

DealerTrack Holdings, Inc.
Form 424B4
December 13, 2005

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Filed Pursuant to Rule 424(b)(4)
 Registration No. 333-126944

PROSPECTUS

10,000,000 Shares
 Common Stock

This is the initial public offering of common stock by DealerTrack Holdings, Inc. We are offering 6,666,667 shares and the selling stockholders identified in this prospectus are offering an additional 3,333,333 shares. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. The initial public offering price is \$17.00 per share.

Our common stock has been approved for quotation on The NASDAQ National Market, subject to notice of issuance, under the symbol TRAK.

An affiliate of an underwriter is a selling stockholder in this offering and after giving effect to this offering will own approximately 16.6% of our common stock. For more information, see Prospectus Summary Transactions and Relationships with Certain of the Underwriters and Their Affiliates and Risk Factors Risks Relating to this Offering Risks relating to transactions and relationships with certain of our stockholders, the underwriters and their respective affiliates. The initial public offering price will be determined by agreement between us and the underwriters in accordance with the recommendation of a qualified independent underwriter, as defined in the Conduct Rules of the National Association of Securities Dealers, Inc.

Investing in our common stock involves risks. See Risk Factors beginning on page 11 of this prospectus.

	Per Share	Total
Initial public offering price	\$ 17.00	\$ 170,000,000
Underwriting discounts and commissions	\$ 1.19	\$ 11,900,000
Proceeds to DealerTrack, before expenses	\$ 15.81	\$ 105,400,005
Proceeds to the selling stockholders, before expenses	\$ 15.81	\$ 52,699,995

We have granted the underwriters a 30-day option to purchase up to an additional 1,500,000 shares from us on the same terms and conditions as set forth above if the underwriters sell more than 10,000,000 shares of common stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about December 16, 2005.

Lehman Brothers

JPMorgan

Wachovia Securities

William Blair & Company
 December 12, 2005

SG Cowen & Co.

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**DealerTrack Automotive Industry Network Connects Dealers, Financing Sources and Other
Service and Information Providers Automotive Dealers Financing Sources DealerTrack Network
Other Service and Information Providers DealerTrack**

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Until January 6, 2006 (the 25th day after the date of this prospectus), all dealers effecting transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to any unsold allotments or subscriptions. This prospectus may also be used by J.P. Morgan Securities Inc. and its affiliates in connection with offers and sales of the common stock in market-making transactions from the date of this prospectus until December 16, 2005.

You should rely only on the information contained in this prospectus. We and the selling stockholders have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the selling stockholders are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, prospects, financial condition and results of operations may have changed since that date.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Although we believe this summary is materially complete, you should read this entire prospectus carefully, including the matters set forth under Risk Factors, Unaudited Combined Condensed Pro Forma Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and the notes thereto and the financial statements and related notes thereto for each of LLDG Operating Company (formerly known as Lease Marketing, Ltd.) and its subsidiaries (collectively, LML), dealerAccess Inc. and its subsidiary (collectively, dealerAccess), Chrome Systems Corporation (Chrome), NAT Holdings, Inc. (NAT) and DJR US, LLC (formerly known as Automotive Lease Guide (alg), LLC) and its affiliate (collectively, ALG) appearing elsewhere in this prospectus, before making an investment decision. Unless the context requires otherwise, references in this prospectus to DealerTrack, we, us and our refer to DealerTrack Holdings, Inc. and its subsidiaries on a consolidated basis.

Our Business

DealerTrack is a leading provider of on-demand software and data solutions for the automotive retail industry in the United States. We utilize the Internet to link automotive dealers with banks, finance companies, credit unions and other financing sources, and other service and information providers, such as the major credit reporting agencies. We have established a network of active relationships with over 21,000 automotive dealers, including over 80% of all franchised dealers; over 175 financing sources, including the 20 largest independent financing sources in the United States and eight captive financing sources; and a number of other service and information providers to the automotive retail industry. Our credit application processing product enables dealers to automate and accelerate the indirect automotive financing process by increasing the speed of communications between these dealers and their financing sources. We have leveraged our leading market position in credit application processing to address other inefficiencies in the automotive retail industry value chain. Our proven network of over 21,000 dealers provides a competitive advantage for distribution of our on-demand software and data solutions. Our integrated subscription-based software products and services enable our automotive dealer customers to receive valuable consumer leads, compare various financing and leasing options and programs, sell insurance and other aftermarket products, document compliance with certain laws and execute financing contracts electronically. In addition, we offer data and other products and services to various industry participants, including lease residual value and automobile configuration data.

Traditionally, the workflow processes in each stage of the automotive retail industry value chain have been manual and paper intensive and/or performed on stand-alone legacy systems, resulting in inefficiencies. In contrast to most dealer legacy systems, our web-based solutions are open and flexible, and easily integrate with other widely used software systems. Our network improves efficiency and reduces processing time for both dealers and financing sources, and integrates other information and service providers' products and services, such as credit reporting agencies. In addition, we intend to aggregate automotive industry information and introduce products and services that report the aggregated information to dealers, financing sources and other industry participants. We primarily generate revenue on both a transaction and subscription basis.

We began our principal business operations in February 2001 with the introduction of our credit application processing product to address inefficiencies in the automotive financing process. Since then, we have substantially increased the number of participants in our network and have introduced new products and services through our internal product development efforts as well as through acquisitions. As a result, we have increased our total addressable market by enhancing our offering of subscription products and our data and reporting capabilities, and expanding our network of relationships. We have grown, and believe we will continue to grow, our revenue significantly faster than our costs and expenses, which generates operating leverage. For example, our revenue increased \$31.3 million, or 81%, to \$70.0 million for the year ended December 31, 2004 from \$38.7 million for the year ended December 31, 2003. Costs and expenses for the same period increased \$20.4 million, or 49%, to \$62.3 million from \$41.9 million.

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Our Solution

Our suite of integrated on-demand software products and services addresses many of the existing inefficiencies in the automotive retail industry value chain. We believe our solutions deliver benefits to dealers, financing sources and other service and information providers.

Dealers. We offer franchised and independent automotive dealers an integrated suite of on-demand sales and finance solutions that significantly shorten financing processing times, allowing them to spend more time selling automobiles and aftermarket products. Traditionally, dealers and financing sources have relied upon the fax method of processing credit applications. This cumbersome process limited the range of options available to dealers and delayed the availability of financing. Our automated, web-based credit application processing product allows automotive dealers to originate and route their consumers' credit application information electronically. In addition, our suite of complementary subscription products and services allows dealers to integrate and better manage their business processes across the automotive retail industry value chain. For example, we offer a product that allows dealers to compare deal configurations from one or multiple financing and leasing sources on a real-time basis, which is referred to in the industry as *desking*. We also offer a product that allows dealers and consumers to complete finance contracts electronically, which a dealer can transmit to participating financing sources for funding, further streamlining the financing process and reducing transactional costs for both dealers and financing sources. Our products and services, when used together, form a more seamless sales and finance solution that integrates with other widely used software systems. As of September 30, 2005, an aggregate of 12,928 of our existing product subscriptions have been purchased by approximately 7,400 dealers.

Financing Sources. Our on-demand credit application processing and electronic contracting products eliminate expensive and time-consuming inefficiencies in legacy paper systems, and thereby decrease financing sources' costs of originating loans and leases. Typically, consumers who obtain financing to purchase an automobile do so either indirectly through a dealership or directly from a financing source. In indirect financings, the dealer submits the consumer's credit application information to one or multiple financing sources to obtain approval for the financing. We electronically transmit complete credit application and contract data, reducing costs and errors and improving efficiency for both prime and non-prime financing sources. We believe that financing sources that utilize our solution experience a significant competitive advantage over financing sources that rely on the legacy paper and fax processes. Currently, a substantial majority of our financing source customers' collective indirect credit application volume is processed through our network.

Other Service and Information Providers. Our web-based solutions enable third-party service and information providers to deliver their products and services more broadly and efficiently, which increases the value of our integrated solutions to our dealer customers. We offer our third-party service and information providers a secure and efficient means of delivering their data to our dealer customers.

Our Competitive Strengths

We believe that the following strengths provide us with competitive advantages in the marketplace:

Leading Market Position. We currently have active relationships with over 21,000 automotive dealers, including over 80% of all franchised dealers; over 175 financing sources, including the 20 largest independent financing sources in the United States and eight captive financing sources; and a number of other service and information providers. We believe we are also the market leader in *desking*, electronic contracting and residual value data for the automotive finance industry. Our network of relationships combined with our market leading positions provide us with significant competitive advantages, including our ability to maximize cross-selling opportunities for our products and services to all of our customers and to expand the wide range of new participants in our network. For example, our new subsidiaries, Chrome Systems, Inc. and Automotive Lease Guide (ALG), Inc., will be better able to market and distribute their products and services through our network. We believe that customers who regularly use one of our solutions are more inclined to use one or more of our other solutions.

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Flexible Web-Based Delivery Model. Our customers are able to access our highly specialized applications on demand rather than incurring the expense and difficulty of installing and maintaining them independently. In addition, our open architecture facilitates integration with certain existing systems of our automotive dealer customers, financing sources and other service and information providers. We believe our flexible web-based delivery model enhances our customers' operating efficiency and reduces their total operating costs.

Broad and Integrated Suite of Solutions. Our broad range of integrated on-demand software products and services improves our customers' operating efficiency in the pre-sales marketing and prospecting, sales and finance and insurance stages of the automotive retail industry value chain. Our integrated product suite eliminates the need for duplicative data entry and allows for the electronic transmission of data to and from selected third parties, which we believe provides us with a competitive advantage over those of our competitors with less integrated product offerings.

Independent Network. Our web-based network is independent and does not give any one financing source preference over any other financing source. We believe that this neutral approach makes our network more appealing to both automotive dealers and financing sources than captive alternatives that favor financing sources owned or controlled by one or more automobile manufacturers.

Proven Acquisition Strategy. We have successfully completed strategic acquisitions that we believe have increased our market share and/or provided us with products, services and technologies that are complementary to our existing product and service offerings. We believe that our success in completing these acquisitions and integrating them into our business has allowed us to maintain our leadership position in the industry, enhanced our network of relationships and accelerated our growth.

Our Growth Strategy

Our growth strategy is to leverage our position as a leading provider of on-demand software solutions to the U.S. automotive retail industry. Key elements of our growth strategy are:

Sell Additional Products and Services to Our Existing Customers. Many of our subscription-based products and services have been recently introduced to our customers. As a result, we believe that a significant market opportunity exists for us to sell additional products and services to the approximately 65% of our over 21,000 active dealer customers that utilize our credit application processing product, but have not yet purchased one or more of our subscription-based products or services. Similarly, the over 175 financing sources that utilize our credit application product represent a market opportunity for us to sell our electronic contracting solution, which approximately 10% of our financing source customers have implemented to date.

Expand Our Customer Base. We intend to increase our market penetration by expanding our automotive dealer and financing source customer base through the efforts of our direct sales force. Although we currently enjoy active relationships with over 80% of all franchised dealers, currently 5% of the approximately 50,000 independent dealerships in the United States are active in our network. We believe that we are well positioned to increase the number of these active dealer relationships. While we currently have over 175 active financing source customers, we will focus on adding the captive financing affiliates of foreign automotive manufacturers, as well as select regional banks, financing companies and other financing sources to our network. We also intend to increase the number of other service and information providers in our network by adding, among others, insurance and other aftermarket service providers.

Expand Our Product and Service Offerings. We expect to expand our suite of products and services to address the evolving needs of our customers. For example, we believe there are opportunities to generate additional revenue from insurance and other aftermarket providers by allowing their products and services to be accessed and offered in our network. We also see opportunities to generate additional revenue by aggregating automotive industry information and offering that information to dealers, financing sources and other industry participants.

Pursue Acquisitions and Strategic Alliances. We intend to continue to grow and advance our business through acquisitions and strategic alliances. We believe that acquisitions and strategic alliances will allow us to

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enhance our product and service offerings, sell new products using our network, improve our technology and/or increase our market share.

Recent Developments

Acquisitions

On May 25, 2005, we acquired substantially all the assets and certain liabilities of ALG for a purchase price of \$39.7 million (including direct acquisition costs of approximately \$0.5 million), payable in cash and notes payable to ALG. ALG's products and services provide lease residual value data for new and used leased automobiles and guidebooks and consulting services related thereto, to manufacturers, financing sources, investment banks, automobile dealers and insurance companies. We intend to combine ALG's lease residual value data with our other products and services to allow us to aggregate automotive industry information and report the aggregated information to dealers, financing sources and other industry participants. For the year ended December 31, 2004, ALG had revenue of \$7.8 million.

On May 23, 2005, we acquired substantially all the assets and certain liabilities of NAT for a purchase price of \$8.7 million (including direct acquisition costs of approximately \$0.3 million), payable in cash. NAT's products and services streamline and automate many traditionally time-consuming and error-prone manual processes of administering aftermarket products, such as extended service contracts, guaranteed asset protection coverage, theft deterrent devices and credit life insurance. We intend to add NAT's products and services to our suite of solutions in order to enhance our menu-selling offering and to add insurance and other aftermarket providers to our network. For the year ended December 31, 2004, NAT had revenue of \$3.9 million.

On May 10, 2005, we acquired substantially all the assets and certain liabilities of Chrome for a purchase price of \$20.4 million (including direct acquisition costs of \$0.4 million), payable in cash. Chrome's products and services collect, standardize and enhance raw automotive data and deliver it in a format that is easy to use and tailored to specific industry requirements. Chrome's products and services enable dealers, manufacturers, financing sources, Internet portals, consumers and insurance companies to configure, compare, and price automobiles on a standardized basis. This provides more accurate valuations for both consumer trade-ins and dealer used automobile inventory. We intend to integrate Chrome's products and services into our network to create an expanded subscription product offering for our dealer customers. For the year ended December 31, 2004, Chrome had revenue of \$12.8 million.

Credit Facilities

On April 15, 2005, we and one of our subsidiaries, DealerTrack, Inc., entered into credit facilities comprised of a \$25.0 million revolving credit facility and a \$25.0 million term loan facility. The revolving credit facility is available for general corporate purposes (including acquisitions), subject to certain conditions. Proceeds from borrowings under the credit facilities were used to fund a portion of the Chrome, NAT and ALG acquisitions. As of September 30, 2005, the principal amount borrowed under the credit facilities was \$43.5 million and we had \$6.5 million available for additional borrowings under the revolving credit facility. The revolving credit facility matures on April 15, 2008 and the term loan facility matures on April 15, 2010.

Transactions and Relationships with Certain of the Underwriters and Their Affiliates

We have engaged in transactions with, and established relationships with, certain of the underwriters and their affiliates, including Lehman Brothers Inc. (Lehman Brothers), J.P. Morgan Securities Inc. (JPMorgan) and Wachovia Capital Markets, LLC (Wachovia). In particular, one affiliate of JPMorgan is a stockholder that is selling shares of common stock in this offering and another is a significant customer and vendor of ours. Additionally, an affiliate of each of Lehman Brothers, JPMorgan and Wachovia is a lender under our credit facilities. Additionally, the Wachovia Corporation, an affiliate of Wachovia, has announced plans to acquire WFS Financial, Inc., which is an affiliate of one of our stockholders and a significant customer of ours, and accounted for \$1.9 million, or 2.8% of our total revenue for the year ended December 31,

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2004 and \$1.6 million, or 1.9% of our total revenue for the nine months ended September 30, 2005. These transactions and relationships are more fully described below:

Prior to the completion of this offering, an affiliate of JPMorgan will beneficially own approximately 26.6% of the outstanding shares of our equity securities. All or most of this affiliate's remaining shares of common stock will be transferred to a voting trust that will be formed on or around the completion of this offering. After giving effect to this offering, the affiliate will hold voting power with respect to no greater than 4.99% of the outstanding shares of our common stock;

Certain affiliates of JPMorgan and an affiliate of Wachovia are financing source customers of ours and we provide certain hosting services for JPMorgan;

The financing source affiliates of JPMorgan and Wachovia use competing electronic technology and systems in addition to ours, including their own proprietary services. They currently originate automotive finance business by means other than our credit application processing product and we expect that they will continue to do so in the future;

Affiliates of each of Lehman Brothers, JPMorgan and Wachovia are lenders under our credit facilities. We are required to use up to 25% of the proceeds to us from the sale of shares in this offering to repay the \$25.0 million term loan under our credit facilities. Therefore, these affiliates will receive a portion of the proceeds from this offering;

We license certain limited technology from an affiliate of JPMorgan. This license was obtained as a contributed asset in connection with our initial capitalization. This license is royalty-free and perpetual. There are no ongoing payments or other ongoing consideration with respect to this license agreement. The license agreement restricts our ability to use this technology outside of the automotive finance industry;

We maintain certain banking relationships with, including the receipt of investment management services from, an affiliate of JPMorgan;

We provide lease residual value data for new and used leased automobiles as well as guidebooks, and consulting services related thereto, to a financing source affiliate of JPMorgan;

We provide vehicle description and specification data for automobiles, and software related thereto, to a financing source affiliate of JPMorgan; and

In the ordinary course of their business, the underwriters or their affiliates have engaged, are engaged and may in the future engage in investment banking and financial advisory transactions with us, our affiliates or our significant stockholders, including Lehman Brothers' role as financial advisor and its delivery of a fairness opinion to an affiliate of one of our significant stockholders, The First American Corporation, in connection with First Advantage Corporation's acquisition of the companies and assets comprising the credit information segment of The First American Corporation.

For more information, see Risk Factors Risks Relating to Our Business We are dependent on several customers that are affiliates of our stockholders, Risks Relating to this Offering Risks relating to transactions and relationships with certain of our stockholders, the underwriters and their respective affiliates, Related Party Transactions and Underwriting.

Company Information

We are a Delaware corporation formed in August 2001 in connection with the combination of DealerTrack, Inc., which commenced operations in February 2001, and webalg, inc., which commenced operations in April 2000. Our principal executive offices are located at 1111 Marcus Avenue, Suite M04, Lake Success, New York 11042. Our

telephone number is (516) 734-3600 and our website address is www.dealertrack.com. The information contained on our website is not part of this prospectus.

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The Offering

Common stock offered by us 6,666,667 shares

Common stock offered by the selling stockholders 3,333,333 shares

Common stock to be outstanding after this offering 33,848,902 shares⁽¹⁾

Use of proceeds We will receive net proceeds from this offering of approximately \$103.5 million. We will use \$43.5 million of this amount to repay in full the \$25.0 million outstanding under our term loan facility and the \$18.5 million outstanding under our revolving credit facility. Therefore, the affiliates of the underwriters that are lenders under our credit facility will receive a portion of the net proceeds to us from this offering. The remaining estimated net proceeds of approximately \$60.0 million will be used for general corporate purposes. We will have broad discretion as to the use of these remaining proceeds and may apply them to product development efforts, to acquisitions or to establish strategic alliances. We have no definitive agreements with respect to future acquisitions or strategic alliances and have no commitments with respect to these remaining net proceeds. We will not receive any of the net proceeds from the sale of shares of common stock by the selling stockholders. See Use of Proceeds.

NASDAQ National Market symbol TRAK

- (1) The total number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of September 30, 2005 and excludes:
 3,603,001 shares of common stock issuable upon exercise of outstanding stock options at a weighted average exercise price of \$6.18 per share, of which 1,324,533 options were exercisable, and
 2,012,353 shares of common stock reserved for future issuance under our 2005 Incentive Award Plan.

Except as otherwise indicated, the information in this prospectus:
 assumes that the underwriters do not exercise their over-allotment option;
 has been adjusted to reflect the 1-for-8 reverse stock split of our common stock effected on March 19, 2003;
 reflects the automatic conversion of our outstanding shares of series A preferred stock, series A-1 preferred stock, series A-2 preferred stock, series B preferred stock, series B-1 preferred stock, series C preferred stock, series C-1 preferred stock, series C-2 preferred stock and series C-3 preferred stock into an aggregate of 26,397,589 shares of common stock upon the completion of this offering; and
 assumes our authorized capital stock is increased to 175 million shares of common stock and 10 million shares of preferred stock, which will occur immediately prior to the completion of this offering.

Risk Factors

See Risk Factors beginning on page 11 and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

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Summary Historical Consolidated Financial Data

The summary historical consolidated financial data set forth below as of December 31, 2003 and 2004 and for each of the three years in the period ended December 31, 2004 have been derived from our audited consolidated financial statements and related notes thereto included in this prospectus. The summary historical consolidated financial data set forth below as of September 30, 2005 and for the nine months ended September 30, 2004 and 2005 have been derived from our unaudited consolidated financial statements and related notes thereto included in this prospectus. These unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements. In the opinion of management, such unaudited financial data reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair statement of the results for those periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

In connection with the preparation of our consolidated financial statements for the nine months ended September 30, 2005, our board of directors reassessed the fair market value of the common shares underlying the equity awards granted to employees and directors during May and June 2005. Based upon this reassessment, we determined that there was an additional compensatory element that should have been reflected in our consolidated financial statements for the six months ended June 30, 2005. Additionally, during the review of the consolidated financial statements for the nine months ended September 30, 2005, we identified approximately \$0.5 million of revenue that should have been recorded during the six months ended June 30, 2005. As a result of the foregoing, we have restated our consolidated financial statements as of and for the six months ended June 30, 2005. See Note 3 to our consolidated financial statements included elsewhere in this prospectus.

We completed several acquisitions during the periods presented below, the operating results of which have been included in our historical results of operations from the respective acquisition dates. These acquisitions have significantly affected our revenue, results of operations and financial condition. Accordingly, the results of operations for the periods presented may not be comparable due to these acquisitions.

Upon the completion of this offering, each of the outstanding shares of redeemable convertible participating preferred stock will automatically convert into shares of common stock. The pro forma consolidated financial data included in this summary give effect only to the automatic conversion of all the outstanding shares of redeemable convertible participating preferred stock into common stock. The pro forma consolidated financial data included in this summary do not give effect to this offering, including the application of the proceeds therefrom.

The following data should be read in conjunction with Unaudited Combined Condensed Pro Forma Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and related notes thereto and the consolidated financial statements and related notes thereto for each of dealerAccess, LML, Chrome, NAT and ALG, in each case included elsewhere in this prospectus.

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	Year Ended December 31,			Nine Months Ended September 30,	
	2002	2003	2004	2004	2005
	(unaudited)				
	(Dollars in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue ⁽²⁾	\$ 11,711	\$ 38,679	\$ 70,044	\$ 50,943	\$ 86,844
Operating costs and expenses:					
Cost of revenue ⁽²⁾⁽³⁾	17,556	25,362	29,665	21,731	36,922
Product development ⁽³⁾	2,101	1,539	2,256	1,600	3,585
Selling, general and administrative ⁽³⁾	9,008	15,048	30,401	21,822	38,795
Total operating costs and expenses	28,665	41,949	62,322	45,153	79,302
(Loss) income from operations	(16,954)	(3,270)	7,722	5,790	7,542
Interest income	179	75	54	30	106
Interest expense		(22)	(115)	(54)	(1,006)
(Loss) income before provision for income taxes	(16,775)	(3,217)	7,661	5,766	6,642
(Provision) benefit for income taxes		(72)	3,592	(829)	(2,856)
Net (loss) income	\$ (16,775)	\$ (3,289)	\$ 11,253	\$ 4,937	\$ 3,786
Basic net (loss) income per share applicable to common stockholders ⁽⁴⁾	\$ (23,334.99)	\$ (1,000.30)	\$ 0.45	\$ 0.20	\$ 0.15
Diluted net (loss) income per share applicable to common stockholders ⁽⁴⁾	\$ (23,334.99)	\$ (1,000.30)	\$ 0.02 ⁽¹⁾	\$ 0.01	\$ 0.07
Weighted average shares outstanding	1,009	3,288	40,219	19,194	603,227
Average shares outstanding assuming dilution	1,009	3,288	1,025,248	486,184	1,318,000
Pro forma basic net income per share (unaudited)			\$ 0.43		\$ 0.14
Pro forma diluted net income per share (unaudited)			\$ 0.41		\$ 0.14
Pro forma weighted average shares outstanding ⁽⁵⁾ (unaudited)			26,437,808		27,000,816

Pro forma weighted average shares outstanding assuming dilution ⁽⁵⁾ (unaudited)			27,422,837			27,715,589				
Other Data:										
EBITDA ⁽⁶⁾ (unaudited)	\$	(5,760)	\$	7,746	\$	18,595	\$	13,568	\$	24,800
Capital expenditures	\$	395	\$	542	\$	1,825	\$	1,390	\$	2,827
Active dealers in the network as of end of period ⁽⁷⁾ (unaudited)		12,752		15,999		19,150		18,521		21,071
Active financing sources in the network as of end of period ⁽⁸⁾ (unaudited)		21		59		109		94		167
Transactions processed ⁽⁹⁾ (unaudited)		6,912,272		22,995,715		33,964,195		25,556,537		44,912,624
Product subscriptions as of end of period ⁽¹⁰⁾ (unaudited)		317		3,030		7,705		6,843		12,928

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	As of December 31,		As of	Pro Forma ⁽¹¹⁾
			September 30,	as of
	2003	2004	2005	September 30,
				2005
	(unaudited)			
	(Dollars in thousands)			
Consolidated Balance Sheets Data:				
Cash and cash equivalents	\$ 16,790	\$ 21,753	\$ 13,522	\$ 13,522
Working capital ⁽¹²⁾	15,640	23,390	9,968	9,968
Total assets	46,643	76,681	138,027	138,027
Long-term debt, capital lease obligations (long and short-term) and other long-term liabilities	1,100	3,448	40,759	40,759
Total redeemable convertible participating preferred stock	72,226	72,226	72,226	
Accumulated deficit	(36,287)	(25,034)	(21,248)	(21,248)
Total stockholders (deficit) equity	(33,608)	(20,001)	(13,401)	58,825

(1) During the three months ended June 30, 2005, we determined that diluted net income per share applicable to common stockholders for the year ended December 31, 2004 was miscalculated. As a result, we have adjusted our diluted net income per share applicable to common stockholders calculation to \$0.02 per share from the previously reported \$0.00 per share. There was no impact on the calculation of basic net income per share applicable to common stockholders.

	Year Ended December 31,			Nine Months Ended	
				September 30,	
	2002	2003	2004	2004	2005
	(unaudited)				
	(Dollars in thousands)				
(2) Related party revenue	\$ 8,191	\$ 13,717	\$ 19,070	\$ 14,114	\$ 21,495
Related party cost of revenue	199	3,985	3,306	2,519	2,552

(3) We recorded non-cash charges for compensation expense resulting from certain stock option grants for the year ended December 31, 2004 and the nine months ended September 30, 2005. Stock based compensation recorded for the year ended December 31, 2004 and the nine months ended September 30, 2004 and September 30, 2005 was classified as follows:

	Year Ended		Nine Months	
	December 31,		Ended	
	2004	2004	2004	2005

	(unaudited)		
	(Dollars in thousands)		
Cost of revenue	\$ 286	\$ 234	\$ 201
Product development	84	66	70
Selling, general and administrative	1,263	1,042	1,046
 Total stock-based compensation expense	 \$ 1,633	 \$ 1,342	 \$ 1,317

(4) The basic and diluted earnings per share calculations include adjustments to net (loss) income relating to preferred dividends earned, but not paid, and net income amounts allocated to the participating preferred stockholders in order to compute net (loss) income applicable to common stockholders in accordance with SFAS No. 128, *Earnings per Share* and EITF 03-6, *Participating Securities and the Two-Class Method* under FASB No. 128. For more detail, please see Note 2 to our historical consolidated financial statements.

(5) Unaudited pro forma basic and diluted net income per share have been computed to give effect, even if antidilutive, to the3

ARGAN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	July 31, 2017 (Unaudited)	January 31, 2017 (Note 1)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 153,225	\$ 167,198
Short-term investments	403,925	355,796
Accounts receivable	72,517	54,836
Costs and estimated earnings in excess of billings	8,194	3,192
Prepaid expenses and other current assets	4,766	6,927
TOTAL CURRENT ASSETS	642,627	587,949
Property, plant and equipment, net	14,821	13,112
Goodwill	34,913	34,913
Intangible assets, net	7,663	8,181
Deferred taxes	434	241
Other assets	514	92
TOTAL ASSETS	\$ 700,972	\$ 644,488
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 131,001	\$ 101,944
Accrued expenses	33,116	39,539
Billings in excess of costs and estimated earnings	190,581	209,241
TOTAL CURRENT LIABILITIES	354,698	350,724
Deferred taxes	1,206	1,195
TOTAL LIABILITIES	355,904	351,919
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
STOCKHOLDERS EQUITY		
Preferred stock, par value \$0.10 per share 500,000 shares authorized; no shares issued and outstanding		
Common stock, par value \$0.15 per share 30,000,000 shares authorized; 15,541,952 and 15,461,452 shares issued at July 31, 2017 and January 31, 2017, respectively; 15,538,719 and 15,458,219 shares outstanding at July 31, 2017 and January 31, 2017, respectively	2,331	2,319
Additional paid-in capital	140,182	135,426
Retained earnings	202,413	154,649
Accumulated other comprehensive income (loss)	131	(762)
TOTAL STOCKHOLDERS EQUITY	345,057	291,632
Non-controlling interests	11	937
TOTAL EQUITY	345,068	292,569
TOTAL LIABILITIES AND EQUITY	\$ 700,972	\$ 644,488

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

ARGAN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended July 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 48,067	\$ 37,419
Adjustments to reconcile net income to net cash provided by operating activities		
Stock option compensation expense	2,315	1,270
Depreciation	1,210	918
Amortization of purchased intangible assets	518	521
Deferred income tax benefit	(153)	(11)
Impairment loss		1,979
Other	(78)	(202)
Changes in operating assets and liabilities		
Accounts receivable	(17,726)	31,484
Prepaid expenses and other assets	2,600	(993)
Accounts payable and accrued expenses	21,485	24,029
Billings in excess of costs and estimated earnings, net	(23,662)	16,293
Net cash provided by operating activities	34,576	112,707
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(357,500)	(220,000)
Maturities of short-term investments	310,000	114,000
Purchases of property, plant and equipment	(2,802)	(1,612)
Loans made under notes receivable	(200)	
Net cash used in investing activities	(50,502)	(107,612)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options	2,453	4,217
Distributions to joint venture partners	(1,229)	(7,500)
Net cash provided by (used in) financing activities	1,224	(3,283)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	729	134
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,973)	1,946
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	167,198	160,909
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 153,225	\$ 162,855
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 19,754	\$ 13,939

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

ARGAN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2017

(Tabular dollar amounts in thousands, except per share data)

(Unaudited)

NOTE 1 DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

The condensed consolidated financial statements include the accounts of Argan, Inc. (Argan), its wholly owned subsidiaries and its financially controlled joint ventures. Argan conducts operations through its wholly owned subsidiaries, Gemma Power Systems, LLC and affiliates (GPS), which provided 89% and 84% of consolidated revenues for the six months ended July 31, 2017 and 2016, respectively; The Roberts Company, Inc. (TRC); Atlantic Projects Company Limited and affiliates (APC) and Southern Maryland Cable, Inc. (SMC). Argan and these consolidated subsidiaries are hereinafter cumulatively referred to as the Company.

Through GPS and APC, the Company provides a full range of engineering, procurement, construction, commissioning, operations management, maintenance, development, technical and consulting services to the power generation and renewable energy markets for a wide range of customers, including independent power project owners, public utilities, power plant equipment suppliers and global energy plant construction firms. GPS, including its consolidated joint ventures, and APC represent our power industry services reportable segment. Through TRC, the industrial fabrication and field services reportable segment provides on-site services that support maintenance turnarounds, shutdowns and emergency mobilizations for industrial plants primarily located in the southern United States and that are based on its expertise in producing, delivering and installing fabricated steel components such as pressure vessels, heat exchangers and piping systems. Through SMC, conducting business as SMC Infrastructure Solutions, the telecommunications infrastructure services segment provides project management, construction, installation and maintenance services to commercial, local government and federal government customers primarily in the mid-Atlantic region.

Basis of Presentation

In Note 14, the Company has provided certain financial information relating to the operating results and assets of its reportable segments based on the manner in which management disaggregates the Company's financial reporting for purposes of making internal operating decisions. All significant inter-company balances and transactions have been eliminated in consolidation. The deferred tax amounts included in the comparative balance sheet were reclassified to conform to the current year presentation. The Company's fiscal year ends on January 31 of each year.

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted pursuant to those

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rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements, the notes thereto (including the summary of significant accounting policies), and the independent registered public accounting firm's report thereon that are included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

The condensed consolidated balance sheet as of July 31, 2017, the condensed consolidated statements of earnings for the three and six months ended July 31, 2017 and 2016, and the condensed consolidated statements of cash flows for the six months ended July 31, 2017 and 2016 are unaudited. The condensed consolidated balance sheet as of January 31, 2017 has been derived from audited financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, considered necessary to present fairly the financial position of the Company as of July 31, 2017, and its earnings and cash flows for the interim periods presented. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

Revenue Recognition Revenues are recognized primarily under various long-term construction contracts, including contracts for which revenues are based on either a fixed price, cost-plus-fee or time and materials basis, with typical durations of one month to three years. Revenues from fixed price construction contracts, including a portion of estimated profit, are recognized as services are provided, based on costs incurred and estimated total contract costs using the percentage of completion method. Revenues from cost-plus-fee construction contracts are recognized on the basis of costs incurred during the period plus the amount of fee earned. Revenues from time and materials contracts are recognized when the related services are provided to the customer. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined.

Unapproved change orders, which represent contract variations for which the Company has project owner directive for additional work or authorization for scope changes but not for the price associated with the corresponding change, are reflected in revenues when it is probable that the applicable costs will be recovered through a change in the contract price. There were no significant unapproved change orders included in the total contract value amounts used to determine revenues as of July 31, 2017. Contract results may be impacted by estimates of the amounts of change orders that we expect to receive. The effects of any resulting revisions to revenues and estimated costs can be determined at any time and they could be material. In general, claims that are unapproved in regard to both scope and price are reflected in revenues only when an agreement on the amount has been reached with the project owner.

Fair Values The carrying value amounts presented in the condensed consolidated balance sheets for the Company's cash and cash equivalents, short-term investments, accounts receivable and accounts payable are reasonable estimates of their fair values due to the short-term nature of these instruments. The fair value amounts of reporting units (as needed for purposes of identifying indications of impairment to goodwill) are determined by averaging valuations that are calculated using several market-based and income-based approaches deemed appropriate in the circumstances.

NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There is no recently issued accounting guidance that has not yet been adopted that the Company considers material to its condensed consolidated financial statements except for the following:

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (the "FASB") issued a new standard on revenue recognition, Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), in order to create a principles-based revenue recognition framework that may affect nearly every revenue-generating entity. As delayed by the FASB, ASU 2014-09 and a series of related amending pronouncements issued by the FASB become effective for public companies for fiscal years beginning after December 15, 2017. As a result, the Company will be required to adopt the new standard effective February 1, 2018.

The Company is completing its evaluation of the impacts of ASU 2014-09, as amended, on its condensed consolidated financial statements. The Company expects to adopt the new standard using the allowable modified retrospective method which will result in a cumulative effect adjustment as of February 1, 2018. To date, the Company has examined an active engineering, procurement and construction ("EPC") contract of

GPS that it believes is representative of the large fixed price EPC contracts that will be in place at the date of adoption and has come to preliminary conclusions on the impact of the new standard on revenues using the 5-step process prescribed by ASU 2014-09, as amended. The Company does not believe that the adoption of the standard will have a significant impact on the revenue recognition patterns for its fixed price EPC contracts as compared to revenues recognized under the existing revenue guidance, assuming that contract structures similar to those in place are in effect at the time of the Company's adoption. The Company expects that most of its future revenues will continue to be recognized over time utilizing the cost-to-cost measure of progress consistent with current practice. However, there are certain industry-specific implementation issues that are still unresolved and, depending on the resolution of these matters, conclusions on the impact on the Company's revenue recognition patterns could change. Through the date of adoption, the Company will continue to evaluate the impacts of ASU 2014-09, as amended, on its large EPC and its smaller long-term contracts to ensure that its preliminary conclusions continue to remain accurate for future revenues. Additionally, the Company is continuing its assessment of the impact of ASU 2014-09, as amended, on its financial statement disclosures which are expected to be more extensive based on the requirements of the new standard.

Leases

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*, which amends the existing guidance and which will require recognition of operating leases with lease terms of more than twelve months on the balance sheet. For these leases, companies will record assets for the rights and liabilities for the obligations that are created by the leases. The pronouncement will require disclosures that provide qualitative and quantitative information for the lease assets and liabilities presented in the financial statements. Although the adoption of this pronouncement, which is effective for fiscal years beginning after December 15, 2018, will affect the Company's condensed consolidated financial statements, the Company has not yet determined the complete extent or significance of the changes.

NOTE 3 CONSTRUCTION JOINT VENTURES

GPS assigned its EPC contracts for two natural gas-fired power plants to two separate joint ventures that were formed in order to perform the work for the applicable project and to spread the bonding risk of each project. The joint venture partner for both projects is a large civil contracting firm. The corresponding joint venture agreements, as amended, provide that GPS has the majority interest in any profits, losses, assets and liabilities resulting from the performance of the contracts. Final contractual completion of the two projects was achieved in October 2016 and December 2016, respectively. GPS has no significant remaining commitments under these arrangements except for the provision of services under the related warranty obligations.

Due to the financial control by GPS, the accounts of the joint ventures have been included in the Company's condensed consolidated financial statements since the commencement of contract activities (near the end of the fiscal year ended January 31, 2014). The shares of the profits of the joint ventures have been determined based on the percentages by which the Company believes profits will ultimately be shared by the joint venture partners.

NOTE 4 CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company considers all liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. Short-term investments as of July 31, 2017 and January 31, 2017 consisted solely of certificates of deposit purchased from Bank of America (the Bank) with weighted average initial maturities of 252 days and 185 days, respectively (the CDs). The Company has the intent and ability to hold these securities until they mature, and they are carried at cost plus accrued interest which approximates fair value. The total carrying value amounts as of July 31, 2017 and January 31, 2017 included accrued interest of \$1.4 million and \$0.8 million, respectively. Interest income is recorded when earned and is included in other income, net. As of July 31, 2017 and January 31, 2017, the weighted average annual interest rates of the Company's short-term investment CDs were 1.27% and 1.13%, respectively.

The Company has cash on deposit in excess of federally insured limits at the Bank, has purchased CDs from the Bank, and has liquid mutual fund investments through an arrangement with the Bank. Management does not believe that maintaining substantially all such assets with the Bank represents a material concentration risk.

NOTE 5 ACCOUNTS RECEIVABLE

Amounts retained by project owners under construction contracts and included in accounts receivable as of July 31, 2017 and January 31, 2017 were \$57.0 million and \$36.2 million, respectively. Such retainage amounts represent funds withheld by project owners until a defined phase of a contract or project has been completed and accepted by the project owner. Retention amounts and the length of retention periods may vary. Most of the amount outstanding as of July 31, 2017, which relates substantially to active projects, will not be collected until the fiscal year ending January 31, 2019. Retainage amounts related to active contracts are classified as current assets regardless of the term of the applicable contract and amounts are generally collected by the completion of the applicable contract.

The Company monitors its exposure to credit losses and maintains an allowance for anticipated losses considered necessary under the circumstances based on historical experience with uncollected accounts and a review of its currently outstanding accounts and notes receivable.

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The amount of the allowance for uncollectible accounts as of July 31, 2017 and January 31, 2017 was approximately \$2.4 million and \$1.9 million, respectively, and it related primarily to project development loans made in prior years. The provision for uncollectible accounts for both the three and the six months ended July 31, 2017 was \$0.3 million. The Company did not record a provision for uncollectible accounts for the three and six months ended July 31, 2016.

NOTE 6 COSTS, ESTIMATED EARNINGS AND BILLINGS ON UNCOMPLETED CONTRACTS

The table below sets forth the aggregate amounts of costs charged to and earnings accrued on uncompleted contracts compared with the billings on those contracts through July 31, 2017 and January 31, 2017.

	July 31, 2017	January 31, 2017
Costs charged to uncompleted contracts	\$ 879,218	\$ 485,629
Estimated accrued earnings	151,324	78,708
	1,030,542	564,337
Less - billings to date	1,212,929	770,386
	\$ (182,387)	\$ (206,049)

Amounts above are included in the accompanying condensed consolidated balance sheets under the following captions:

	July 31, 2017	January 31, 2017
Costs and estimated earnings in excess of billings	\$ 8,194	\$ 3,192
Billings in excess of costs and estimated earnings	190,581	209,241
	\$ (182,387)	\$ (206,049)

Costs charged to contracts include amounts billed to the Company for delivered goods and services where payments have been retained from subcontractors and suppliers. Retained amounts as of July 31, 2017 and January 31, 2017, which were included in the Company's balance of accounts payable as of those dates, totaled \$30.3 million and \$17.2 million, respectively. Generally, such amounts are expected to be paid prior to the completion of the applicable project.

NOTE 7 PURCHASED INTANGIBLE ASSETS

At July 31, 2017 and January 31, 2017, the goodwill balances included in the condensed consolidated balance sheets related to the acquisitions of GPS, TRC and APC and were \$18.5 million, \$14.4 million and \$2.0 million, respectively.

The other purchased intangible assets consisted of the following elements as of July 31, 2017 and January 31, 2017.

	Estimated Useful Life	Gross Amount	July 31, 2017 Accumulated Amortization	Net Amount	January 31, 2017 (net amount)
Trade names -					
GPS/TRC	15 years	\$ 8,142	\$ 3,085	\$ 5,057	\$ 5,328
SMC	indefinite	181		181	181
Process certifications -					

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TRC	7 years	1,897	452	1,445	1,581
Customer relationships -					
TRC/APC	4-10 years	1,346	373	973	1,072
Other intangibles	various	46	39	7	19
Totals		\$ 11,612	\$ 3,949	\$ 7,663	\$ 8,181

NOTE 8 FINANCING ARRANGEMENTS

The Company maintains financing arrangements with the Bank that are described in an Amended and Restated Replacement Credit Agreement (the Credit Agreement), which superseded the Company s prior arrangements with the Bank. The Credit Agreement provides a revolving loan with a maximum borrowing amount of \$50.0 million that is available until May 31, 2021 with interest at the 30-day LIBOR plus 2.00%. The Company may also use the borrowing ability to cover other credit instruments issued by the Bank for the Company s use in the ordinary course of business. The Company has approximately \$6.0 million of credit outstanding under the Credit Agreement.

The Company has pledged the majority of its assets to secure its financing arrangements. The Bank's consent is not required for acquisitions, divestitures, cash dividends or significant investments as long as certain conditions are met. The Bank requires that the Company comply with certain financial covenants at its fiscal year-end and at each of its fiscal quarter-ends. The Credit Agreement includes other terms, covenants and events of default that are customary for a credit facility of its size and nature. As of July 31 and January 31, 2017, the Company was compliant with the financial covenants of its financing arrangements.

A commercial bank that supports the activities of TRC has issued an outstanding irrevocable letter of credit on its behalf in the amount of \$0.4 million with a current expiration date in January 2018.

NOTE 9 LEGAL MATTERS

In the normal course of business, the Company may have pending claims and legal proceedings. It is the opinion of management, based on information available at this time, that there are no current claims and proceedings that could have a material effect on the Company's condensed consolidated financial statements other than the one discussed below. The material amounts of any legal fees expected to be incurred in connection with legal matters are accrued when such amounts are estimable.

On February 1, 2016, TRC was sued in Person County, North Carolina, by a subcontractor, PPS Engineers, Inc. (PPS), in an attempt to force TRC to pay invoices for services rendered in the total amount of \$2.3 million. PPS has placed liens on the property of the customers in several states where work was performed by PPS and it has also filed a claim against the bond issued on behalf of TRC relating to one significant project located in Tennessee in the amount of \$2.5 million. On March 4, 2016, TRC filed responses to the claims of PPS. The positions of TRC are that PPS failed to deliver a number of items required by the applicable contract between the parties and that the invoices rendered by PPS covering the disputed services will not be paid until such deliverables are supplied. Further, TRC maintains that certain sums are owed to it by PPS for services, furniture, fixtures, equipment, and software that were supplied by TRC on behalf of PPS that total approximately \$2.2 million. The amounts invoiced by PPS are accrued by TRC and the corresponding liability amount was included in accounts payable in the condensed consolidated balance sheets as of July 31, 2017 and January 31, 2017. TRC has not recorded an account receivable for the amounts it believes are owed to it by PPS. A mediation effort was attempted in 2016 but it was unproductive and an impasse was declared.

The Company intends to continue to defend against the claim of PPS and to pursue its claims against PPS. Due to the uncertainty of the ultimate outcomes of these legal proceedings, assurance cannot be provided by the Company that TRC will be successful in these efforts. Management does not believe that resolution of the matters discussed above will result in additional loss with material negative effect on the Company's consolidated operating results in a future reporting period.

NOTE 10 STOCK-BASED COMPENSATION

The Company's board of directors may make awards under its 2011 Stock Plan (the Stock Plan) to officers, directors and key employees. Awards may include incentive stock options (ISOs) or nonqualified stock options (NSOs), and restricted or unrestricted common stock. ISOs granted under the Stock Plan shall have an exercise price per share at least equal to the common stock's market value per share at the date of grant, shall have a term no longer than ten years, and typically become fully exercisable one year from the date of grant. NSOs may be granted at an exercise price per share that differs from the common stock's market value per share at the date of grant, may have up to a ten-year term, and typically become exercisable one year from the date of award.

As of July 31, 2017, there were 1,071,650 shares of the Company's common stock reserved for issuance under the Company's stock option plans (including the Stock Plan and an expired predecessor plan), including 330,000 shares of the Company's common stock available for future awards under the Stock Plan.

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Summaries of activity under the Company's stock option plans for the six months ended July 31, 2017 and 2016, along with corresponding weighted average per share amounts, are presented below (shares in thousands):

	Shares	Exercise Price	Remaining Term (years)	Fair Value
Outstanding, February 1, 2017	707	\$ 39.04	7.82	\$ 10.22
Granted	125	\$ 63.58		
Exercised	(80)	\$ 30.48		
Forfeited	(10)	\$ 71.75		
Outstanding, July 31, 2017	742	\$ 43.66	7.79	\$ 11.56
Exercisable, July 31, 2017	462	\$ 28.84	6.72	\$ 7.75

	Shares	Exercise Price	Remaining Term (years)	Fair Value
Outstanding, February 1, 2016	1,064	\$ 26.38	6.36	\$ 6.91
Granted	105	\$ 36.09		
Exercised	(195)	\$ 21.59		
Outstanding, July 31, 2016	974	\$ 28.39	7.03	\$ 7.51
Exercisable, July 31, 2016	704	\$ 25.55	6.55	\$ 6.85

The changes in the number of non-vested options to purchase shares of common stock for the six months ended July 31, 2017 and 2016, and the weighted average fair value per share for each number, are presented below (shares in thousands):

	Shares	Fair Value
Non-vested, February 1, 2017	270	\$ 14.93
Granted	125	\$ 16.19
Vested	(105)	\$ 9.66
Forfeited	(10)	\$ 19.14
Non-vested, July 31, 2017	280	\$ 17.83

	Shares	Fair Value
Non-vested, February 1, 2016	300	\$ 8.97
Granted	105	\$ 9.66
Vested	(135)	\$ 8.99
Non-vested, July 31, 2016	270	\$ 9.22

Compensation expense amounts related to stock options were \$1.2 million and \$0.6 million for the three months ended July 31, 2017 and 2016, respectively, and were \$2.3 million and \$1.3 million for the six months ended July 31, 2017 and 2016, respectively. At July 31, 2017, there was \$2.7 million in unrecognized compensation cost related to outstanding stock options. The Company expects to recognize the compensation expense for these awards over the next twelve months. The total intrinsic values of the stock options exercised during the six months ended July 31, 2017 and 2016 were \$2.8 million and \$3.9 million, respectively. At July 31, 2017, the aggregate market values of the shares of common stock subject to outstanding and exercisable stock options that were in-the-money as of July 31, 2017 exceeded the aggregate exercise prices of such options by \$16.5 million and \$16.4 million, respectively.

For companies with limited stock option exercise experience, guidance provided by the SEC permits the use of a simplified method in developing the estimate of the expected term of a plain-vanilla share option, based on the average of the vesting period and the option term, which the Company used to estimate the expected terms of its stock options. However, the Company believes that its stock option exercise activity, particularly over the last two years, has become sufficient to provide it with a reasonable basis on which to estimate expected lives. Accordingly, the estimated expected life used in the determination of stock options awarded so far in calendar year 2017 was 3.35 years. The simplified method would have resulted in the use of 5.50 years as the estimated expected life of each of these stock options. As a result, the

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aggregate fair value of this group of stock options was reduced by \$1.2 million, or approximately 24%. The effect of the change on the amount of stock option compensation expense recorded during the three and six months ended July 31, 2017 were reductions of \$0.3 million and \$0.5 million, respectively.

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The fair values of each stock option granted in the six-month periods ended July 31, 2017 and 2016 were estimated on the corresponding dates of award using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	Six Months Ended July 31,	
	2017	2016
Dividend yield	1.10%	1.96%
Expected volatility	36.01%	33.85%
Risk-free interest rate	1.57%	1.36%
Expected life (in years)	3.35	5.50

NOTE 11 INCOME TAXES

The Company's income tax expense amounts for the six months ended July 31, 2017 and 2016 differed from corresponding amounts computed by applying the federal corporate income tax rate of 35% to the amounts of income before income taxes for the periods as shown in the table below.

	Six Months Ended July 31,	
	2017	2016
Computed expected income tax expense	\$ 25,810	\$ 19,721
Increase (decrease) resulting from:		
State income taxes, net of federal tax benefit	3,020	2,075
Domestic production activities deduction	(2,148)	(1,584)
Stock option exercises	(773)	(986)
Exclusion of non-controlling interests	(106)	(1,930)
Adjustments and other differences	(127)	1,632
	\$ 25,676	\$ 18,928

As of July 31, 2017 and January 31, 2017, the condensed consolidated balance sheets included accrued income taxes and prepaid income taxes in the amounts of \$2.2 million and \$3.9 million, respectively. As of July 31, 2017, the Company does not believe that it has any material uncertain income tax positions reflected in its accounts.

The income tax effects of temporary differences that gave rise to deferred tax assets and liabilities as of July 31, 2017 and January 31, 2017 included the following:

	July 31, 2017	January 31, 2017
Assets:		
Net operating loss (NOL) carryforwards	\$ 3,604	\$ 3,487
Stock options	2,271	1,594
Purchased intangibles	1,439	1,592
Accrued expenses and other	2,074	2,052
	9,388	8,725
Liabilities:		
Purchased intangibles	(4,567)	(4,428)

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Construction contracts	(3,228)	(2,862)
Property and equipment and other	(2,365)	(2,389)
	(10,160)	(9,679)
Net deferred tax liabilities	\$ (772)	\$ (954)

The Company's ability to realize deferred tax assets, including those related to NOLs, depends primarily upon the generation of sufficient future taxable income to allow for the utilization of the Company's deductible temporary differences and tax planning strategies. If such estimates and assumptions change in the future, the Company may be required to record valuation

allowances against some or all of its deferred tax assets resulting in additional income tax expense in the condensed consolidated statement of earnings. At this time, based substantially on the strong earnings performance of the Company's power industry services reporting segment, management believes that it is more likely than not that the Company will realize the benefits of its deferred tax assets.

The Company is subject to income taxes in the United States of America, the Republic of Ireland and in various other state and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is no longer subject to income tax examinations by tax authorities for its fiscal years ended on or before January 31, 2013 except for a few notable exceptions relevant to the Company including the Republic of Ireland, California and Texas where the open periods are one year longer.

NOTE 12 EARNINGS PER SHARE ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.

Reconciliations of the number of weighted average basic shares outstanding to the number of weighted average diluted shares outstanding and the computations of basic and diluted earnings per share for the three and six months ended July 31, 2017 and 2016 are as follows (shares in thousands):

	Three Months Ended July 31,	
	2017	2016
Net income attributable to the stockholders of Argan, Inc.	\$ 27,139	\$ 19,674
Weighted average number of shares outstanding - basic	15,514	14,939
Effect of stock options (1)	273	339
Weighted average number of shares outstanding - diluted	15,787	15,278
Net income per share attributable to the stockholders of Argan, Inc.		
Basic	\$ 1.75	\$ 1.32
Diluted	\$ 1.72	\$ 1.29

	Six Months Ended July 31,	
	2017	2016
Net income attributable to the stockholders of Argan, Inc.	\$ 47,764	\$ 31,904
Weighted average number of shares outstanding - basic	15,491	14,899
Effect of stock options (1)	297	332
Weighted average number of shares outstanding - diluted	15,788	15,231
Net income per share attributable to the stockholders of Argan, Inc.		
Basic	\$ 3.08	\$ 2.14
Diluted	\$ 3.03	\$ 2.09

(1) Antidilutive shares excluded from the diluted computations were 260,000 and 155,000 for the three and six months ended July 31, 2017, respectively. The comparable numbers for the prior year were not material.

NOTE 13 CONCENTRATIONS OF REVENUES AND ACCOUNTS RECEIVABLE

During the three and six months ended July 31, 2017 and 2016, the majority of the Company's consolidated revenues related to performance by the power industry services segment which provided 92% and 88% of consolidated revenues for the three months ended July 31, 2017 and 2016, respectively, and 92% and 86% of consolidated revenues for the six months ended July 31, 2017 and 2016, respectively.

The Company's significant customer relationships for the three months ended July 31, 2017 included four power industry service customers which accounted for approximately 31%, 27%, 17% and 13% of consolidated revenues, respectively. The Company's significant customer relationships for the three months ended July 31, 2016 included five customers which accounted for approximately 17%, 17%, 16%, 14% and 13% of consolidated revenues, respectively.

The Company's significant customer relationships for the six months ended July 31, 2017 included four power industry service customers which accounted for approximately 28%, 26%, 19% and 15% of consolidated revenues, respectively. The Company's significant customer relationships for the six months ended July 31, 2016 included five customers which accounted for approximately 17%, 16%, 14%, 13% and 13% of consolidated revenues, respectively.

Accounts receivable balances from four major customers as of July 31, 2017 represented 22%, 22%, 17% and 15% of the corresponding condensed consolidated balance as of July 31, 2017, and accounts receivable balances from four major customers represented 18%, 17%, 17% and 11% of the corresponding consolidated balance as of January 31, 2017.

NOTE 14 SEGMENT REPORTING

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 in assessing performance. The Company's reportable segments, power industry services, industrial fabrication and field services, and telecommunications infrastructure services, are organized in separate business units with different management teams, customers, talents and services, and may include more than one operating segment. The intersegment revenues of our operations, and the related cost of revenues, are netted against the corresponding amounts of the segment receiving the intersegment services. For the three and six months ended July 31, 2017, intersegment revenues totaled approximately \$0.1 million and \$1.6 million, respectively. For the three and six months ended July 31, 2016, intersegment revenues were insignificant. Intersegment revenues for the aforementioned periods related to services provided by our industrial fabrication and field services segment to our power industry services segment.

Presented below are summarized operating results and certain financial position data of the Company's reportable business segments for the three and six months ended July 31, 2017 and 2016. The Other columns include the Company's corporate and unallocated expenses.

Three Months Ended July 31, 2017	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 238,850	\$ 17,058	\$ 3,895	\$	\$ 259,803
Cost of revenues	189,266	16,096	3,034		208,396
Gross profit	49,584	962	861		51,407
Selling, general and administrative expenses	6,135	1,758	398	2,508	10,799
Income (loss) from operations	43,449	(796)	463	(2,508)	40,608
Other income, net	1,250			61	1,311
Income (loss) before income taxes	\$ 44,699	\$ (796)	\$ 463	\$ (2,447)	41,919
Income tax expense					14,601
Net income					\$ 27,318
Amortization of purchased intangible assets	\$ 88	\$ 246	\$	\$	\$ 334
Depreciation	184	384	67	3	638
Property, plant and equipment additions	203	643	93		939
Current assets	\$ 548,115	\$ 18,003	\$ 3,158	\$ 73,351	\$ 642,627
Current liabilities	342,569	10,131	1,261	737	354,698
Goodwill	20,548	14,365			34,913
Total assets	575,617	47,490	4,197	73,668	700,972

Three Months Ended July 31, 2016	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 143,422	\$ 17,327	\$ 1,746	\$	\$ 162,495
Cost of revenues	100,035	17,117	1,331		118,483
Gross profit	43,387	210	415		44,012
Selling, general and administrative expenses	4,065	1,487	301	1,681	7,534
Impairment loss	1,979				1,979
Income (loss) from operations	37,343	(1,277)	114	(1,681)	34,499
Other income, net	525			31	556
Income (loss) before income taxes	\$ 37,868	\$ (1,277)	\$ 114	\$ (1,650)	\$ 35,055
Income tax expense					11,756
Net income					\$ 23,299
Amortization of purchased intangible assets	\$ 104	\$ 96	\$	\$	\$ 200
Depreciation	160	278	43	3	484
Property, plant and equipment additions	788	703	142	2	1,635
Current assets	\$ 303,789	\$ 21,003	\$ 5,379	\$ 93,743	\$ 423,914
Current liabilities	207,634	13,206	687	2,172	223,699
Goodwill	20,548	14,232			34,780
Total assets	326,789	52,130	5,840	96,335	481,094
Six Months Ended July 31, 2017	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 449,639	\$ 33,629	\$ 7,024	\$	\$ 490,292
Cost of revenues	362,515	30,837	5,437		398,789
Gross profit	87,124	2,792	1,587		91,503
Selling, general and administrative expenses	11,340	3,404	711	4,834	20,289
Income (loss) from operations	75,784	(612)	876	(4,834)	71,214
Other income, net	2,420			109	2,529
Income (loss) before income taxes	\$ 78,204	\$ (612)	\$ 876	\$ (4,725)	\$ 73,743
Income tax expense					25,676
Net income					\$ 48,067
Amortization of purchased intangible assets	\$ 175	\$ 343	\$	\$	\$ 518
Depreciation	354	719	131	6	1,210
Property, plant and equipment additions	215	2,337	248	2	2,802

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Six Months Ended July 31, 2016	Power Services	Industrial Services	Telecom Services	Other	Totals
Revenues	\$ 251,521	\$ 37,737	\$ 3,585	\$	\$ 292,843
Cost of revenues	183,733	34,105	2,691		220,529
Gross profit	67,788	3,632	894		72,314
Selling, general and administrative expenses	7,298	3,121	628	3,534	14,581
Impairment loss	1,979				1,979
Income (loss) from operations	58,511	511	266	(3,534)	55,754
Other income, net	538			55	593
Income (loss) before income taxes	\$ 59,049	\$ 511	\$ 266	\$ (3,479)	\$ 56,347
Income tax expense					18,928
Net income					\$ 37,419
Amortization of purchased intangible assets	\$ 251	\$ 270	\$	\$	\$ 521
Depreciation	289	539	84	6	918
Property, plant and equipment additions	840	602	168	2	1,612

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position of Argan, Inc. and its subsidiaries as of July 31, 2017, and the results of their operations for the three and six months ended July 31, 2017 and 2016, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2017 that was filed with the SEC on April 11, 2017.

Cautionary Statement Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. We have made statements in this Item 2 and elsewhere in this Quarterly Report on Form 10-Q that may constitute forward-looking statements. The words "believe," "expect," "anticipate," "plan," "intend," "foresee," "should," "would," "could," or other similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements, by their nature, involve significant risks and uncertainties (some of which are beyond our control) and assumptions. They are subject to change based upon various factors including, but not limited to, the risks and uncertainties described in Item 1A of Part II of this Quarterly Report on Form 10-Q and Item 1A of Part I of our Annual Report on Form 10-K for the year ended January 31, 2017. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Description

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

At the holding company level, we intend to make additional acquisitions and/or investments by identifying companies with significant potential for profitable growth. We may have more than one industrial focus. We expect that companies acquired in each of these industrial groups will be held in separate subsidiaries that will be operated in a manner that best provides cash flows and value for our stockholders.

Overview

Highlights of our financial performance for the three and six months ended July 31, 2017 included the following:

- Revenues increased 60% to \$259.8 million for the three months ended July 31, 2017 as compared to \$162.5 million for the corresponding prior year quarter. For the six-month period ended July 31, 2017, revenues increased 67% to \$490.3 million as compared to \$292.8 million for the corresponding prior year period.
- Gross profit increased 17% to \$51.4 million for the three months ended July 31, 2017 as compared to \$44.0 million for the corresponding prior year quarter. Gross profit increased 27% to \$91.5 million for the six-month

period ended July 31, 2017 as compared to \$72.3 million for the corresponding prior year period. Our gross profit percentages were 19.8% and 18.7% for the three and six months ended July 31, 2017, respectively.

- Net income attributable to the stockholders of Argan increased 38% to \$27.1 million for the three months ended July 31, 2017 as compared to \$19.7 million for the comparable prior year quarter. For the six-month period ended July 31, 2017, net income attributable to the stockholders of Argan increased 50% to \$47.8 million as compared to \$31.9 million for the corresponding prior year period.
- EBITDA⁽¹⁾ attributable to the stockholders of Argan increased 33% to \$42.7 million for the three months ended July 31, 2017 as compared to \$32.1 million for the corresponding prior year quarter. For the six-month period ended July 31, 2017, EBITDA attributable to the stockholders of Argan increased 44% to \$75.2 million as compared to \$52.3 million for the corresponding prior year period.
- Our tangible net worth⁽²⁾ increased 22% to \$302.5 million as of July 31, 2017 from \$248.5 million as of January 31, 2017.
- Our liquidity, or working capital⁽³⁾, increased 21% to \$287.9 million as of July 31, 2017 from \$237.2 million as of January 31, 2017.

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- (1) EBITDA is a measure not recognized under accounting principles generally accepted in the United States. We have defined EBITDA as earnings before interest, taxes, depreciation and amortization.
- (2) We define tangible net worth as our total stockholders' equity less goodwill and intangible assets, net.
- (3) We define working capital as our total current assets less our total current liabilities.

Execution on Contract Backlog

Contract backlog represents the total accumulated value of projects awarded less the amounts of revenues recognized to date on those contracts at a specific point in time. We believe contract backlog is an indicator of future revenues and earnings potential. Although contract backlog reflects business that we consider to be firm, cancellations or reductions may occur and may reduce contract backlog and our expected future revenues. At July 31, 2017, our total contract backlog was approximately \$0.7 billion. The following table summarizes our large power plant projects:

Current Project	Location	Size of Facility	Date FNTP Received(1)	Scheduled Completion
Caithness Moxie Freedom Generating Station	Pennsylvania	1,040 MW	November 2015	2018
CPV Towantic Energy Center	Connecticut	785 MW	March 2016	2018
NTE Middletown Energy Center	Ohio	475 MW	October 2015	2018
NTE Kings Mountain Energy Center	North Carolina	475 MW	March 2016	2018

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Exelon West Medway II Facility	Massachusetts	200 MW	April 2017	2018
TeesREP Biomass Power Station	Teesside (England)	299 MW	May 2017	2019

(1) Full Notice to Proceed (FNTP) represents the formal notice provided by the customer instructing us to commence the activities covered by the corresponding contract without limitation.

The first four projects identified in the chart above, all EPC contracts, were the most significant drivers of our financial results for the three and six months ended July 31, 2017. Work has proceeded smoothly on these jobs which together represented approximately 88% and 89% of our consolidated revenues for the three and six months ended July 31, 2017, respectively. Revenues for each of these projects will decline over the next several quarters as they progress beyond peak construction in their project life-cycles. In August 2017, the project owner provided us with the necessary authorization under the turnkey EPC contract to start construction of a dual-fuel, simple cycle power plant in Medway, Massachusetts. The new facility will feature two 100 MW combustion turbine generators with state-of-the-art noise mitigating improvements. In May 2017, APC announced that it has received from Técnicas Reunidas, S.A. (TR) a contract for the erection of a biomass boiler, a critical component of a new power plant being constructed in Teesside, which is near the northeast coast of England. Work began this summer with completion scheduled in 2019. TR is a leading Spain-based global general contractor. However, despite these positive developments, we believe that the uncertainty surrounding the U.S. administration's level of support for coal as part of the energy mix, the termination of current and planned nuclear power plant projects, the potential for future volatility in natural gas prices that may give a short-term boost to coal-fired power generation and disappointing energy auctions during the current year for new power generating assets may be impacting the planning and initiation phases for the construction of new power plants which are being delayed by project owners.

Outlook

For calendar year 2016, the number of megawatt hours of electricity generated from natural gas increased by 4% from the prior year and reached an all-time annual high. The number of megawatt hours provided by coal-fired plants declined by 8% in 2016 compared to the amount of power provided in 2015. For 2016, as natural gas overtook coal as the leading source of power generation in the United States, the monthly amount of electricity generated by natural gas-fired power plants exceeded the corresponding monthly amounts provided by coal-fired power plants in ten of the twelve months. According to data released by the U.S. Energy Information Administration (EIA), natural gas was the source of 34% of the electrical power generated in the United States for 2016; coal was 30%. However, for the first half of 2017, while coal powered 30% of electricity generation, the natural gas electricity percentage declined to 29%. The overall age of the power generation fleet in our country has changed. Per the EIA, the capacity-weighted average age of natural gas-fired generation capacity is 22 years, which is less than hydro (64 years), coal (39 years) and nuclear (36 years). In fact, since the turn of the century, more than 53 GW of coal-fired capacity has been retired, most of which were older, smaller, less efficient coal-fired power plants. A nearly equal amount of older and smaller natural gas-fired generation capacity has been retired as well. Almost 5 GW of nuclear capacity has been retired over the last four years. The future of new nuclear power plant construction has been further clouded with the recent bankruptcy of Westinghouse, one of the few major nuclear providers of fuel, services, technology, plant design and equipment, and the recent decisions by several utilities to either abandon construction or development of nuclear projects, leaving just one site under construction today (the Vogtle plant units 3 and 4) in the United States. Today, most of the utilized natural gas fleet and almost all of the wind and solar power generation capacity has been built since 2000. During 2016, wind, solar and natural gas represented more than 93% of the utility-scale power generation capacity added to the power grid in the United States.

Current projections of future power generation assume the sustained increase in domestic natural gas production, which should lead to stable natural gas prices continuing into the future. The availability of competitively priced natural gas, the significant increases in the efficiency of combined cycle power plants, the existence of certain programs encouraging renewable fuel use, and the implementation of a series of environmental rules, primarily directed toward the reductions of air pollution and the emissions of greenhouse gases, should further reduce future coal use and continue to increase the shares of the power generation mix represented by natural gas-fired power plants, wind farms and solar fields. Even without the implementation of the Clean Power Plan, natural gas and renewable energy sources are still predicted to be the top choices for new electricity generation plants in the future due to low natural gas prices in the United States. Announcements by electric utilities of the retirement of coal-fired and nuclear power plants continue, citing the availability of cheap natural gas, existing environmental regulations and the significant costs of refurbishment and relicensing. The retirements of coal and nuclear plants typically result in the need for new capacity, and new natural gas-fired plants are relatively cheaper to build than coal, nuclear, or renewable plants, they are substantially more environmentally friendly than conventional coal-fired power plants, and they represent the most economical way to meet base loads and peak demands.

Our industry sector has not fully recovered from the recessionary decline in the demand for power in the United States. For both calendar years 2016 and 2015, the total amount of electricity generated in the United States was approximately 98% of the peak power generation level of 2007. Total electric power generation from all sources has decreased slightly during three of the last five years, with only a slight increase in 2016. Government forecasts project an annual increase in power generation of less than 1% per year for the next 25 years.

However, we continue to believe that the future prospects for natural gas-fired power plant construction are favorable as natural gas has generally become the primary source for power generation in the United States. Major advances in horizontal drilling and the practice of hydraulic fracturing have led to the boom in natural gas supply. The abundant availability of cheap, less carbon-intensive and higher efficiency natural gas should continue to be a significant factor in the economic assessment of future power generation capacity additions. As indicated above, the demand for electric power in this country is expected to grow slowly but steadily over the long term. Demands for electricity, the ample supply of natural gas, and the continuing retirement of inefficient and old coal and nuclear energy plants, should result in natural gas-fired and renewable energy plants, like wind, biomass and solar, representing the substantial majority of new power generation additions in the future and an increased share of the power generation mix. A recent construction industry forecast predicted that the growth of activity in the power sector of the industry will be slow but steady over the next four years (the forecast horizon for this particular report). In summary, the development of natural gas-fired and renewable power generation facilities in the United States should continue to provide construction opportunities for us, although the pace of new opportunities emerging may decrease in the near term. We are encouraged by the results of the business development activities conducted by APC since its acquisition by us that are leading to new power industry construction opportunities

outside of this country.

We have been successful in the effective and efficient completion of our EPC and other projects and the control of costs while we pursue new construction business opportunities. Despite the intensely competitive business environment, we are committed to the rational pursuit of new construction projects which may result in our decision to make investments in the ownership of new projects, at least during the corresponding development phase. Because we believe in the strength of our balance sheet, we are willing to consider certain opportunities that include reasonable and manageable risks in order to assure the award of the related EPC contract to us.

With a growing reputation as an accomplished and cost-effective provider of EPC contracting services and with the proven ability to deliver completed power facilities, particularly combined cycle, natural gas-fired power plants, we are focused on expanding our position in the power markets where we expect investments to be made based on forecasts of electricity demand covering decades into the future. We believe that our expectations are valid and that our future plans continue to be based on reasonable assumptions. Our performance on current projects should provide a stable base of business activity through the next fiscal year as we pursue new opportunities that should continue to emerge for all of our businesses.

Comparison of the Results of Operations for the Three Months Ended July 31, 2017 and 2016

We reported net income attributable to our stockholders of \$27.1 million, or \$1.72 per diluted share, for the three months ended July 31, 2017. For the three months ended July 31, 2016, we reported a comparable net income amount of \$19.7 million, or \$1.29 per diluted share.

The following schedule compares our operating results for the three months ended July 31, 2017 and 2016 (dollars in thousands).

	2017	2016	\$ Change	% Change
REVENUES				
Power industry services	\$ 238,850	\$ 143,422	\$ 95,428	66.5%
Industrial fabrication and field services	17,058	17,327	(269)	(1.6)
Telecommunications infrastructure services	3,895	1,746	2,149	123.1
Revenues	259,803	162,495	97,308	59.9
COST OF REVENUES				
Power industry services	189,266	100,035	89,231	89.2
Industrial fabrication and field services	16,096	17,117	(1,021)	(6.0)
Telecommunications infrastructure services	3,034	1,331	1,703	127.9
Cost of revenues	208,396	118,483	89,913	75.9
GROSS PROFIT	51,407	44,012	7,395	16.8
Selling, general and administrative expenses	10,799	7,534	3,265	43.3
Impairment loss		1,979	(1,979)	(100.0)
INCOME FROM OPERATIONS	40,608	34,499	6,109	17.7
Other income, net	1,311	556	755	135.8
INCOME BEFORE INCOME TAXES	41,919	35,055	6,864	19.6
Income tax expense	14,601	11,756	2,845	24.2
NET INCOME	27,318	23,299	4,019	17.2
Net income attributable to noncontrolling interests	179	3,625	(3,446)	(95.1)
NET INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.	\$ 27,139	\$ 19,674	\$ 7,465	37.9%

Revenues

Power Industry Services

The revenues of the power industry services business increased by 67%, or \$95.4 million, to \$238.9 million for the three months ended July 31, 2017 compared with revenues of \$143.4 million for the three months ended July 31, 2016. The revenues of this business represented approximately 92% of consolidated revenues for the current quarter, and approximately 88% of consolidated revenues for the prior year quarter. The current quarter increase in revenues for the power industry services segment primarily reflected the peak construction activities of four EPC projects, which represented approximately 88% of consolidated revenues for the current quarter. The percent complete for these four projects ranged from 61% to 77% as of

July 31, 2017. As these projects progress beyond peak construction in their life-cycles, the level of quarterly revenues associated with each project will decline. All four jobs are currently scheduled to be completed on time during the fiscal year ending January 31, 2019. Last year, the combined revenues associated with these four natural gas-fired power plant projects that were all in their early phases represented approximately 58% of consolidated revenues for the second quarter. Additionally, construction activity related to two other natural gas-fired power plant projects that were completed later in the prior year represented 26% of consolidated revenues for the three months ended July 31, 2016.

Industrial Fabrication and Field Services

The revenues of the industrial fabrication and field services business decreased by 2%, or \$0.3 million, to \$17.1 million for the three months ended July 31, 2017 compared with revenues of \$17.3 million for the three months ended July 31, 2016. The largest portion of TRC's revenues continue to be provided by industrial field services, and TRC's major customers include some of North America's largest forest products companies and large fertilizer producers.

Telecommunications Infrastructure Services

The revenues of this business segment increased by approximately 123%, or \$2.1 million, for the current quarter compared with the corresponding period last year as SMC has been successful in increasing the revenues related to both outside premises and inside premises projects.

Cost of Revenues

Due primarily to the substantial increase in consolidated revenues for the three months ended July 31, 2017 compared with last year's second quarter, the corresponding consolidated cost of revenues also increased. These costs were \$208.4 million and \$118.5 million for the three months ended July 31, 2017 and 2016, respectively. Gross profit amounts for the three months ended July 31, 2017 and 2016 were \$51.4 million and \$44.0 million, respectively. Our overall gross profit percentage of 19.8% of consolidated revenues was lower in the current quarter compared to a percentage of 27.1% for the prior year quarter, which primarily reflected the achievement of the substantial completion of two natural gas-fired power plant projects last year. These achievements eliminated a number of significant risks, including potential schedule liquidated damages, and the related estimated costs associated with them, resulting in increased gross margins. Current quarter gross profit percentages primarily reflected continued successful execution on the peak construction activities of four natural-gas fired power plant projects of GPS. The gross profit percentage of the combined revenues of TRC, APC and SMC increased between the periods.

Selling, General and Administrative Expenses

These costs were \$10.8 million and \$7.5 million for the three months ended July 31, 2017 and 2016, respectively, representing approximately 4.2% and 4.6% of consolidated revenues for the corresponding periods, respectively. In general, the increase in costs is reflective of a larger organization necessary to support increased operations and growing revenues and to expand into new markets. Approximately half of the increase between the quarters was incurred by GPS reflecting increased incentive compensation costs and salary expense. In addition, stock option compensation expense for the three months ended July 31, 2017 increased by approximately \$0.6 million between the quarters, driven primarily by the general increase in the market price of our common stock over the last three years.

Impairment Loss

In July 2016, work was suspended on APC's largest project at the time, which represented over 90% of APC's contract backlog. Additionally, APC's primary market is in the United Kingdom, which voted to leave the European Union on June 23, 2016 (Brexit). The resulting sterling pound drop, financial market uncertainty and recessionary pressures were thought to likely impact the availability of financing for future power plant developments. The revenues of APC declined and it reported operating losses for the three and six months ended July 31, 2016. Given these circumstances at the time, analyses were performed mid-year in order to determine whether an impairment loss related to goodwill had been incurred. Using income and market approaches, the assessment analysis indicated that the carrying value of the business exceeded its fair value. As a result, APC recorded an impairment loss during the quarter ended July 31, 2016 of approximately \$2.0 million. No impairment loss occurred in the current year quarter.

Income Tax Expense

For the quarter ended July 31, 2017, we recorded income tax expense of \$14.6 million reflecting an estimated annual effective income tax rate of approximately 36.2% (before the tax effect of discrete items for the current quarter). This rate differs from the expected federal income tax rate of 35% due primarily to the estimated unfavorable effect of state income taxes, offset substantially by the domestic production activities deduction. For the three months ended July 31, 2016, we recorded income tax expense of \$11.8 million reflecting an estimated annual effective income tax rate of approximately 35.3%. In addition, the excess income tax benefit associated with stock options exercised reduced income tax expense by \$1.0 million for the three months ended July 31, 2016. The excess income tax benefit recorded for the three months ended July 31, 2017 was \$0.5 million as stock option exercise activity has declined between the years.

As the construction joint ventures that are discussed below are treated as partnerships for income tax reporting purposes, we report only our share of the taxable income of the entities. For financial reporting purposes, the excluded income amounts attributable to the joint venture partners are treated as permanent differences between income before income taxes and taxable income resulting in a favorable effect on our effective income tax rate. Our effective income tax rate estimates are trending upwards as the earnings of the two joint ventures (and therefore the portions of such amounts attributable to the joint venture partner) have declined with the completion of the construction of the corresponding power plants last year.

Net Income Attributable to Non-controlling Interests

As discussed in Note 3 to the accompanying condensed consolidated financial statements, we entered separate construction joint ventures related to two power plant construction projects. Because we have financial control, the joint ventures are included in our condensed consolidated financial statements. Our joint venture partner's share of the earnings is reflected in the line item captioned net income attributable to non-controlling interests included in the accompanying statements of earnings for the three months ended July 31, 2017 and 2016 in the amounts of \$0.2 million and \$3.6 million, respectively. The reduction in the amount between quarters primarily reflects the contractual completion of the projects last year. Current year activity relates to changes in estimated costs to complete warranty requirements.

Comparison of the Results of Operations for the Six Months Ended July 31, 2017 and 2016

We reported net income attributable to our stockholders of \$47.8 million, or \$3.03 per diluted share, for the six months ended July 31, 2017. For the six months ended July 31, 2016, we reported a comparable net income amount of \$31.9 million, or \$2.09 per diluted share. The following schedule compares our operating results for the six months ended July 31, 2017 and 2016 (dollars in thousands).

	2017	Six Months Ended July 31, 2016	\$ Change	% Change
REVENUES				
Power industry services	\$ 449,639	\$ 251,521	\$ 198,118	78.8%
Industrial fabrication and field services	33,629	37,737	(4,108)	(10.9)
Telecommunications infrastructure services	7,024	3,585	3,439	95.9
Revenues	490,292	292,843	197,449	67.4
COST OF REVENUES				
Power industry services	362,515	183,733	178,782	97.3
Industrial fabrication and field services	30,837	34,105	(3,268)	(9.6)

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Telecommunications infrastructure services	5,437	2,691	2,746	102.0
Cost of revenues	398,789	220,529	178,260	80.8
GROSS PROFIT	91,503	72,314	19,189	26.5
Selling, general and administrative expenses	20,289	14,581	5,708	39.1
Impairment loss		1,979	(1,979)	(100.0)
INCOME FROM OPERATIONS	71,214	55,754	15,460	27.7
Other income, net	2,529	593	1,936	326.6
INCOME BEFORE INCOME TAXES	73,743	56,347	17,396	30.9
Income tax expense	25,676	18,928	6,748	35.7
NET INCOME	48,067	37,419	10,648	28.5
Net income attributable to noncontrolling interests	303	5,515	(5,212)	(94.5)
NET INCOME ATTRIBUTABLE TO THE STOCKHOLDERS OF ARGAN, INC.	\$ 47,764	\$ 31,904	\$ 15,860	49.7%

Revenues

Power Industry Services

The revenues of the power industry services business increased by 79%, or \$198.1 million, to \$449.6 million for the six months ended July 31, 2017 compared with revenues of \$251.5 million for the six months ended July 31, 2016. The revenues of this business represented approximately 92% of consolidated revenues for the current six-month period, and approximately 86% of consolidated revenues for the prior year period. The increase in revenues for the power industry services segment primarily reflected the ramped-up and peak construction activities of four natural gas-fired power plant construction projects, which represented approximately 89% of consolidated revenues for the current six-month period. Last year, the combined revenues associated with these four projects, which were all in their early phases, represented approximately 56% of consolidated revenues for the six months ended July 31, 2016. Construction activity related to two other natural-gas fired power plant projects that were completed later in the year represented 26% of consolidated revenues for the six months ended July 31, 2016.

Industrial Fabrication and Field Services

The revenues of the industrial fabrication and field services business decreased by 11%, or \$4.1 million, to \$33.6 million for the six months ended July 31, 2017 compared with revenues of \$37.7 million for the six months ended July 31, 2016. The largest portion of TRC's revenues were provided by industrial field services. The decrease in revenues is primarily attributable to revenues included in the prior year period associated with large loss projects with former customers that were in-process on the date of our acquisition of TRC and which were primarily completed during the six months ended July 31, 2016.

Telecommunications Infrastructure Services

The revenues of this business segment increased by approximately 96%, or \$3.4 million, for the six months ended July 31, 2017 compared with the corresponding period last year as SMC has been successful in increasing the revenues related to both outside premises, including \$3.2 million related to a fiber-to-the-home project for a municipal customer, and inside premises projects.

Cost of Revenues

Due primarily to the substantial increase in consolidated revenues for the six months ended July 31, 2017 compared with last year's period, the corresponding consolidated cost of revenues also increased. These costs were \$398.8 million and \$220.5 million for the six months ended July 31, 2017 and 2016, respectively. Gross profit amounts for the corresponding six-month periods were \$91.5 million and \$72.3 million, respectively. Our overall gross profit percentage of 18.7% of consolidated revenues was lower in the current period compared to a percentage of 24.7% for the prior year six-month period, which primarily reflected the substantial completion of two power plant projects as identified above. Current period gross profit percentages primarily reflected continued successful execution of construction activities on four EPC natural gas-fired power plant projects of GPS. The gross profit percentage of the combined revenues of TRC, APC and SMC increased between the periods.

Selling, General and Administrative Expenses

These costs were \$20.3 million and \$14.6 million for the six months ended July 31, 2017 and 2016, respectively, representing approximately 4.1% and 5.0% of consolidated revenues for the corresponding periods, respectively. Approximately half of the \$5.7 million increase between the periods was incurred by GPS reflecting increased incentive compensation costs and salary expense. In addition, stock option compensation expense for the six months ended July 31, 2017 increased by approximately \$1.0 million between the periods, driven primarily by the increased market price of our common stock.

Impairment Loss

As discussed above, APC recorded a goodwill impairment loss of approximately \$2.0 million last year; accordingly, it was included in the statement of earnings for the six months ended July 31, 2016.

Income Tax Expense

For the six months ended July 31, 2017, we recorded income tax expense of \$25.7 million reflecting an estimated annual effective income tax rate of approximately 36.2% (before the income tax effect of discrete items for the current period). This rate differed from the expected federal income tax rate of 35% due primarily to the estimated unfavorable effect of state income taxes, offset substantially by the domestic production activities deduction. For the six months ended July 31, 2016, we recorded income tax expense of \$18.9 million reflecting an estimated annual effective income tax rate of approximately 35.3%. The excess income tax benefit amounts associated with stock options exercised during the six months ended July 31, 2017 and 2016 reduced income tax expense by \$0.8 million and \$1.1 million, respectively.

Net Income Attributable to Non-controlling Interests

As discussed above, our joint venture partner's share of the earnings of the construction joint ventures, which is reflected in the line item captioned net income attributable to non-controlling interests included in the accompanying statements of earnings for the six months ended July 31, 2017 and 2016, were \$0.3 million and \$5.5 million, respectively. The reduction in the amount between periods primarily reflects the contractual completion of the projects last year. Current year activity relates to changes in estimated costs to complete warranty requirements.

Liquidity and Capital Resources as of July 31, 2017

As of July 31, 2017 and January 31, 2017, our balances of cash and cash equivalents were \$153.2 million and \$167.2 million, respectively. During this same period, our working capital increased by \$50.7 million to \$287.9 million as of July 31, 2017 from \$237.2 million as of January 31, 2017.

The net amount of cash provided by operating activities for the six months ended July 31, 2017 was \$34.6 million as net income for the period, including the favorable adjustments related to non-cash expense items, provided cash in the total amount of \$51.9 million. Because our four major EPC projects are 61% to 77% complete, we experienced net decreases during the period in the amounts of billings on current projects in excess of corresponding costs and estimated earnings, which represented a use of cash in the amount of \$23.7 million. In general, we expect this unfavorable cash-flow trend to continue until the projects are completed and new EPC projects are added to the backlog. Primarily due to increasing project owner retainage amounts on current construction contracts, accounts receivable increased during the six months ended July 31, 2017, which represented a use of cash in the amount of \$17.7 million. On the other hand, we experienced a net increase during the period in the amounts of accounts payable and accrued expenses, which represented a source of cash in the amount of \$21.5 million.

Our primary use of this cash during the six months ended July 31, 2017 was the net purchase of CDs in the amount of \$47.5 million. Our operating subsidiaries used cash during the current period in the amount of \$2.8 million for capital expenditures. During the six months ended July 31, 2017, the exercise of options to purchase 80,500 shares of our common stock provided us with cash proceeds in the approximate amount of \$2.5 million.

During the six months ended July 31, 2016, our combined balance of cash and cash equivalents increased by \$1.9 million to \$162.8 million as of July 31, 2016 from a balance of \$160.9 million as of January 31, 2016. During this same period, our working capital increased by \$37.3 million to \$200.2 million as of July 31, 2016 from \$162.9 million as of January 31, 2016. Net income for the six months ended July 31, 2016, including

the favorable net amount of adjustments related to non-cash expense items, provided cash in the total amount of \$41.9 million. In addition, we experienced a net decrease of \$31.5 million in accounts receivable during the period primarily due to the receipt of retainages on two natural gas-fired power plant projects which achieved substantial completion during the period. We had a net increase of \$16.3 million in the amount of billings on current projects that temporarily exceeded the corresponding amounts of costs and estimated earnings, which primarily reflected the early stage activities of GPS on its four major current construction contracts. Our accounts payable and accrued expenses were also impacted by increased early stage activities related to several of our subcontractors and suppliers, increasing this balance and providing cash by \$24.0 million during the six months ended July 31, 2016. Primarily due to these factors, the net amount of cash provided by operating activities for the six months ended July 31, 2016 was \$112.7 million. The exercise of options to purchase 195,350 shares of our common stock during the prior year period provided us with cash proceeds in the amount of \$4.2 million.

Our primary use of this cash during the six months ended July 31, 2016 was the net purchase of CDs in the amount of \$106.0 million. Additionally, we used cash as our consolidated joint ventures made distributions to our joint venture partner in the total amount of \$7.5 million.

On May 15, 2017, we entered into the Credit Agreement with the Bank as the lender, which replaced a predecessor agreement by modifying its features to, among other things:

- increase the Bank's lending commitment amount from \$10 million to \$50 million including a revolving loan with interest at the 30-day LIBOR plus 2.00%;
- add an accordion feature which allows for an additional commitment amount of \$10 million, subject to certain conditions; and
- extend the maturity date three years from May 31, 2018 to May 31, 2021, which effectively provides for a four-year credit commitment.

As with the predecessor agreement, we have pledged the majority of our assets to secure the financing arrangements. The Bank's consent is not required for acquisitions, divestitures, cash dividends or significant investments as long as certain conditions are met. The Bank will continue to require that we comply with certain financial covenants at our fiscal year-end and at each of our fiscal quarter-ends. The Credit Agreement includes other terms, covenants and events of default that are customary for a credit facility of its size and nature. As of July 31, 2017 and January 31, 2017, we were compliant with the financial covenants of the Credit Agreement and predecessor agreement, respectively. We may use the borrowing ability to cover other credit issued by the Bank for our use in the ordinary course of business. As of July 31, 2017, we had approximately \$6.0 million of credit outstanding under the Credit Agreement.

A different commercial bank that supports the activities of TRC has issued an outstanding irrevocable letter of credit on its behalf in the amount of \$0.4 million with a current expiration date in January 2018.

At July 31, 2017, most of our balance of cash and cash equivalents was invested in a high-quality money market fund with at least 80% of its net assets invested in U.S. Treasury obligations and repurchase agreements secured by United States Treasury obligations. Most of our domestic operating bank accounts are maintained with the Bank. We do maintain certain Euro-based bank accounts in the Republic of Ireland and insignificant bank accounts in other countries in support of the operations of APC.

We believe that cash on hand, cash that will be provided from the maturities of short-term investments and cash generated from our future operations, with or without funds available under our line of credit, will be adequate to meet our general business needs in the foreseeable future. In particular, we maintain significant liquid capital on our balance sheet to help ensure our ability to maintain and obtain bonding capacity for current and future EPC and other construction projects. Any future acquisitions, or other significant unplanned cost or cash requirement, may require us to raise additional funds through the issuance of debt and/or equity securities. There can be no assurance that such financing will be available on terms acceptable to us, or at all.

Earnings before Interest, Taxes, Depreciation and Amortization (Non-GAAP Measurement)

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The following tables present the determinations of EBITDA for the three and six months ended July 31, 2017 and 2016, respectively (amounts in thousands).

	Three Months Ended July 31,			
		2017		2016
Net income, as reported	\$	27,318	\$	23,299
Income tax expense		14,601		11,756
Depreciation		638		484
Amortization of purchased intangible assets		334		200
EBITDA		42,891		35,739
Less EBITDA attributable to non-controlling interests		179		3,625
EBITDA attributable to the stockholders of Argan, Inc.	\$	42,712	\$	32,114

	Six Months Ended July 31,	
	2017	2016
Net income, as reported	\$ 48,067	\$ 37,419
Income tax expense	25,676	18,928
Depreciation	1,210	918
Amortization of purchased intangible assets	518	521
EBITDA	75,471	57,786
Less EBITDA attributable to non-controlling interests	303	5,515
EBITDA attributable to the stockholders of Argan, Inc.	\$ 75,168	\$ 52,271

As we believe that our net cash flow provided by operations is the most directly comparable performance measure determined in accordance with US GAAP, the following table reconciles the amounts of EBITDA for the applicable periods, as presented above, to the corresponding amounts of net cash flows provided by operating activities that are presented in our condensed consolidated statements of cash flows for the six months ended July 31, 2017 and 2016 (amounts in thousands).

	Six Months Ended July 31,	
	2017	2016
EBITDA	\$ 75,471	\$ 57,786
Current income tax expense	(25,829)	(18,939)
Impairment loss		1,979
Stock option compensation expense	2,315	1,270
Other noncash items	(78)	(202)
(Increase) decrease in accounts receivable	(17,726)	31,484
(Decrease) increase in billings in excess of costs and estimated earnings, net	(23,662)	16,293
Decrease (increase) in prepaid expenses and other assets	2,600	(993)
Increase in accounts payable and accrued expenses	21,485	24,029
Net cash provided by operating activities	\$ 34,576	\$ 112,707

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

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

Critical Accounting Policies

We consider the accounting policies related to revenue recognition on long-term construction contracts; the accounting for business combinations, the subsequent valuation of goodwill, other indefinite-lived assets and long-lived assets; the valuation of employee stock options; income tax reporting and the financial reporting associated with any significant legal matters to be most critical to the understanding of our financial position and results of operations, as well as the accounting and reporting for special purpose entities including joint ventures and variable interest entities. Critical accounting policies are those related to the areas where we have made what we consider to be particularly subjective or complex judgments in making estimates and where these estimates can significantly impact our financial results under different

assumptions and conditions.

These estimates, judgments, and assumptions affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

An expanded discussion of our critical accounting policies is included in Item 7 of Part II of our Annual Report on Form 10-K for the year ended January 31, 2017. During the six-month period ended July 31, 2017, there have been no material changes in the way we apply the critical accounting policies described therein.

Recently Issued Accounting Pronouncements

Note 2 to the accompanying condensed consolidated financial statements presents descriptions of pending accounting pronouncements issued by the FASB that are relevant to our future financial reporting. These include Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, which was issued in May 2014 and which has been amended multiple times, and Accounting Standards Update 2016-02, *Leases*, which was issued in February 2016. ASU 2014-09 represents an effort to create a new, principle-based revenue recognition framework for all companies that will be adopted by us on February 1, 2018. ASU 2016-02, which will be adopted by us on February 1, 2019, will require the recognition on the balance sheet of all operating leases with terms greater than one year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our results of operations may be subject to risks related to fluctuations in interest rates. As of July 31, 2017, we had no outstanding borrowings under our financing arrangements with the Bank (see Note 8 to the accompanying condensed consolidated financial statements), which now provide a revolving loan with a maximum borrowing amount of \$50 million that is available until May 31, 2021 with interest at LIBOR plus 2.00%. As of July 31, 2017, our balance of short-term investments, which consisted entirely of CDs, was \$403 million (excluding accrued interest) with a weighted average initial maturity term of 252 days. This exposes us to a certain amount of risk should interest rates suddenly rise. However, we believe that this risk is minimal, and mitigated somewhat by the manner in which we have scheduled the future maturity dates. As of July 31, 2017, the weighted average interest rate on our CDs was 1.27%.

The accompanying condensed consolidated financial statements are presented in US Dollars. The financial results reported by APC and included in our condensed consolidated financial statements are affected by foreign currency volatility. The effects of translating the financial statements of APC from its functional currency (Euros) into the Company's reporting currency (US Dollars) are recognized as translation adjustments in accumulated other comprehensive income (loss). When the US Dollar depreciates against the Euro, the reported assets, liabilities, revenues, costs and earnings of APC, after translation into US Dollars, are greater than what they would have been had the value of the US Dollar appreciated against the Euro or if there had been no change in the exchange rate. During the six-month period ended July 31, 2017, the US Dollar depreciated against the Euro. We generally do not hedge our exposure to potential foreign currency translation adjustments.

Another form of exposure to fluctuating exchange rates relates to the effects of transacting in currencies other than those of our entity's functional currencies. We do not engage in currency speculation, and we generally do not utilize foreign currency exchange rate derivatives on an ongoing basis to hedge against certain foreign currency related operating exposures. We incurred a net foreign currency transaction loss for the six months ended July 31, 2017 that was insignificant.

In addition, we are subject to fluctuations in prices for commodities including copper, concrete, steel products and fuel. Although we attempt to secure firm quotes from our suppliers, we generally do not hedge against increases in prices for copper, concrete, steel or fuel. Commodity price risks may have an impact on our results of operations due to the fixed-price nature of many of our contracts. We attempt to include the anticipated amounts of price increases or decreases in the costs of our bids.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act) as of July 31, 2017. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of July 31, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal controls over financial reporting. There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) during the fiscal quarter ended July 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

Included in Note 9 to the condensed consolidated financial statements that are included in Item 1 of Part I of this Quarterly Report on Form 10-Q is a discussion of specific legal proceedings for the six-month period ended July 31, 2017. In the normal course of business, the Company may have other pending claims and legal proceedings. It is our opinion, based on information available at this time, that any other current claim or proceeding will not have a material effect on our condensed consolidated financial statements.

ITEM 1A. RISK FACTORS

There have been no material changes from our risk factors as disclosed in our Annual Report on Form 10-K for the year ended January 31, 2017.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES (not applicable to us)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.	Title
Exhibit 31.1	<u>Certification of Chief Executive Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934</u>
Exhibit 31.2	<u>Certification of Chief Financial Officer, pursuant to Rule 13a-14(c) under the Securities Exchange Act of 1934</u>
Exhibit 32.1	<u>Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350</u>
Exhibit 32.2	<u>Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350</u>
Exhibit 101.INS#	XBRL Instance Document
Exhibit 101.SCH#	XBRL Schema Document
Exhibit 101.CAL#	XBRL Calculation Linkbase Document
Exhibit 101.LAB#	XBRL Labels Linkbase Document
Exhibit 101.PRE#	XBRL Presentation Linkbase Document
Exhibit 101.DEF#	XBRL Definition Linkbase Document

SIGNATURES

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

ARGAN, INC.

September 7, 2017

By:

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

September 7, 2017

By:

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