.10
Loss from discontinued operations		(574,000)	1,376,000		(.42)
Net loss	$	(433,000)	1,376,000	$	(.32)

(1) Includes 3,000 shares for the dilutive impact for outstanding stock options.

			Three Months Ended October 31, 2003		
Basic:			Shares		Per Share
Income from continuing operations	$	320,000	1,798,000	$	.18
Loss from discontinued operations		(351,000)	1,798,000		(.20)
Net loss	$	(31,000)	1,798,000	$	(.02)

Diluted:			
Income from continuing operations	$ 320,000	1,801,000(1)	$ .18
Loss from discontinued operations	(351,000)	1,801,000	(.20)
Net loss	$ (31,000)	1,801,000	$ (.02)

(1) Includes 3,000 shares for the dilutive impact for outstanding stock options.

NOTE 6 - PRIVATE OFFERING OF COMMON STOCK

On April 29, 2003, the Company completed a private offering of approximately 1,304,000 shares of common stock at a price of $7.75 per share. The proceeds of approximately $10,106,000 were reduced by offering costs of $472,000. A portion of the net proceeds of the private placement was used in the acquisition of SMC. The remaining net proceeds will be used for acquisitions in growth-oriented industries and for working capital. The private offering was approved by shareholder vote on April 15, 2003.

In connection with consummation of the private offering, the Company granted warrants to purchase an aggregate of 230,000 shares of the Company's common stock at a strike price of $7.75 per share. The warrants have an estimated value of $849,000, are fully vested and have been recorded as a reduction of the proceeds from the offering.

NOTE 7 - DEBT

In August, 2003, the Company entered into a financing arrangement with Bank of America (" Bank") aggregating $2,950,000 in available financing in two tranches - a revolving line of credit with $1,750,000 in availability, expiring July 31, 2004 and bearing interest at LIBOR plus 2.75%, and a three year term note with an original outstanding balance of $1,200,000, expiring July 31, 2006 and bearing interest at LIBOR plus 2.95%. The proceeds from the term note were used to payoff the SMC lines of credit and for working capital. As of October 31, 2003 the Company had $1,100,000 outstanding under the term note. AI has not drawn on the revolving line of credit. The financing arrangement contains financial as well as nonfinancial covenants including the ratios of debt to pro forma earnings before interest, taxes, depreciation and amortization of 2.5 to 1, liabilities to tangible net worth of 1.5 to 1, fixed charge coverage ratio of 1.25 to 1, as well as requirements for bank consent for acquisitions and divestitures. At October 31, 2003, the Company was not in compliance with the fixed charge coverage ratio and received a waiver from the Bank with respect to the breach of the covenant. The Company is in discussions with the Bank to either adjust the ratio or to establish a new financial measurement. Subsequent to October 31, 2003, because of the disposition of PI, the Company deposited $300,000 as additional collateral in a restricted cash account with the Bank.

NOTE 8 - RESTATEMENT OF QUARTERLY RESULTS

On March 11, 2004, we determined that there was an error in the calculation and classification of the deferred income tax liability associated with the identifiable intangible assets recorded in the purchase accounting of our acquisition of SMC. The error resulted in the overstatement of the customer contractual relationships, trade name and the deferred income tax liability and the understatement of goodwill. The consolidated financial statements and accompanying notes for the three and nine months ended October 31, 2003, have been restated to correct this error. The following table represents the impact of the restatement on the consolidated financial statements.

Account	As Reported October 31, 2003		As Restated October 31,2003	
Customer Contractual Relationship	$	2,556,000	$	1,539,000
Trade name	$	1,133,000	$	680,000
Goodwill	$	695,000	$	1,607,000
Total Assets	$	18,040,000	$	17,482,000
Deferred tax liability, net of current	$	1,807,000	$	1,226,000
Accumulated Deficit	$	(2,196,000)	$	(2,173,000)
Total stockholders' equity	$	12,982,000	$	13,005,000
Total liabilities and stockholders' equity	$	18,040,000	$	17,482,000

	As Reported Three months ended October 31, 2003		As Restated Three months ended October 31, 2003	
Selling, general and administrative	$	690,000	$	652,000
Operating (loss) income	$	265,000	$	303,000
Pretax income (loss) from continuing operations $		257,000	$	295,000
Income tax benefit	$	(40,000)	$	(25,000)
Income (loss) from continuing operations	$	297,000	$	320,000
Net income (loss)	$	(54,000)	$	(31,000)
Earnings Per Share:				
Basic earnings per share from continuing operations	$	0.17	$	0.18
Basic net loss per common share	$	(0.03)	$	(0.02)
Diluted earnings per share from continuing operations	$	0.16	$	0.18
Diluted net loss per common share	$	(0.03)	$	(0.02)

	As Reported Nine months ended October 31, 2003		As Restated Nine months ended October 31, 2003	
Selling, general and administrative	$	992,000	$	954,000
Operating (loss) income	$	63,000	$	101,000
Pretax income (loss) from continuing operations $		78,000	$	116,000
Income tax benefit	$	(40,000)	$	(25,000)
Income (loss) from continuing operations	$	118,000	$	141,000
Net income (loss)	$	(456,000)	$	(433,000)
Earnings Per Share:				
Basic earnings per share from continuing operations	$	0.09	$	0.10
Basic net loss per common share	$	(0.33)	$	(0.32)
Diluted earnings per share from continuing operations	$	0.09	$	0.10

Diluted net loss per common share	$ (0.33)	$ (0.32)

15

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Form 10-QSB contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. These statements relate to future events or our future financial performance, including statements relating to our products, customers, suppliers, business prospects, financings, investments and effects of acquisitions. In some cases, forward looking statements can be identified by terminology such as "may," "will," "should," "expect," "anticipate," " intend," "plan," "believe," "estimate," "potential," or "continue," the negative of these terms or other comparable terminology. These statements involve a number of risks and uncertainties, including preliminary information; the effects of future acquisitions and/or investments; competitive factors; business and economic conditions generally; changes in government regulations and policies, our dependence upon third-party suppliers; continued acceptance of our products in the marketplace; technological changes; and other risks and uncertainties that could cause actual events or results to differ materially from any forward-looking statement.

Prior to October, 2003, Argan, Inc. (AI or Company), operated under the name "Puroflow Incorporated". On October 23, 2003, the shareholders of the Company approved a plan whereby the Company became a holding company and its operating assets and liabilities were assigned to a wholly owned operating subsidiary. Accordingly, the Company transferred substantially all of its Puroflow Incorporated operating assets and liability to a newly-formed, wholly owned subsidiary of the Company, and the Company changed its name to "Argan, Inc.". The subsidiary then adopted the name "Puroflow Incorporated" (PI). Prior to the disposition of PI described below, the Company's other wholly owned operating subsidiary was Southern Maryland Cable, Inc. (SMC) which it acquired in July, 2003.

On October 31, 2003, AI, as part of its plan to reallocate its capital to its acquisition program, sold PI to WFC. The sales price of approximately $3,500,000 was received in cash of which $300,000 is being held in escrow for one year to indemnify WFC from any damages resulting from a breach of representation and warranties under the Stock Purchase Agreement. AI recognized a gain of $167,000, net of income taxes of $506,000. The Company utilized net operating losses to offset the gain on sale and thus, has no current tax liability. The $506,000 is the amount of the deferred tax assets related to the PI which has been sold In accordance with SFAS No. 144 "Accounting for the impairment or disposal of Long-Lived Assets", the Company classified the operating results of PI as discontinued operations in the accompanying statements of operations.

The results of the discontinued operations are as follows for the nine months ended October 31,

	2003	2002
Net sales	$ 5,050,000	$ 4,999,000
Cost of goods sold	3,834,000	3,233,000
Gross profit	1,216,000	1,766,000
Selling, general and administrative expenses	1,701,000	1,335,000
Operating income (loss) from discontinued operations	(485,000)	431,000
Other income (expense)		
Other income	----	57,000
Interest expense	(11,000)	(22,000)
Pretax income (loss) from discontinued operations	(496,000)	466,000
Income tax expense	245,000	18,000
Income (loss) from discontinued operations	(741,000)	448,000
Net gain on disposal of discontinued operations, net of income tax expense of $506,000	167,000	----
Net loss from discontinued operations	$ (574,000)	$448,000

The results of the discontinued operations are as follows for the three months ended October 31,

	2003	2002
Net sales	$ 1,447,000	$ 1,642,000
Cost of goods sold	1,317,000	1,051,000
Gross profit	130,000	591,000
Selling, general and administrative expenses	645,000	460,000
Operating income (loss) from discontinued operations	(515,000)	131,000
Other income (expense)		
Other income	----	2,000
Interest expense	(3,000)	(7,000)
Pretax income (loss) from discontinued operations	(518,000)	126,000
Income tax expense	----	4,000

Income (loss) from discontinued operations	(518,000)	122,000
Net gain on disposal of discontinued operations, net of income tax expense of $506,000	167,000	----
Net loss from discontinued operations	$ (351,000)	$ 122,000

The aggregate loss from discontinued operations for the nine and three months ended October 31, 2003, respectively, was $574,000 and $351,000. The loss was due to the rapid softening of sales to PI's traditional customer base.

The Company is actively pursuing acquisitions in the telecom infrastructure services industry. On July 17, 2003, the Company acquired all of the common stock of Southern Maryland Cable, Inc. ("SMC"), a provider of telecommunications and other infrastructure services including project management, construction and maintenance to the Federal Government, telecommunications and broadband service providers as well as electric utilities. The Company's purchase of SMC was focused on acquiring long-standing customer relationships and well established reputation in a strategic geographic area, which supported the premium paid over the fair value of the tangible assets.

The results of operations of the acquired company are included in the consolidated results of the Company from July 17, 2003, the date of the acquisition. The estimated purchase price was approximately $4 million in cash, plus the assumption of approximately $971,000 in debt. The purchase price is also based on SMC achieving a pro forma net worth of $950,000 as of the July 17, 2003 acquisition date. Funds aggregating $260,000 have been held in escrow and classified as a current asset. If SMC does not have the minimum pro forma net worth, the purchase price will be reduced by amount of the shortfall. The Company leases the SMC headquarters at an annual rent of $72,000 from the former owners. The lease term is through January, 2006.

The Company accounted for the acquisition of SMC using the purchase method of accounting whereby the excess of cost over the net amounts assigned to assets acquired and liabilities assumed is allocated to goodwill and intangible assets based on their estimated fair values. Such intangible assets include $1,600,000 and $680,000 allocated to Contractual Customer Relationships ("CCR") and Trade Name, respectively, and $1,607,000 to Goodwill. The Company is amortizing the CCR over seven years. Amortization expense for the three months ended October 31, 2003 was approximately $61,000. As of October 31, 2003, accumulated amortization was $61,000. The Trade Name was determined to have an indefinite useful life and is not being amortized.

The Company conducts its telecom services operations through its wholly owned subsidiary, SMC. The Company provides telecommunications infrastructure services including project management, construction and maintenance through SMC for the Federal Government, telecommunications and broadband service providers as well as electric utilities.

On September 2, 2003, the Company entered into a letter of intent with Dinsmore Communications Corp. (DCC) to acquire all of the common stock of DCC. The consummation of the transaction was contingent upon the completion of the Company's due diligence, the signing of a definitive purchase and sale agreement, approval of both companies' boards of directors and other conditions. At present, the Company does not believe the transaction contemplated in the letter of intent will be consummated.

Results of Operations for the Nine Months Ended October 31, 2003 Compared to the Nine Months ended October 31, 2002

The following unaudited pro forma statements of operations summarizes the results of operations for the nine months ended October 31, 2003 and 2002, respectively, as if the acquisition of SMC had been completed on February 1, 2002. The unaudited pro forma statements of operations do not include the operating results of PI which have been reflected as discontinued operations in the condensed consolidated statements of operations (See Note 4). The unaudited statements of operations do not purport to be indicative of the results that would have actually been obtained if the aforementioned acquisition had occurred on February 1, 2002, or that may be obtained in the future**.**

	Nine Months Ended October 31,	
Pro Forma Statement of Operations	2003	2002
Net sales	$ 8,574,000	$ 6,504,000
Cost of goods sold	6,543,000	5,072,000
Gross profit	2,031,000	1,432,000
Selling general and administrative expenses	1,686,000	1,312,000
Operating income from continuing operations	345,000	120,000
Other expense	-----	(53,000)
Pretax income from continuing operations	345,000	67,000
Provision for income taxes	138,000	27,000
Net income from continuing operations	$ 207,000	$ 40,000
Net income per share		
- basic	$.12	$.02
- diluted	$.12	$.02
Weighted average shares Outstanding		
-basic	1,798,000	1,798,000
-diluted	1,801,000	1,798,000

We have restated our previously issued financial statements to reflect, as discontinued operations, the disposition of our wholly owned subsidiary, PI. Because of the reclassification of PI as a discontinued operation, we are required to retroactively restate our financial statements for the nine months ended October 31, 2003 and 2002.

As disclosed above, we acquired SMC on July 17, 2003. Because of the sale of PI, substantially all of the Company's historical business has been reclassified as discontinued operations. As a consequence, the Company has compared the pro forma operations of AI for the nine months ended October 31, 2003 to October 31, 2002 as presented above.

Pro forma net sales

AI through its wholly owned subsidiary, SMC, had pro forma net sales of $8,574,000 for the nine months ended October 31, 2003 compared to pro forma net sales of $6,504,000 for the nine months ended October 31, 2002. The increase in pro forma net sales of $2,070,000 or 32% is due primarily to the increase in volume of infrastructure services provided to SMC's customers under fixed-priced contracts.

Pro forma gross margin

For the nine months ended October 31, 2003, pro forma gross margin was $2,031,000 or 24% of pro forma net sales compared to $1,432,000 or 22% of pro forma net sales for the nine months ended October 31, 2002. Improved pro forma gross margin percent is due to efficencies of scale realized as the Company's volume and number of fixed-priced contracts increased during the nine months ended October 31, 2003.

Pro forma selling general and administrative expenses

Pro forma selling, general and administrative expenses were $1,686,000 or 20% of pro forma net sales for the nine months ended October 31, 2003 compared to $1,312,000 or 20% of pro forma net sales for the nine months ended October 31, 2002 an increase of $374,000. General and administrative expenses incurred for general corporate expenses and for the new corporate management team whose efforts are focused on expansion into infrastructure services aggregated $482,000 for the nine months ended October 31, 2003 compared to $148,000 in corporate costs for the nine months ended October 31, 2002.

Pro forma operating income from continuing operations

Pro forma operating income from continuing operations was $345,000 for the nine months ended October 31, 2003 compared to $120,000 for the nine months ended October 31, 2002. The increase in operating income from continuing operations is due to the improving margins as the Company increased net sales.

Income Taxes

The Company recorded an income benefit of $25,000 for the nine months ended October 31, 2003 as compared to no provision for the nine months ended October 31, 2002. The income tax benefit was due to the acquisition of SMC. In connection with the acquisition, an intangible asset for Customer Contractual Relationships was recorded, the amortization of which is the tax benefit identified above established in purchase accounting. The Company currently estimates that it will not have a current tax liability for the year ended January 31, 2004.

Results of Operations for the Three Months Ended October 31, 2003 Compared to the Three Months Ended October 31, 2002

The following unaudited pro forma statements of operations summarizes the results of operations for the three months ended October 31, 2003 and 2002, respectively, as if the acquisition of SMC had been completed on February 1, 2002. The unaudited pro forma statements of operations do not include the operating results of PI which has been reflected as discontinued operations in the condensed consolidated statements of operations. The unaudited statements of operations do not purport to be indicative of the results that would have actually been obtained if the aforementioned acquisition had occurred on February 1, 2002, or that may be obtained in the future.

Pro Forma Statement of Operations	Three Months Ended October 31, 2003	2002
Net sales	$ 3,734,000	$ 2,434,000
Cost of goods sold	2,779,000	1,876,000
Gross profit	955,000	558,000
Selling general and administrative expenses	652,000	438,000
Operating income from continuing operations	303,000	120,000
Other expense	(8,000)	(4,000)
Pretax income from continuing operations	295,000	116,000
Provision for income taxes (benefit)	118,000	46,000
Net income from continuing operations	$ 177,000	$ 70,000
Net income per share		
- basic	$ .10	$ .04
- diluted	$ .10	$ .04
Weighted average shares Outstanding		
-basic	1,798,000	1,798,000
- diluted	1,801,000	1,801,000

The Company has restated its previously issued financial statements to reflect, as discontinued operations, the disposition of its wholly owned subsidiary, PI. Because of the reclassification of PI as a discontinued operation, the Company is required to retroactively restate our financial statements for the three months ended October 31, 2002.

As disclosed above, AI acquired SMC on July 17, 2003. Because of the sale of PI substantially all of the Company's historical business has been reclassified as a discontinued operation. As a consequence, the Company has compared the actual operations of AI for the three months ended October 31, 2003 to the pro forma operations for the three months ended October 31, 2002 as presented above.

Pro Forma Net sales

AI through its wholly owned subsidiary, SMC, had net sales of $3,734,000 for the three months ended October 31, 2003 compared to pro forma net sales of $2,434,000 for the three months ended October 31, 2002. The increase in pro forma net sales of $1,300,000 or 53% is due to the increase in volume of infrastructure services provided to SMC's customers under fixed-priced contracts.

Pro Forma Gross margin

For the three months ended October 31, 2003, the Company's gross margin was $955,000 or 26% of net sales compared to $558,000 or 23% of pro forma net sales for the three months ended October 31, 2002. Improved pro forma gross margin percent is due to efficencies of scale realized as the Company's volume and number of fixed-priced contracts increased during the nine months ended October 31, 2003.

Pro Forma Selling general and administrative expenses

Selling, general and administrative expenses were $652,000 or 17% of net sales for the three months ended October 31, 2003 compared to pro forma selling, general and administrative expenses of $438,000 or 18% of pro forma net sales for the three months ended October 31, 2002 an increase of $214,000. General and administrative expenses incurred for general corporate expenses and for the new corporate management team whose efforts are focused on expansion into infrastructure services aggregated $251,000 for the three months ended October 31, 2003 compared to $48,000 in corporate costs for the three months ended October 31, 2002.

Pro Forma Operating income from continuing operations

Operating income from continuing operations was $303,000 for the three months ended October 31, 2003 compared to $120,000 for the three months ended October 31, 2002. The positive trend in operating income from continuing operations is due to the improving margins as the Company increased net sales as well as slowed incremental increases in administrative costs which reduced the relationship of administrative expenses as a percentage of net sales.

Income Taxes

The Company recorded an income benefit of $25,000 for the three months ended October 31, 2003 as compared to no provision for the three months ended October 31, 2002. The income tax benefit was due to the acquisition of SMC. In connection with the acquisition, an intangible asset for Customer Contractual Relationships was recorded, the amortization of which is the tax benefit identified above established in purchase accounting. The Company currently estimates that it will not have a current tax liability for the year ended January 31, 2004.

Liquidity and Capital Resources

At October 31, 2003 and January 31, 2003, the Company had $8,518,000 and $265,000 respectively available in cash and cash equivalents. On April 29, 2003, the Company completed a private offering of approximately 1,304,000 shares of common stock at a price of $7.75 per share. The net proceeds from the private placement aggregated approximately $9,634,000. A portion of the proceeds were used in the acquisition of SMC. The Company plans to use the remaining proceeds for acquisitions in growth-oriented industries and for working capital.

On October 31, 2003, AI sold its subsidiary, PI, to Western Filter Corporation (WFC). The sale price of approximately $3,500,000 was satisfied in cash of which $300,000 is being held in escrow for one year.

Net cash used in operations for the nine months ended October 31, 2003 was $86,000 compared with $209,000 cash provided by operations for the nine months ended October 31, 2002. The decrease in cash provided by operations is primarily due to ramping up of SMC's revenue with the related increase in accounts receivable and estimated earnings in excess of billings.

Cash used for investing activities was $1,086,000 for the nine months ended October 31, 2003 compared to $160,000 from the discontinued operations for the nine months ended October 31, 2002. Cash used for investing activities for the nine months ended October 31, 2003 consisted of approximately $3,705,000 used in the acquisition of SMC and approximately $3,500,000 in proceeds from the sale of PI, net of $300,000 held in escrow.

Net cash provided by financing activities was $9,690,000 for the nine months ended October 31, 2003 compared to net cash used for financing activities of $49,000 for the same period one year ago for the discontinued operation. The increase is due to the aforementioned private placement and proceeds from the credit line offset by, the Company paying off $300,000 in debt, primarily bank debt of the discontinued manufacturing operation.

In August, 2003, the Company entered into a financing arrangement with Bank of America ("Bank") aggregating $2,950,000 in available financing in two tranches - a revolving line of credit with $1,750,000 in availability, expiring July 31, 2004 and bearing interest at LIBOR plus 2.75% and a three year term note with an original outstanding balance of $1,200,000, expiring July 31, 2006 and bearing interest at LIBOR plus 2.95%. The proceeds from the term note were used to payoff the SMC lines of credit and for working capital. As of October 31, 2003 the Company had $1,100,000 outstanding under the term note. AI has not drawn on the revolving line of credit. The financing arrangement contains financial as well as nonfinancial covenants including the ratios of debt to pro forma earnings before interest, taxes, depreciation and amortization of 2.5 to 1, liabilities to tangible net worth of 1.5 to 1, fixed charge coverage ratio of 1.25 to 1 as well as requirements for bank consent for acquisitions and divestitures. At October 31, 2003, the Company was not in compliance with the fixed charge coverage ratio and received a waiver from the Bank with respect to the breach of the covenant. The Company is in discussions with the Bank to either adjust the ratio or to establish a new financial measurement. Subsequent to October 31, 2003, because of the disposition of PI, the Company deposited $300,000 as additional collateral in a restricted cash account with the Bank.

With its present capital resources and cash flow from operations, the Company believes it should have sufficient resources to meet its operating needs for the next twelve months and to provide for debt maturities and capital expenditures. At October 31, 2003, the Company was in compliance, with the exception of the covenant with respect to the fixed charge coverage ratio for which the Bank granted a waiver, with all of its existing debt covenants. The Company is in discussions with the Bank to adjust or change the financial measurement.

Seasonality

The Company's telecom infrastructure services operations are expected to have seasonally weaker results in the first and fourth quarters of the year, and may produce stronger results in the second and third quarters. This seasonality is primarily due to the effect of winter weather on outside plant activities as well as reduced daylight hours and customer budgetary constraints. Certain customers tend to complete budgeted capital expenditures before the end of the year, and postpone additional expenditures until the subsequent fiscal period.

Critical Accounting Policies

Management is required to make judgments, assumptions and estimates that affect the amounts reported when we prepare financial statements and related disclosures in conformity with generally accepted accounting principles. Note 1 to the consolidated financial statements in our Annual Report on Form 10-KSB for the fiscal year ended January 31, 2003 describes the significant accounting policies and methods used in the preparation of our condensed consolidated financial statements. Estimates are used for, but not limited to, our accounting for contingencies, allowance for doubtful accounts, valuation allowances for deferred tax assets and inventory reserves. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of our condensed consolidated financial statements.

Revenue Recognition

Net sales are primarily derived from construction and installation of telecom and utility infrastructure for a wide range of customers. The infrastructure services revenue is recognized in accordance with contract provisions which are typically either unit-price contracts or fixed-price contracts. Revenues on unit-price contracts are recognized when the related service is provided to the customer. Revenues on fixed-price contracts are recognized using an efforts expended method, measured using contractual pricing schedules which detail unit prices for individual services performed. The asset, "Estimated earnings in excess of billings", which aggregated $1,074,000 at October 31, 2003, represents revenues recognized in excess of amounts billed.

Long Lived Assets

The Company periodically evaluates the net realizable value of long lived assets including property and equipment, relying on a number of factors including operating results, economic projections, and anticipated cash flows. In connection with the Company's acquisition, the excess of cost over the net amounts assigned to tangible assets acquired and liabilities assumed is allocated to goodwill and discrete intangible assets recognized as separate from acquired goodwill. Such intangible assets include Contractual Customer Relationships ("CCR") and Trade name. The Company amortizes CCR over seven years. The Company evaluates net realizable value for such intangibles on an ongoing basis for impairment.

Valuation Allowance for Deferred Tax Assets

The Company accounts for income taxes under the asset and liability method. The approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing the Company's provision for income taxes requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets.

ITEM 3. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures,as of the end of the period covered by this report. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information required to be included in the Company's periodic SEC reports. There have been no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART ll

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders in New York, New York on October 23, 2003. The following sets forth matters submitted to a vote of the stockholders at the annual meeting:

(a) Seven members were elected to the Board of Directors, each to serve until the next annual meeting of the Company and until their respective successors have been elected and qualified. The following seven individuals were elected to the Board of Directors by the holders of common stock of the Company: Rainer H. Bosselmann, DeSoto S. Jordan, Daniel A. Levinson, W.G. Champion Mitchell, T. Kent Pugmire, James W. Quinn and Peter L. Winslow. Messrs. Bosselmann, Pugmire and Winslow were elected by a vote of 1,593,217 shares with 5,034 votes withheld. Messrs. Jordan, Levinson and Quinn were elected by a vote of 1,593,074 shares with 5,177 votes withheld. Mr. Mitchell was elected by a vote of 1,592,869 shares with 5,869 votes withheld.

(b) The stockholders elected to reorganize the Corporation into a new holding company structure through the transfer of the Corporation's operating assets and liabilities relating to its Puroflow manufacturing business to a new wholly-owned subsidiary of the Corporation by a vote of 1,279,123 shares of common stock, with 5,077 shares of common stock voting against and 1,844 shares of common stock abstaining.

(c) The stockholders elected to amend the Corporation's Certificate of Incorporation to change the corporate name of the Corporation from Puroflow Incorporated to Argan, Inc. by a vote of 1,583,637 shares of common stock, with 10,648 shares of common stock voting against and 3,965 shares of common stock abstaining

(d) The stockholders elected to ratify the selection of Ernst & Young LLP as independent auditors for the Corporation for the fiscal year ending January 31, 2004 by a vote of 1,587,919 shares of common stock, with 10,276 shares of common stock voting against and 55 shares of common stock abstaining.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

Exhibit No.	Title
Exhibit 10.7	Financing and Security Agreement dated as of August 19, 2003 among Puroflow Incorporated Southern Maryland Cable, Inc. and Bank of America, N.A.
Exhibit: 31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934
Exhibit: 31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934
Exhibit: 32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
Exhibit: 32.2	Certification of Chief Financial, pursuant to 18 U.S.C. Section 1350

a) Reports on Form 8-K:

In a Report on Form 8-K dated October 31, 2003, the Company reported under Item 2. "Acquisition or Disposition of Assets," the sale by the Company of its wholly owned subsidiary, Puroflow Incorporated to Western Filter Corporation. The Company reported under Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(b) Pro Forma Financial Information:

Unaudited pro forma condensed combined statements of operations for the fiscal years ended January 31, 2003 and 2002, respectively, and for the six months ended July 31, 2003 and unaudited pro forma condensed combined balance sheet as of July 31, 2003.

(c) Exhibits:

10.01 Stock Purchase Agreement by and between Argan, Inc., a Delaware corporation, and Western Filter Corporation, a California corporation, dated as of October 31, 2003.

In a Report on Form 8-K dated October 23, 2003, the Company reported under Item. 5 Other Events the registrant assigned all of its operating assets and liabilities relating to its Puroflow manufacturing business to a wholly-owned subsidiary. In addition, immediately following the assignment, the registrant amended its Certificate of Incorporation to change its corporate name from Puroflow Incorporated to Argan, Inc., and its wholly-owned subsidiary to which the assets and liabilities were assigned amended its Certificate of Incorporation to change its corporate name to Puroflow Incorporated.

In a Report on Form 8-K/A dated July 17, 2003, the Company reported under Item 2 "Acquisition or Disposition of Assets," the acquisition by the Company through a wholly owned subsidiary of Southern Maryland Cable, Inc. (SMC) The Company also reported under Item 7, Financial Statements, Pro Forma Information and Exhibits, the following:

Financial statements of business acquired:

Audited balance sheets of SMC as of December 31, 2002 and 2001 and related statements of operations, retained earnings and cash flow for the years then ended.

Unaudited balance sheet of SMC as of June 30, 2003 and related statements of operations, stockholders' equity and cash flows for the six months then ended June 30, 2003 and June 30, 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto, duly authorized.

ARGAN, INC.

March 15, 2004 By: /s/ Rainer Bosselmann
Rainer Bosselmann
Chairman of the Board and Chief Executive Officer

March 15, 2004 By: /s/ Arthur F. Trudel
Arthur F. Trudel
Chief Financial Officer