

AMREP CORP.  
Form 10-Q  
September 14, 2016

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 July 31, 2016

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 (IRS Employer

incorporation or organization) Identification No.)

300 Alexander Park, Suite 204, Princeton, New Jersey 08540  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (609) 716-8200

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  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  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Yes  No

Number of Shares of Common Stock, par value \$.10 per share, outstanding at September 9, 2016 – 8,078,954.

**AMREP CORPORATION AND SUBSIDIARIES**

**INDEX**

	<b>PAGE NO.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Balance Sheets July 31, 2016 (Unaudited) and April 30, 2016</u>	1
<u>Consolidated Statements of Operations and Retained Earnings (Unaudited) Three Months Ended July 31, 2016 and 2015</u>	2
<u>Consolidated Statements of Cash Flows (Unaudited) Three Months Ended July 31, 2016 and 2015</u>	3
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9
<u>Item 4. Controls and Procedures</u>	13
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 5. Other Information</u>	14
<u>Item 6. Exhibits</u>	14
<b><u>SIGNATURE</u></b>	15
<b><u>EXHIBIT INDEX</u></b>	16

## PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

## AMREP CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

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

	July 31, 2016 (Unaudited)	April 30, 2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,295	\$ 14,562
Receivables, net	7,404	7,271
Real estate inventory	59,715	61,663
Investment assets, net	9,716	10,326
Property, plant and equipment, net	11,677	11,997
Other assets	3,471	3,478
Taxes receivable	51	48
Deferred income taxes, net	10,946	11,283
<b>TOTAL ASSETS</b>	<b>\$ 114,275</b>	<b>\$ 120,628</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 7,613	\$ 8,453
Notes payable:		
Amounts due within one year	-	555
Amounts due to related party	6,483	12,384
	6,483	12,939
Other liabilities and deferred revenue	3,623	3,682
Accrued pension cost	13,025	12,710
<b>TOTAL LIABILITIES</b>	<b>30,744</b>	<b>37,784</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$.10 par value; shares authorized – 20,000,000; shares issued – 8,296,704 at July 31, 2016 and 8,284,704 at April 30, 2016	830	828
Capital contributed in excess of par value	50,608	50,553
Retained earnings	47,409	46,779
Accumulated other comprehensive loss, net	(11,101 )	(11,101 )

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Treasury stock, at cost; 225,250 shares at July 31, 2016 and April 30, 2016	(4,215 )	(4,215 )
TOTAL SHAREHOLDERS' EQUITY	83,531	82,844
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 114,275	\$ 120,628

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 July 31, 2016 and 2015

(Amounts in thousands, except per share amounts)

	2016	2015
REVENUES:		
Fulfillment services	\$7,828	\$9,181
Real estate land sales	2,720	110
Other revenues (Note 8)	1,660	284
	12,208	9,575
COSTS AND EXPENSES:		
Real estate land sales	2,578	36
Operating expenses:		
Fulfillment services	6,673	8,780
Real estate selling expenses	41	53
Other	370	347
General and administrative expenses:		
Fulfillment services	353	865
Real estate operations and corporate	1,002	1,019
Interest expense	224	379
	11,241	11,479
Income (loss) from operations before income taxes	967	(1,904 )
Provision (benefit) for income taxes	337	(725 )
Net income (loss)	630	(1,179 )
Retained earnings, beginning of period	46,779	57,003
Retained earnings, end of period	\$47,409	\$55,824
Earnings (loss) per share, net - basic and diluted	\$0.08	\$(0.15 )
Weighted average number of common shares outstanding	8,042	8,029

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)

Three Months Ended July 31, 2016 and 2015

(Amounts in thousands)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss) from operations	\$630	\$(1,179 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	367	746
Non-cash credits and charges:		
Allowance for doubtful accounts	18	29
Stock-based compensation	15	21
Changes in assets and liabilities:		
Receivables	(151 )	303
Real estate inventory and investment assets	2,557	(67 )
Other assets	42	432
Accounts payable and accrued expenses	(840 )	(1,458 )
Taxes receivable and payable	(3 )	(2,434 )
Deferred income taxes and other liabilities	278	(61 )
Accrued pension costs	315	254
Total adjustments	2,598	(2,235 )
Net cash provided by (used in) operating activities	3,228	(3,414 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures - property, plant and equipment	(39 )	(82 )
Net cash used in investing activities	(39 )	(82 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from debt financing	340	-
Principal debt payments	(6,796 )	(251 )
Net transfers from discontinued operations	-	1,394
Net cash provided by (used in) financing activities	(6,456 )	1,143
Decrease in cash and cash equivalents	(3,267 )	(2,353 )
Cash and cash equivalents, beginning of period	14,562	12,050
Cash and cash equivalents, end of period	\$11,295	\$9,697
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid, net of amounts capitalized	\$132	\$324
Income taxes paid (refunded), net	\$2	\$1,854

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)

Three Months Ended July 31, 2016 and 2015

### **(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 2017 and 2016 are to the fiscal years ending April 30, 2017 and 2016 and all references to the first quarter and first three months of 2017 and 2016 mean the fiscal three month periods ended July 31, 2016 and 2015.

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, 2016, which was filed with the SEC on July 29, 2016 (the “2016 Form 10-K”).

### **Recently Issued Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The update simplifies several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The adoption of ASU 2016-09 by the Company is not

expected to have a material effect on its consolidated financial statements.

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 (the lease liability) 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. ASU 2016-02 will be effective for the Company for fiscal year 2020 beginning on May 1, 2019. The Company has not determined the transition approach that will be utilized or estimated the impact of adopting ASU 2016-02.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This guidance defines how companies report revenues from contracts with customers and also requires enhanced disclosures. In July 2015, the FASB voted to defer the effective date by one year, with early adoption on the original effective date permitted. The Company will be required to adopt ASU 2014-09 as of May 1, 2018 and early adoption is permitted as of May 1, 2017. The Company has not determined when it will adopt ASU 2014-09 and the transition approach that will be utilized or estimated the impact of adopting ASU 2014-09.

## **(2) RECEIVABLES**

Receivables, net consist of the following (in thousands):

	July 31, 2016	April 30, 2016
Fulfillment Services	\$ 7,540	\$ 7,357
Real estate operations and corporate	316	348
	7,856	7,705
Less allowance for doubtful accounts	(452 )	(434 )
	\$ 7,404	\$ 7,271

During the first quarter of 2017, revenues from one major customer of the Company's Fulfillment Services business totaled \$1,284,000 or 10.5% of total revenues for the Company. As of August 31, 2016, the Company's Fulfillment Services business had \$416,000 of outstanding accounts receivable from this customer. This major customer has given the Company's Fulfillment Services business notice that a significant portion of its business will be transferred to another provider during 2017.

## **(3) INVESTMENT ASSETS**

Investment assets, net consist of the following (in thousands):

	July 31, 2016	April 30, 2016
Land held for long-term investment	\$ 9,716	\$ 9,717
Other	-	609
	\$ 9,716	\$ 10,326

Land held for long-term investment represents property located in areas that are not planned to be developed in the near term and thus has not been offered for sale. As of July 31, 2016, the Company held approximately 12,000 acres of land in New Mexico classified as land held for long-term investment.

At April 30, 2016, Other included an approximately 2,200 square foot, single tenant retail commercial building on property owned by the AMREP Southwest in Rio Rancho, New Mexico. In the first quarter of 2017, the Company sold this property (see Note 8).

**(4) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, net consist of the following (in thousands):

	July 31, 2016	April 30, 2016
Land, buildings and improvements	\$ 15,868	\$ 15,864
Furniture and equipment	19,189	19,140
	35,057	35,004
Less accumulated depreciation	(23,380)	(23,007)
	\$ 11,677	\$ 11,997

**(5) OTHER ASSETS**

Other assets consist of the following (in thousands):

	July 31, 2016	April 30, 2016
Prepaid expenses	\$ 2,420	\$ 2,358
Deferred order entry costs	784	845
Other	267	275
	\$ 3,471	\$ 3,478

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.

**(6) ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following (in thousands):

	July 31, 2016	April 30, 2016
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Fulfillment Services	\$ 6,226	\$ 6,712
Real estate operations and corporate	1,387	1,741
	\$ 7,613	\$ 8,453

The July 31, 2016 accounts payable and accrued expenses total included customer postage deposits of \$3,702,000, accrued expenses of \$2,031,000, trade payables of \$707,000 and other of \$1,173,000. The April 30, 2016 accounts payable and accrued expenses total included customer postage deposits of \$3,947,000, accrued expenses of \$1,998,000, trade payables of \$837,000 and other of \$1,671,000.

**(7) NOTES PAYABLE**

Notes payable consist of the following (in thousands):

	July 31, 2016	April 30, 2016
Credit facilities:		
Real estate operations - due to related party	\$ 6,483	\$ 12,384
Real estate operations - other	-	555
	\$ 6,483	\$ 18,090

**Real Estate Loan**

AMREP Southwest has a loan from a company owned by Nicholas G. Karabots, a significant shareholder of the Company and in which another director of the Company has a 20% participation. The loan had an outstanding principal amount of \$6,483,000 at July 31, 2016, is scheduled to mature on December 1, 2017, bears interest payable monthly at 8.5% per annum and is secured by a mortgage on all real property of AMREP Southwest in Rio Rancho, New Mexico and by a pledge of the stock of its subsidiary, Outer Rim Investments, Inc. The total book value of the real property collateralizing the loan was approximately \$57,413,000 as of July 31, 2016. The loan may be prepaid at any time without premium or penalty except if the prepayment is in connection with the disposition of AMREP Southwest or substantially all of its assets. No payments of principal are required until maturity, except that the following amounts are required to be applied to the payment of the loan: (a) 25% of the net cash proceeds from any sales of real property by AMREP Southwest and (b) 25% of any royalty payments received by AMREP Southwest under the oil and gas lease described in Note 8.

**Other Notes Payable**

A subsidiary of AMREP Southwest had a loan agreement with U.S. Bank National Association for the construction of a 2,200 square foot, single tenant retail building in Rio Rancho, New Mexico. The loan was scheduled to mature on October 31, 2016, bore interest payable monthly on the outstanding principal amount at 0.5% plus the prime rate, was secured by a mortgage on the real property of approximately one acre where construction of the building had occurred, contained customary events of default, representations, warranties and covenants for a loan of this nature and was guaranteed by AMREP Southwest. As of April 30, 2016, the outstanding principal balance of the loan was \$555,000. In the first quarter of 2017, this property was sold and the outstanding loan balance was satisfied with proceeds from the sale.

**(8) OTHER REVENUES**

During the quarter ended July 31, 2016, the Company sold a single tenant retail commercial building in Rio Rancho, New Mexico, which resulted in a pre-tax gain of \$1,496,000.

In addition, refer to Note 11 to the consolidated financial statements contained in the 2016 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 2017. Revenue from this transaction is being recorded over the lease term and approximately \$57,000 was recognized during the first quarters of 2017 and 2016. At July 31, 2016, there was \$474,000 of deferred revenue remaining to be recognized in future periods.

**(9) FAIR VALUE MEASUREMENTS**

The Financial Instruments Topic of the Financial Accounting Standards Board Accounting Standards Codification requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. The Topic excludes all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions are used in estimating fair value disclosure for financial instruments: the carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments.

The Company did not have any long-term, fixed-rate notes receivables at July 31, 2016 or April 30, 2016. The estimated fair value of the Company's long-term, fixed-rate note payable was \$5,875,000 and \$11,102,000 compared with carrying amounts of \$6,483,000 and \$12,384,000 at July 31, 2016 and April 30, 2016.

**(10) BENEFIT PLANS**

Retirement plan

The Company has a defined benefit retirement plan for which accumulated benefits were frozen and future service credits were curtailed as of March 1, 2004. The Company has secured \$5,019,000 of accrued pension-related obligations with first lien mortgages on certain real property in favor of the Pension Benefit Guaranty Corporation (the "PBGC"). On an annual basis, the Company is required to provide updated appraisals on each mortgaged property and, if the appraised value of the mortgaged properties is less than two times the amount of the accrued pension-related obligations secured by the mortgages, the Company is required to make a payment to its pension plan in an amount equal to one-half of the amount of the shortfall. During the first quarter of 2017, there was no change in the appraised value of the mortgaged property that required the Company to make any additional payments to its pension plan.

Equity compensation plan

The Company issued 12,000 shares of restricted common stock under the AMREP Corporation 2006 Equity Compensation Plan (the "Equity Plan") during the first quarter of 2017. During the first quarter of 2017, 5,000 shares of common stock previously issued under the Equity Plan vested leaving 26,000 shares issued under the Equity Plan that had not vested as of July 31, 2016. For the first quarter of 2017 and 2016, the Company recognized \$15,000 and \$21,000 of compensation expense related to the restricted shares of common stock issued. As of July 31, 2016, there was \$69,000 of total unrecognized compensation expense related to shares of common stock issued under the Equity

Plan which had not vested as of that date, which is expected to be recognized over the remaining vesting term not to exceed three years.

**(11) INFORMATION ABOUT THE COMPANY'S OPERATIONS IN DIFFERENT INDUSTRY SEGMENTS**

The following tables set forth summarized data relative to the industry segments in which the Company operated for the three month periods ended July 31, 2016 and 2015 (in thousands):

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	Real Estate Operations	Fulfillment Services	Corporate and Other	Consolidated
Three months ended July 31, 2016 (a):				
Revenues	\$ 4,370	\$ 7,828	\$ 10	\$ 12,208
Net income (loss) from operations	\$ 247	\$ (42	) \$ 425	\$ 630
Provision (benefit) for income taxes	145	(25	) 217	337
Interest expense (income), net	647	269	(692 )	224
Depreciation and amortization	24	343	-	367
EBITDA (b)	\$ 1,063	\$ 545	\$ (50 )	\$ 1,558