AMREP CORP.
Form 10-Q
December 12, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2017

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________ to ______________________

Commission File Number 1-4702

AMREP Corporation
(Exact name of Registrant as specified in its charter)

Oklahoma	59-0936128
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

620 West Germantown Pike, Suite 175

Plymouth Meeting, PA	19462
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (610) 487-0901

Not Applicable
(Former name or former address, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	x

Emerging growth company ¨

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes¨Nox

Number of Shares of Common Stock, par value $.10 per share, outstanding at December 8, 2017 – 8,098,704.

AMREP CORPORATION AND SUBSIDIARIES

INDEX

	PAGE NO.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets October 31, 2017 (Unaudited) and April 30, 2017	1
Consolidated Statements of Operations and Retained Earnings (Unaudited) Three Months Ended October 31, 2017 and 2016	2
Consolidated Statements of Operations and Retained Earnings (Unaudited) Six Months Ended October 31, 2017 and 2016	3
Consolidated Statements of Cash Flows (Unaudited) Six Months Ended October 31, 2017 and 2016	4
Notes to Consolidated Financial Statements (Unaudited)	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 4. Controls and Procedures	15
PART II. OTHER INFORMATION	
Item 6. Exhibits	15
SIGNATURE	16
EXHIBIT INDEX	17

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMREP CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands, except par value and share amounts)

	October 31, 2017 (Unaudited)	**April 30, 2017**
ASSETS		
Cash and cash equivalents	$ 13,829	$ 11,811
Receivables, net	6,378	6,379
Real estate inventory	55,930	56,090
Investment assets	9,714	9,715
Property, plant and equipment, net	10,246	10,852
Other assets	2,262	2,310
Deferred income taxes, net	8,663	9,519
TOTAL ASSETS	$ 107,022	$ 106,676
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	$ 7,271	$ 7,035
Taxes payable, net	459	465
Other liabilities and deferred revenue	1,756	3,376
Accrued pension cost	10,827	10,967
TOTAL LIABILITIES	20,313	21,843
SHAREHOLDERS' EQUITY:		
Common stock, $.10 par value; shares authorized – 20,000,000; shares issued – 8,323,954 at October 31, 2017 and 8,303,204 at April 30, 2017	832	830
Capital contributed in excess of par value	50,842	50,694
Retained earnings	48,490	46,764
Accumulated other comprehensive loss, net	(9,240)	(9,240)
Treasury stock, at cost; 225,250 shares at October 31, 2017 and April 30, 2017	(4,215)	(4,215)
TOTAL SHAREHOLDERS' EQUITY	86,709	84,833
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 107,022	$ 106,676

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

1

AMREP CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Retained Earnings (Unaudited)

Three Months Ended October 31, 2017 and 2016

(Amounts in thousands, except per share amounts)

	2017	**2016**
REVENUES:		
Fulfillment services	$7,673	$7,858
Real estate land sales	1,416	3,529
Other	86	78
	9,175	11,465
COSTS AND EXPENSES:		
Real estate land sales	1,139	2,944
Operating and selling expenses:		
Fulfillment services	5,983	6,707
Real estate	582	407
General and administrative expenses:		
Fulfillment services	308	327
Real estate	86	134
Corporate	696	744
Interest expense	18	82
	8,812	11,345
Income before income taxes	363	120
Provision for income taxes	85	8
Net income	278	112
Retained earnings, beginning of period	48,212	47,409
Retained earnings, end of period	$48,490	$47,521
Earnings per share, net - basic and diluted	$0.03	$0.01
Weighted average number of common shares outstanding – basic	8,070	8,050
Weighted average number of common shares outstanding – diluted	8,102	8,077

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

AMREP CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Retained Earnings (Unaudited)

Six Months Ended October 31, 2017 and 2016

(Amounts in thousands, except per share amounts)

	2017	2016
REVENUES:		
Fulfillment services	$14,916	$15,686
Real estate land sales	4,093	6,249
Other	1,492	1,738
	20,501	23,673
COSTS AND EXPENSES:		
Real estate land sales	2,362	5,522
Operating and selling expenses:		
Fulfillment services	12,077	13,380
Real estate	1,093	818
General and administrative expenses:		
Fulfillment services	657	680
Real estate	200	303
Corporate	1,504	1,577
Interest expense	31	306
	17,924	22,586
Income before income taxes	2,577	1,087
Provision for income taxes	851	345
Net income	1,726	742
Retained earnings, beginning of period	46,764	46,779
Retained earnings, end of period	$48,490	$47,521
Earnings per share, net - basic and diluted	$0.21	$0.09
Weighted average number of common shares outstanding – basic	8,067	8,046
Weighted average number of common shares outstanding – diluted	8,096	8,071

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

AMREP CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows from Operations (Unaudited)

Six Months Ended October 31, 2017 and 2016

(Amounts in thousands)

	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from operations	$1,726	$742
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	635	717
Non-cash credits and charges:		
Non-cash gain on settlement	(1,318)	-
Non-cash deferred revenue recognized	(40)	-
Provision for (recovery of) doubtful accounts	(14)	15
Stock-based compensation	45	35
Changes in assets and liabilities:		
Receivables	15	306
Real estate inventory and investment assets	161	4,529
Other assets	153	355
Accounts payable and accrued expenses	236	(875)
Taxes receivable and payable	(6)	(21)
Other liabilities and deferred revenue	(262)	(117)
Deferred income taxes	856	361
Accrued pension costs	(140)	630
Total adjustments	321	5,935
Net cash provided by operating activities	2,047	6,677
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures – property, plant and equipment	(29)	(49)
Net cash used in investing activities	(29)	(49)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt financing	-	340
Principal debt payments	-	(895)
Principal debt payments – related party	-	(8,729)
Net cash used in financing activities	-	(9,284)
Increase (decrease) in cash and cash equivalents	2,018	(2,656)
Cash and cash equivalents, beginning of period	11,811	14,562
Cash and cash equivalents, end of period	$13,829	$11,906

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid, net of amounts capitalized	$26	$292
Income taxes paid, net	$6	$3

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

4

AMREP CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended October 31, 2017 and 2016

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by AMREP Corporation (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information, and do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The Company, through its subsidiaries, is primarily engaged in two business segments: the real estate business operated by AMREP Southwest Inc. ("AMREP Southwest") and its subsidiaries and the fulfillment services business operated by Palm Coast Data LLC ("Palm Coast") and its affiliates. The Company's foreign sales are insignificant. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, these unaudited consolidated financial statements include all adjustments, which are of a normal recurring nature, considered necessary to reflect a fair presentation of the results for the interim periods presented. The results of operations for such interim periods are not necessarily indicative of what may occur in future periods. Unless otherwise qualified, all references to 2018 and 2017 are to the fiscal years ending April 30, 2018 and 2017 and all references to the second quarter and first six months of 2018 and 2017 mean the fiscal three month and six month periods ended October 31, 2017 and 2016.

The unaudited consolidated financial statements herein should be read in conjunction with the Company's annual report on Form 10-K for the year ended April 30, 2017, which was filed with the SEC on July 18, 2017 (the "2017 Form 10-K"). Certain 2017 balances in these financial statements have been reclassified to conform to the current year presentation with no effect on the net income or shareholders' equity.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. Since that date, the FASB has issued additional ASUs providing further revenue recognition guidance (collectively, "Topic 606"). Topic 606 clarifies the principles for recognizing revenues and costs related to obtaining and fulfilling customer contracts, with the objective of improving financial reporting. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Topic 606 defines a five-step process to achieve this core principle, and more judgment and estimates may be required under Topic 606 than are currently required under generally accepted accounting principles. The two permitted transition methods under Topic 606 are (i) the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or (ii) the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of adoption. The Company intends to use the modified retrospective transition method upon adoption. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the required adoption date until May 1, 2018, although an earlier adoption is permitted. The Company does not intend to early adopt Topic 606.

The Company has established an implementation team to evaluate the impact of Topic 606 on the Company's accounting policies, processes and system requirements, as well as its consolidated financial statements. Depending on the results of the evaluation, there could be changes to the timing of recognition of revenues and related costs. As the Company considers itself to be in the early stages of its evaluation of the impact of Topic 606, the Company does not know and cannot reasonably estimate quantitative information related to the impact of these new ASUs on its consolidated financial statements, including the effect on the Company's operating results, if any. The implementation team has reported its progress on its evaluation to the Audit Committee of the Company's Board of Directors.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in its balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This ASU will be effective for the Company for fiscal year 2020 beginning on May 1, 2019. The Company has not yet concluded how the new standard will impact its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of ASU 2016-15 is to reduce the diversity in practice regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for the Company's fiscal year 2019 beginning May 1, 2018. Early adoption is permitted, but the Company does not intend to early adopt ASU 2016-15. A retrospective transition method is to be used in the application of this amendment. The adoption of ASU 2016-15 by the Company is not expected to have a material effect on its consolidated financial statements.

(2) RECEIVABLES

Receivables, net consist of:

	October 31, 2017	**April 30, 2017**
	(in thousands)	
Fulfillment services	$6,657	$ 6,725
Real estate	12	-
Corporate	41	2
	6,710	6,727
Less allowance for doubtful accounts	(332)	(348)
	$6,378	$ 6,379

During the first six months of 2018, revenues from one major customer of the Company's fulfillment services business totaled $2,164,000 or approximately 10.6% of total revenues for the Company. As of October 31, 2017, the Company's fulfillment services business had $706,000 of outstanding accounts receivable from this customer, which was reduced by collections to $363,000 at December 1, 2017. This customer has given the Company's fulfillment services business notice that a significant portion of its business will be transferred from Palm Coast during 2018.

(3) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consist of:

	October 31, 2017	April 30, 2017
	(in thousands)	
Land, buildings and improvements	$15,924	$15,995
Furniture and equipment	18,360	18,350
	34,284	34,345
Less accumulated depreciation	(24,038)	(23,493)
	$10,246	$10,852

Depreciation of property, plant and equipment charged to operations was $314,000 and $635,000 for the three and six month periods ended October 31, 2017 and $350,000 and $710,000 for the three and six month periods ended October 31, 2016.

(4) OTHER ASSETS

Other assets consist of:

	October 31, 2017	April 30, 2017
	(in thousands)	
Prepaid expenses	$1,467	$ 1,491
Deferred order entry costs	524	553
Other	271	266
	$2,262	$ 2,310

Deferred order entry costs represent costs incurred in connection with the data entry of customer subscription information to database files and are charged directly to operations generally over a twelve month period.

(5) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	October 31, 2017	**April 30, 2017**
	(in thousands)	
Fulfillment services	$5,002	$ 5,637
Real estate	1,942	1,138
Corporate	327	260
	$7,271	$ 7,035

The October 31, 2017 accounts payable and accrued expenses total included customer postage deposits of $2,690,000, accrued expenses of $1,665,000, trade payables of $1,127,000 and other of $1,789,000. The April 30, 2017 accounts payable and accrued expenses total included customer postage deposits of $3,178,000, accrued expenses of $1,669,000, trade payables of $619,000 and other of $1,569,000.

(6) <u>OTHER LIABILITIES AND DEFERRED REVENUE; OTHER REVENUES</u>

Refer to Note 9 to the consolidated financial statements contained in the 2017 Form 10-K for detail about the settlement agreement entered into between Palm Coast and the State of Florida in the first quarter of 2018. As a result of the settlement agreement, in the first quarter of 2018, Palm Coast reduced its previously recorded liability of $3,000,000 and a related $26,000 interest accrual by $1,620,000 to $1,406,000 by recognizing a pre-tax gain of $1,318,000 and recording a deferred gain of $302,000. In connection with the settlement, Palm Coast made a payment of $163,000 to the State of Florida during the first quarter of 2018 thereby reducing its remaining liability to $1,243,000. The $1,318,000 pre-tax gain is included in Other revenues in the accompanying financial statements. The deferred gain of $302,000 was reduced to $262,000 as of October 31, 2017, which $262,000 will be recognized over a period of seven and a half years from October 31, 2017.

In addition, refer to Note 10 to the consolidated financial statements contained in the 2017 Form 10-K for detail about the Oil and Gas Lease and the Addendum thereto with Thrust Energy, Inc. and Cebolla Roja, LLC. No royalties under the Lease were received during the first quarter of 2018. Revenue from this transaction is being recorded over the lease term and approximately $57,000 and $114,000 was recognized during the second quarter and first six months of each of 2018 and 2017. At October 31, 2017, there was $189,000 of deferred revenue remaining to be recognized before the end of the lease term in September 2018.

During the first quarter of 2017, a subsidiary of AMREP Southwest sold a single tenant retail commercial building in Rio Rancho, New Mexico, which resulted in a pre-tax gain of $1,496,000 that was included in Other revenues for that quarter.

Other revenues for the second quarter and first six months of 2018 and 2017 consist of:

	Second Quarter of 2018	**Second Quarter of 2017**
	(in thousands)	
Deferred revenue and other	$ 86	$ 78
	$ 86	$ 78