

AMREP CORP.
Form 10-Q
March 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2018

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)

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Oklahoma 59-0936128
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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) 487-0905

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 " Smaller reporting company x
(Do not check if a
smaller reporting
company)

Emerging growth company "

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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 " No x

Number of Shares of Common Stock, par value \$.10 per share, outstanding at March 15, 2018 – 8,098,704.

AMREP CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMREP CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

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

	January 31, 2018 (Unaudited)	April 30, 2017
ASSETS		
Cash and cash equivalents	\$ 13,854	\$ 11,811
Receivables, net	6,918	6,379
Real estate inventory	58,271	56,090
Investment assets	9,714	9,715
Property, plant and equipment, net	10,028	10,852
Other assets	2,238	2,310
Deferred income taxes, net (Note 9)	4,815	9,519
TOTAL ASSETS	\$ 105,838	\$ 106,676
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 9,187	\$ 7,035
Notes payable	638	-
Taxes payable, net	41	465
Other liabilities and deferred revenue	1,653	3,376
Accrued pension costs	9,707	10,967
TOTAL LIABILITIES	21,226	21,843
SHAREHOLDERS' EQUITY:		
Common stock, \$.10 par value; shares authorized – 20,000,000; shares issued – 8,323,954 at January 31, 2018 and 8,303,204 at April 30, 2017	832	830
Capital contributed in excess of par value	50,922	50,694
Retained earnings	45,639	46,764
Accumulated other comprehensive loss, net	(8,566)	(9,240)
Treasury stock, at cost; 225,250 shares at January 31, 2018 and April 30, 2017	(4,215)	(4,215)
TOTAL SHAREHOLDERS' EQUITY	84,612	84,833
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 105,838	\$ 106,676

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)

Three Months Ended January 31, 2018 and 2017

(Amounts in thousands, except per share amounts)

	2018	2017
REVENUES:		
Fulfillment services	\$7,676	\$8,222
Real estate land sales	2,510	1,461
Other	193	94
	10,379	9,777
COSTS AND EXPENSES:		
Real estate land sales	2,109	848
Operating and selling expenses:		
Fulfillment services	6,338	6,855
Real estate	470	370
General and administrative expenses:		
Fulfillment services	313	345
Real estate	156	130
Corporate	690	787
Impairment of real estate assets	-	150
Interest expense	18	22
	10,094	9,507
Income before income taxes	285	270
Provision for income taxes (Note 9)	3,136	96
Net income (loss)	(2,851)	174
Retained earnings, beginning of period	48,490	47,521
Retained earnings, end of period	\$45,639	\$47,695
Earnings (loss) per share, net - basic and diluted	\$(0.35)	\$0.02
Weighted average number of common shares outstanding – basic	8,075	8,053
Weighted average number of common shares outstanding – diluted	8,075	8,080

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)

Nine Months Ended January 31, 2018 and 2017

(Amounts in thousands, except per share amounts)

	2018	2017
REVENUES:		
Fulfillment services	\$22,592	\$23,908
Real estate land sales	6,603	7,710
Other	1,685	1,832
	30,880	33,450
COSTS AND EXPENSES:		
Real estate land sales	4,471	6,370
Operating and selling expenses:		
Fulfillment services	18,415	20,235
Real estate	1,563	1,188
General and administrative expenses:		
Fulfillment services	970	1,025
Real estate	356	433
Corporate	2,194	2,364
Impairment of real estate assets	-	150
Interest expense	49	328
	28,018	32,093
Income before income taxes	2,862	1,357
Provision for income taxes (Note 9)	3,987	441
Net income (loss)	(1,125)	916
Retained earnings, beginning of period	46,764	46,779
Retained earnings, end of period	\$45,639	\$47,695
Earnings (loss) per share, net - basic and diluted	\$(0.14)	\$0.11
Weighted average number of common shares outstanding – basic	8,070	8,048
Weighted average number of common shares outstanding – diluted	8,070	8,074

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

AMREP CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

Three and Nine Months Ended January 31, 2018 and 2017

(Amounts in thousands)

	Three Months Ended January 31, 2018 2017	
Net income (loss)	\$(2,851)	\$174
Other comprehensive income (loss), net of tax:		
Decrease in pension liability, net of tax (\$98 in 2018 and \$153 in 2017)	225	248
Other comprehensive income (loss)	225	248
Total comprehensive income (loss)	\$(2,626)	\$422
	Nine Months Ended January 31, 2018 2017	
Net income (loss)	\$(1,125)	\$916
Other comprehensive income (loss), net of tax:		
Decrease in pension liability, net of tax (\$296 in 2018 and \$456 in 2017)	674	746
Other comprehensive income (loss)	674	746
Total comprehensive income (loss)	\$(451)	\$1,662

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)

Nine Months Ended January 31, 2018 and 2017

(Amounts in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from operations	\$(1,125)	\$916
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	954	1,058
Impairment of real estate assets	-	150
Non-cash credits and charges:		
Non-cash gain on settlement	(1,318)	-
Non-cash deferred revenue recognized	(61)	-
Provision for (recovery of) doubtful accounts	28	(5)
Stock-based compensation	136	99
Pension accrual	750	944
Changes in assets and liabilities:		
Receivables	(567)	86
Real estate inventory and investment assets	(2,180)	4,958
Other assets	146	701
Accounts payable and accrued expenses	2,172	(1,490)
Taxes payable	(424)	(124)
Other liabilities and deferred revenue	(344)	(248)
Deferred income taxes	4,408	562
Accrued pension costs	(1,040)	-
Total adjustments	2,660	6,691
Net cash provided by operating activities	1,535	7,607
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures – property, plant and equipment	(130)	(63)
Net cash used in investing activities	(130)	(63)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt financing	638	340
Principal debt payments	-	(895)
Principal debt payments – related party	-	(10,798)
Net cash provided by (used in) financing activities	638	(11,353)
Increase (decrease) in cash and cash equivalents	2,043	(3,809)
Cash and cash equivalents, beginning of period	11,811	14,562
Cash and cash equivalents, end of period	\$13,854	\$10,753

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid, net of amounts capitalized	\$42	\$314
Income taxes paid, net	\$7	\$4

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

AMREP CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

Nine Months Ended January 31, 2018 and 2017

(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 third quarter and first nine months of 2018 and 2017 mean the fiscal three month and nine month periods ended January 31, 2018 and 2017.

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 either 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 for the Company, 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. The Company continues its evaluation of the impact of Topic 606. As of January 31, 2018, the Company had not determined a reasonable estimate of 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 the progress and status of its evaluation to the Audit Committee of the Company's Board of Directors.

(2) RECEIVABLES

Receivables, net consist of:

	January 31, 2018	April 30, 2017
	(in thousands)	
Fulfillment services	\$7,269	\$ 6,725
Real estate	19	-
Corporate	6	2
	7,294	6,727
Less allowance for doubtful accounts	(376)	(348)
	\$6,918	\$ 6,379

During the first nine months of 2018, revenues from one major customer of the Company's fulfillment services business totaled \$3,189,000 or approximately 10.3% of total revenues for the Company. As of January 31, 2018, the Company's fulfillment services business had \$682,000 of outstanding accounts receivable from this customer, which was collected in full by March 16, 2018. This customer has given the Company's fulfillment services business notice that a significant portion of its business will be transferred from Palm Coast at the end of 2018.

(3) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consist of:

	January 31, 2018	April 30, 2017
	(in thousands)	
Land, buildings and improvements	\$15,925	\$15,995
Furniture and equipment	18,473	18,350
	34,398	34,345
Less accumulated depreciation	(24,370)	(23,493)
	\$10,028	\$10,852

Depreciation of property, plant and equipment charged to operations was \$319,000 and \$954,000 for the three and nine month periods ended January 31, 2018 and \$341,000 and \$1,051,000 for the three and nine month periods ended January 31, 2017.

(4) OTHER ASSETS

Other assets consist of:

	January 31, 2018	April 30, 2017
	(in thousands)	
Prepaid expenses	\$1,426	\$1,491
Deferred order entry costs	533	553
Other	279	266
	\$2,238	\$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.