

AMREP CORP.
Form 10-Q
September 13, 2012
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, 2012

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 (State or other jurisdiction of incorporation or organization) | 59-0936128 (IRS Employer Identification No.) |
| 300 Alexander Park, Suite 204, Princeton, New Jersey (Address of principal executive offices) | 08540 (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

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(§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

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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 X
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 X

Number of Shares of Common Stock, par value \$.10 per share, outstanding at September 12, 2012 – 5,996,212.

AMREP CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMREP CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
(Thousands, except par value and number of shares)

| | July 31, 2012 | April 30, 2012 |
|---|-------------------|-------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 22,006 | \$ 27,847 |
| Receivables, net: | | |
| Media Services operations | 47,760 | 40,544 |
| Real estate operations and corporate | 55 | 55 |
| | 47,815 | 40,599 |
| Real estate inventory | 75,479 | 75,401 |
| Investment assets, net | 11,093 | 11,262 |
| Property, plant and equipment, net | 25,422 | 25,924 |
| Intangible and other assets, net | 13,211 | 13,980 |
| Deferred income taxes | 8,393 | 8,026 |
| TOTAL ASSETS | \$ 203,419 | \$ 203,039 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| LIABILITIES: | | |
| Accounts payable, net and accrued expenses | \$ 85,222 | \$ 85,720 |
| Notes payable: | | |
| Amounts due within one year | 18,791 | 16,974 |
| Amounts subsequently due | 4,316 | 4,351 |
| | 23,107 | 21,325 |
| Taxes payable | 363 | 435 |
| Other liabilities | 3,253 | 3,237 |
| Accrued pension cost | 17,437 | 17,677 |
| TOTAL LIABILITIES | 129,382 | 128,394 |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, \$.10 par value; | | |
| Shares authorized – 20,000,000; 7,420,704 shares issued | 742 | 742 |
| Capital contributed in excess of par value | 46,100 | 46,100 |
| Retained earnings | 66,150 | 66,758 |
| Accumulated other comprehensive loss, net | (12,298) | (12,298) |
| Treasury stock, at cost; 1,424,492 shares | (26,657) | (26,657) |
| TOTAL SHAREHOLDERS' EQUITY | 74,037 | 74,645 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 203,419 | \$ 203,039 |

See notes to consolidated financial statements.

AMREP CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Retained Earnings (Unaudited)
Three Months Ended July 31, 2012 and 2011
(Thousands, except per share amounts)

| | 2012 | 2011 |
|---|-------------------|-------------------|
| REVENUES: | | |
| Media Services operations | \$ 19,588 | \$ 21,377 |
| Real estate land sales | - | 108 |
| Interest and other | 8 | 8 |
| | 19,596 | 21,493 |
| COSTS AND EXPENSES: | | |
| Real estate land sales (including indirect costs) | 74 | 74 |
| Operating expenses: | | |
| Media Services operations | 16,367 | 17,816 |
| Real estate selling and commissions | 54 | 59 |
| Other | 403 | 349 |
| General and administrative: | | |
| Media Services operations | 2,089 | 2,201 |
| Real estate operations and corporate | 1,072 | 1,036 |
| Impairment of assets | 169 | - |
| Interest expense | 327 | 385 |
| | 20,555 | 21,920 |
| LOSS BEFORE INCOME TAXES | (959) | (427) |
| BENEFIT FOR INCOME TAXES | (351) | (148) |
| NET LOSS | (608) | (279) |
| RETAINED EARNINGS, beginning of period | 66,758 | 67,901 |
| RETAINED EARNINGS, end of period | \$ 66,150 | \$ 67,622 |
| LOSS PER SHARE – BASIC AND DILUTED | \$ (0.10) | \$ (0.05) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 5,996 | 5,996 |

See notes to consolidated financial statements.

AMREP CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
Three Months Ended July 31, 2012 and 2011
(Thousands)

| | 2012 | 2011 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (608) | \$ (279) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Impairment of assets | 169 | - |
| Depreciation and amortization | 956 | 1,365 |
| Non-cash credits and charges: | | |
| Pension accrual | (240) | (17) |
| Provision for doubtful accounts | 19 | 2 |
| Loss on disposition of assets, net | - | 118 |
| Changes in assets and liabilities: | | |
| Receivables | (7,235) | 1,409 |
| Real estate inventory and investment assets | (78) | (126) |
| Intangible and other assets | 345 | 408 |
| Accounts payable and accrued expenses | (498) | (48) |
| Taxes payable | (72) | (496) |
| Deferred income taxes and other long-term liabilities | (351) | 293 |
| Total adjustments | (6,985) | 2,908 |
| Net cash provided by (used in) operating activities | (7,593) | 2,629 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures - property, plant and equipment | (30) | (528) |
| Proceeds from the disposition of assets | - | 96 |
| Net cash used in investing activities | (30) | (432) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from debt financing | 2,439 | 3,370 |
| Principal debt payments | (657) | (4,035) |
| Net cash provided by (used in) financing activities | 1,782 | (665) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (5,841) | 1,532 |
| CASH AND CASH EQUIVALENTS, beginning of period | 27,847 | 25,756 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 22,006 | \$ 27,288 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid – net of amounts capitalized | \$ 456 | \$ 373 |
| Income taxes paid – net of refunds | \$ 72 | \$ 54 |

See notes to consolidated financial statements.

AMREP CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)
Three Months Ended July 31, 2012 and 2011

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by AMREP Corporation (the “Registrant” or 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 four business segments: the Subscription Fulfillment Services business operated by Palm Coast Data LLC (“Palm Coast”), the Newsstand Distribution Services business and the Product Services and Other businesses operated by Kable Media Services, Inc. and its subsidiaries (“Kable”) (the businesses being operated by Palm Coast and Kable are collectively referred to as “Media Services”) and the real estate business operated by AMREP Southwest Inc. and its subsidiaries (collectively, “AMREP Southwest”).

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 2013 and 2012 are to the fiscal years ending April 30, 2013 and 2012 and all references to the first quarter of 2013 and 2012 mean the fiscal three month periods ended July 31, 2012 and 2011.

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, 2012, which was filed with the SEC on July 26, 2012 (the “2012 Form 10-K”).

(2) Receivables, Net

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

| | July 31, 2012 | April 30, 2012 |
|---|------------------|-------------------|
| Media Services operations: | | |
| Subscription Fulfillment Services | \$12,190 | \$11,989 |
| Newsstand Distribution Services, net of estimated returns | 33,235 | 26,438 |
| Product Services and Other | 2,753 | 2,698 |
| | 48,178 | 41,125 |
| Less allowance for doubtful accounts | (418) | (581) |
| | \$47,760 | \$40,544 |
| Real estate operations and corporate: | | |
| Mortgage notes and other receivables | \$55 | \$55 |
| Less allowance for doubtful accounts | - | - |
| | \$55 | \$55 |

Newsstand Distribution Services accounts receivable are net of estimated magazine returns of \$82,209,000 and \$69,973,000 at July 31, 2012 and April 30, 2012.

(3) Investment Assets, Net

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

| | July 31, 2012 | April 30, 2012 |
|--|------------------|-------------------|
| Land held for long-term investment | \$10,769 | \$10,769 |
| Other | 753 | 753 |
| Less accumulated depreciation and reserves | (429) | (260) |
| | 324 | 493 |
| | \$11,093 | \$11,262 |

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. Other includes a sales center in Rio Rancho, New Mexico that is not in service and is held for sale. Depreciation is no longer taken on the sales center and an impairment reserve of \$169,000 was recorded as a charge to operations during the quarter ended July 31, 2012.

(4) Property, Plant and Equipment, Net

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

| | July 31, 2012 | April 30, 2012 |
|----------------------------------|------------------|-------------------|
| Land, buildings and improvements | \$29,628 | \$29,624 |
| Furniture and equipment | 22,862 | 22,836 |
| | 52,490 | 52,460 |
| Less accumulated depreciation | (27,068) | (26,536) |
| | \$25,422 | \$25,924 |

(5) Intangible and Other Assets, Net

Intangible and other assets, net consist of the following (in thousands):

| | July 31, 2012 | | April 30, 2012 | |
|--------------------------------------|---------------|-----------------------------|----------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Software development costs | \$1,964 | \$ 1,930 | \$1,964 | \$ 1,905 |
| Deferred order entry costs | 1,258 | - | 1,320 | - |
| Prepaid expenses | 2,993 | - | 3,315 | - |
| Customer contracts and relationships | 15,000 | 6,924 | 15,000 | 6,612 |
| Other | 1,682 | 832 | 1,671 | 773 |
| | \$22,897 | \$ 9,686 | \$23,270 | \$ 9,290 |

Software development costs include internal and external costs of the development of new or enhanced software programs and are generally amortized over five years. 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. Customer contracts and relationships are amortized on a straight

line basis over twelve years.

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(6) Accounts Payable, Net and Accrued Expenses

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

| | July 31, 2012 | April 30, 2012 |
|-------------------------|------------------|-------------------|
| Publisher payables, net | \$75,647 | \$75,982 |
| Accrued expenses | 2,837 | 3,527 |
| Trade payables | 1,983 | 2,042 |
| Other | 4,755 | 4,169 |
| | \$85,222 | \$85,720 |

Newsstand Distribution Services accounts payable are net of estimated magazine returns of \$78,338,000 and \$66,384,000 at July 31, 2012 and April 30, 2012.

(7) Notes Payable

Notes payable consist of the following (in thousands):

| | July 31, 2012 | April 30, 2012 |
|---------------------------|------------------|-------------------|
| Credit facilities: | | |
| Media Services operations | \$2,440 | \$- |
| Real estate operations | 16,214 | 16,839 |
| Other notes payable | 4,453 | 4,486 |
| | \$23,107 | \$21,325 |

Media Services has a Revolving Credit and Security Agreement with a bank (the "Media Services Credit Facility") that provides for a revolving credit loan and letter of credit facility, with availability within the facility's limit based upon the lesser of (i) a percentage of the borrowers' eligible accounts receivable or (ii) the recent level of collections of accounts receivable. The facility is scheduled to mature on May 12, 2013, but the lender has agreed in principle to amend the facility to extend its term to May 12, 2014 and, at Media Services' request, to lower the borrowing limit from the present \$20,000,000 to \$15,000,000. Subject to certain terms, funds may be borrowed, repaid and re-borrowed at any time. Borrowings under the Media Services Credit Facility are being used for Media Services working capital needs and general business purposes and, subject to the Media Services minimum Fixed Charge Coverage Ratio, as defined, being at a stated level, may also be used to provide payments on certain indebtedness due its parent that is not a party to the Media Services Credit Facility. At July 31, 2012, the borrowing availability under the Media Services Credit Facility was \$10,741,000, and there was \$2,440,000 outstanding, which was also the highest amount borrowed during the quarter ended July 31, 2012.

The borrowers' obligations under the Media Services Credit Facility are secured by substantially all of their assets other than real property. The revolving loans under the Media Services Credit Facility may be fluctuating rate borrowings or Eurodollar fixed rate based borrowings or a combination of the two as the borrowers may select. Fluctuating rate borrowings bear interest at a rate which is, at the borrowers' option, either (i) the reserve adjusted daily published rate for one month LIBOR loans plus a margin of 3.0%, or (ii) the highest of two daily published market rates and the bank lender's base commercial lending rate in effect from time to time, but in any case not less than 3.0% plus a margin of 2.0% (that is, not less than 5.0%). Eurodollar fixed rate based borrowings may be for one, two or six months and bear interest at the reserve adjusted Eurodollar interest rates for borrowings of

such durations, plus a margin of 3.0%, which may be reduced to 2.75% depending on the borrowers' financial condition.

The Media Services Credit Facility requires the borrowers to meet certain covenants, including maintaining a minimum Fixed Charge Coverage Ratio, as defined. The Company believes that there may be violations of this covenant in the future. However, the lender's agreement in principle referred to above also provides for a modification of the required Fixed Charge Coverage Ratio so that it would more likely be satisfied. However, neither meeting the covenant's requirement in the future nor obtaining relief from the lender if it is not met can be assured. Under the terms of the Media Services Credit Facility, during the continuance of any violation of a covenant, among other things, the Media Services companies are barred from repaying indebtedness to or otherwise distributing funds to the parent company and the lender is entitled to terminate the Media Services Credit Facility and seek immediate payment of any outstanding borrowing.

AMREP Southwest has a Loan Agreement and a related Promissory Note dated December 17, 2009 originally with a bank, both of which were amended on April 29, 2011 (said Loan Agreement and Promissory Note, as so amended, together, the "ASW Credit Facility"). The ASW Credit Facility is a non-revolving loan with an outstanding principal balance at July 31, 2012 of \$16,214,000, which was due September 1, 2012. The outstanding principal of the ASW Credit Facility bears fluctuating interest at the annual rate of reserve adjusted 30-day LIBOR (0.246% at July 31, 2012) plus 3.5%, but not less than 5.0%, and AMREP Southwest is required to maintain a cash reserve with the lender of not less than \$500,000 to fund the interest payments. At July 31, 2012, the interest rate was 5.0% and the cash reserve was \$537,000. The ASW Credit Facility is secured by a mortgage on certain real property of AMREP Southwest with a book value of approximately \$55,000,000 and requires that the appraised value of the collateral be at least 2.5 times the outstanding principal of the loan. The ASW Credit Facility contains a number of covenants and restrictions, including a covenant requiring AMREP Southwest to maintain a minimum tangible net worth (as defined) and a covenant restricting AMREP Southwest from making distributions and other payments to the Company beyond a stated management fee.

On August 13, 2012, the ASW Credit Facility was purchased by a company organized and wholly-owned by the Company's Vice Chairman and 45.9% shareholder. The purchase price was \$15,250,000 plus accrued interest. Another director of the Company and substantial shareholder has purchased a 20% participation in the ASW Credit Facility from the new holder. The new holder has agreed to extend the due date of the ASW Credit Facility to December 1, 2012 on the existing terms except that no payment of principal is required prior to that date. The Company intends during this extension (i) to seek to negotiate with the new holder for the terms of a substantially longer extension, which likely would involve an increase in interest rate, and (ii) to determine if there is an alternate financing source available on terms more favorable than the new holder's terms, the proceeds of which would be used to repay the ASW Credit Facility at its outstanding principal amount or at some discount from that amount that might be acceptable to the new holder. The Company can offer no assurance that it will be successful in either of these efforts.

Other notes payable consist of a \$4,400,000 mortgage note payable on a warehouse with a maturity date of February 2018 and an interest rate of 6.35%, and \$53,000 of equipment financing loans with maturity dates through April 2014 and an average interest rate of 7.54%. The amount of Other notes payable due within one year totals \$137,000.

(8) Other Liabilities

In June 2009, Palm Coast received \$3,000,000 pursuant to an agreement with the State of Florida (the "Award Agreement") as part of the incentives made available in connection with the Company's project, completed in the second quarter of fiscal 2011, to consolidate its Subscription Fulfillment Services operations at its Palm Coast, Florida location. The Award Agreement includes certain performance requirements in terms of job retention, job creation and capital investment through December 31, 2012 which, if not met by Palm Coast, entitles the State of Florida to obtain the return of a portion, or all, of the \$3,000,000. Accordingly, the \$3,000,000 has been recorded as a liability in the accompanying balance sheet. The award monies, if any, to which Palm Coast becomes irrevocably entitled will be amortized into income over the life of the assets acquired with those funds. As of July 31, 2012, Palm Coast had not met certain of the performance requirements, in large part due to the adverse economic conditions experienced by the magazine publishing industry since the Award Agreement was executed. Palm Coast is currently in discussions with the State of Florida regarding a comprehensive approach to address the current and anticipated reduction of performance during the term of the Award Agreement. The Company is unable to offer any assurance as to whether or when the award monies, in whole or in part, may have to be returned to the State of Florida.

(9) Taxes

The liabilities in the accompanying financial statements related to unrecognized tax benefits that would have an impact on the effective tax rate if these tax benefits were recognized were \$66,000 at July 31, 2012 and April 30, 2012. As a result of either the expiration of statutes of limitations or the recognition and measurement considerations, the Company believes that it is reasonably possible that the amount of unrecognized tax benefits will decrease within the next twelve months.

(10) Fair Value Measurements

The ASC Financial Instruments Topic requires disclosure of fair value information about financial instruments, whether or not recognized on 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 equivalents, Media Services trade receivables and all trade payables approximate fair value because of the short maturities of these financial instruments. Debt that bears variable interest rates indexed to prime or LIBOR also approximates fair value as it reprices when market interest rates change. The estimated fair value of the Company's long-term, fixed-rate mortgage receivables was \$35,000 at July 31, 2012 and \$54,000 at April 30, 2012 and was the approximate carrying amount at those dates. At July 31, 2012 and April 30, 2012, the estimated fair values of the Company's long-term, fixed-rate notes payable were \$4,789,000 and \$4,839,000 compared with carrying amounts of \$4,453,000 and \$4,486,000.

As a result of the purchase of the ASW Credit Facility by a company organized and wholly-owned by the Company's Vice Chairman and 45.9% shareholder, the fair value of the outstanding loan balance was determined to be approximately \$15,250,000 at July 31, 2012 when its carrying value was \$16,214,000.

(11) Pension Plan

Due to the closing of certain facilities in connection with the consolidation of the Company's Subscription Fulfillment Services business and an associated work force reduction, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations thereunder accorded to the Pension Benefit Guaranty Corporation (the "PBGC") the right to require the Company to accelerate the funding of approximately \$11,700,000 of accrued pension-related obligations to the Plan. In August 2012, the Company and the PBGC reached an agreement with respect to this funding obligation which provides for the Company to make a \$3,000,000 cash contribution to the Plan, which was made on August 16, 2012. The agreement also provides that if, before the expiration of one year from its date, the Company is unable to pay the remaining liability or adequately secure it with collateral acceptable to the PBGC, the Company will be required to either (i) provide a letter of credit equal to 110% of the remaining liability or establish a cash escrow for 100% of the remaining liability, to be maintained for five years or until the remaining liability is discharged, if sooner or (ii) discharge the remaining liability in quarterly installments over a five year period and secure it with collateral acceptable to the PBGC. In the event the Company fails to meet the terms of the agreement, the PBGC could seek immediate payment of the amount due or attempt to force a termination of the Plan. The Company is unable to offer any assurance that it will be able to discharge the Plan funding obligation within one year or meet the PBGC's requirements for securing or paying the undischarged amount, nor can it offer any assurance that upon such inability it will be able to negotiate with the PBGC to obtain further relief.

(12) 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, 2012 and 2011 (in thousands):

| | Subscription Fulfillment Services | Newsstand Distribution Services | Product Services and Other (Kable) | Real Estate Operations | Corporate and Other | Consolidated |
|---------------------------------------|---|---------------------------------------|---|---------------------------|---------------------------|--------------|
| Three months ended July 31, 2012 (a): | | | | | | |
| Revenues | \$ 13,602 | \$ 2,339 | \$ 3,647 | \$ 74 | \$ (66) | \$ 19,596 |
| Net income (loss) | (243) | 152 | 127 | (965) | 321 | (608) |
| Provision (benefit) for income taxes | (143) | 113 | 75 | (564) | 168 | (351) |
| Interest expense (income), net (b) | 527 | (353) | 27 | 486 | (360) | 327 |
| Depreciation and amortization | 736 | 103 | 61 | 20 | 36 | 956 |
| Impairment of assets | - | - | - | 169 | - | 169 |
| EBITDA (c) | \$ 877 | \$ 15 | \$ 290 | \$ (854) | \$ 165 | \$ 493 |
| Capital expenditures | \$ 30 | \$ - | \$ - | \$ - | \$ - | \$ 30 |
| Three months ended July 31, 2011 (a): | | | | | | |
| Revenues | \$ 16,676 | \$ 2,347 | \$ 2,354 | \$ 182 | \$ (66) | \$ 21,493 |
| Net income (loss) | 364 | 30 | (156) | (760) | 243 | (279) |
| | 214 | 48 | (92) | (444) | 126 | (148) |

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|---|----------|-----------|-----------|-----------|--------|----------|--|
| Provision (benefit) for income taxes | | | | | | | |
| Interest expense (income), net (b) | 583 | (346) | 31 | 395 | (278) | 385 | |
| Depreciation and amortization | 1,107 | 137 | 64 | 20 | 37 | 1,365 | |
| EBITDA (c) | \$ 2,268 | \$ (131) | \$ (153) | \$ (789) | \$ 128 | \$ 1,323 | |
| Capital expenditures | \$ 487 | \$ 41 | \$ - | \$ - | \$ - | \$ 528 | |

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- (a) Revenue information provided for each segment includes amounts grouped as Interest and other in the accompanying statements of operations. Corporate revenue is net of an intercompany revenue elimination.
- (b) Interest expense (income), net for Newsstand Distribution Services and Corporate and Other principally includes inter-segment interest income that is eliminated in consolidation.
- (c) The Company uses EBITDA (which the Company defines as income before net interest expense, income taxes, depreciation and amortization, and non-cash impairment charges) in addition to net income (loss) as a key measure of profit or loss for segment performance and evaluation purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The Company, through its subsidiaries, is primarily engaged in four business segments: the Subscription Fulfillment Services business operated by Palm Coast Data LLC ("Palm Coast"), the Newsstand Distribution Services business and the Product Services and Other businesses operated by Kable Media Services, Inc. and its subsidiaries ("Kable") (the businesses being operated by Palm Coast and Kable are collectively referred to as "Media Services") and the real estate business operated by AMREP Southwest Inc. and its subsidiaries (collectively, "AMREP Southwest"). The Company's foreign sales and activities are not significant.

The following provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the April 30, 2012 consolidated financial statements and accompanying notes. Unless otherwise qualified, all references to 2013 and 2012 are to the fiscal years ending April 30, 2013 and 2012 and all references to the first quarter of 2013 and 2012 mean the fiscal three month periods ended July 31, 2012 and 2011.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations is based on the accounting policies used and disclosed in the 2012 consolidated financial statements and accompanying notes that were prepared in accordance with accounting principles generally accepted in the United States of America and included as part of the Company's annual report on Form 10-K for the year ended April 30, 2012 (the "2012 Form 10-K"). The preparation of those consolidated financial statements required management to make estimates and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts or results could differ from those estimates.

The critical accounting policies, assumptions and estimates are described in Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Assumptions and Estimates" in the 2012 Form 10-K. There have been no changes in these accounting policies.

The significant accounting policies of the Company are described in Note 1 to the consolidated financial statements contained in the 2012 Form 10-K. Information concerning the Company's implementation and the impact of recent accounting standards issued by the Financial Accounting Standards Board is included in the notes to the consolidated financial statements contained in the 2012 Form 10-K. The Company did not adopt any accounting policy in the first quarter of 2013 that had a material impact on its consolidated financial statements.

RESULTS OF OPERATIONS

For the first quarter of 2013, the Company had a net loss of \$608,000, or \$0.10 per share, compared to a net loss of \$279,000, or \$0.05 per share, in the first quarter of 2012. The results for 2013 included a pre-tax, non-cash impairment charge of \$169,000 (\$107,000, or \$0.02 per share), reflecting the write-down of a real estate investment asset. Revenues were \$19,596,000 in the first quarter of 2013 compared to \$21,493,000 for the same period last year.

Revenues from Media Services decreased from \$21,377,000 for the first quarter of 2012 to \$19,588,000 for the same period in 2013. Magazine publishers are the principal customers of these operations, and they have continued to be negatively impacted by increased competition from new media sources and also by the effects of the recent recession and the continued weak U.S. economy. The result has been a trend of reduced subscription and newsstand magazine sales, which has caused publishers to close some magazine titles and seek more favorable terms from Palm Coast and Kable and their competitors when contracts are up for bid or renewal. As a consequence of these and other factors, including customer losses, revenues from Subscription Fulfillment Services operations decreased from \$16,676,000 for the first quarter of 2012 to \$13,602,000 for the same period of 2013, while revenues from Newsstand Distribution Services operations were essentially unchanged, decreasing from \$2,347,000 for the first quarter of 2012 to \$2,339,000 for the same period of 2013. Revenues from Product Services and Other increased from \$2,354,000 for the first quarter of 2012 to \$3,647,000 for the same period in 2013, due to an increase in revenues from both the temporary staffing business and the product services business. Media Services' operating expenses decreased by \$1,449,000, from \$17,816,000 for the first quarter of 2012 (83.3% of Media Services revenues) to \$16,367,000 for the first quarter of 2013 (83.6% of Media Services revenues), primarily attributable to (i) a \$442,000 reduction in payroll and benefits costs, (ii) a \$424,000 reduction in supplies expense and (iii) a \$492,000 reduction in facilities and equipment costs, including depreciation.

There were no land sales at AMREP Southwest during the first quarter 2013 compared to revenues of \$108,000 for the same period of 2012, resulting from the sale of approximately two acres of undeveloped land. Results for both periods were substantially lower than the Company has historically experienced in its principal market of Rio Rancho, New Mexico, due to a severe decline in the real estate market in the greater Albuquerque-metro and Rio Rancho areas that began late in fiscal 2008. The average gross profit percentage on land sales was 31% for the first quarter of 2012. Revenues, gross profits and related gross profit percentages from land sales can vary significantly from period to period as a result of many factors, including the nature and timing of specific transactions, and prior results are not necessarily a good indication of what may occur in future periods.

Real estate commissions and selling expenses were \$54,000 in the first quarter of 2013 compared to \$59,000 for the same period of 2012. Other operating expenses increased \$54,000 for the first quarter of 2013 compared to the same period of 2012, primarily due to land maintenance costs at AMREP Southwest.

General and administrative costs of Media Services operations were \$2,089,000 for the first quarter of 2013 (10.7% of Media Services revenues) compared to \$2,201,000 for the first quarter of 2012 (10.3% of Media Services revenues), or a decrease of \$112,000, primarily due to lower payroll and benefits as well as reduced legal costs.

Real estate operations and corporate general and administrative expense increased \$36,000 in the first quarter of 2013 compared to the same period in 2012, primarily due to increased pension costs.

The Company's effective tax rate was 36.6% for the first quarter of 2013 and 34.7% for the same period of 2012. The difference between the statutory tax rate and the effective rate of the tax benefit for both periods was primarily attributable to the accrual of interest related to unrecognized tax positions, which the Company has elected to include in its income tax expense or benefit. The effect of this interest accrual was to reduce the tax benefit associated with the pre-tax loss for both periods.

The liabilities in the accompanying financial statements related to unrecognized tax benefits that would have an impact on the effective tax rate if these tax benefits were recognized were \$66,000 at July 31, 2012 and April 30, 2012. As a result of either the expiration of statutes of limitations or the recognition and measurement considerations, the Company believes that it is reasonably possible that the amount of unrecognized tax benefits will decrease within the next twelve months.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funding for working capital requirements are cash flow from operations and banking facilities. The Company's liquidity is affected by many factors, including some that are based on normal operations and some that are related to the industries in which the Company operates and the economy generally. The Company's Media Services businesses finance their operations in part through a revolving credit facility (defined below as the Media Services Credit Facility) that presently matures May 12, 2013. As described below, the lender has agreed in principle to extend the maturity to May 12, 2014. The Company's Media Services businesses also rely on cash flow from operations and operate with negative working capital, primarily as a result of liquidity provided by one material customer contract that expires June 2014. AMREP Southwest finances its business with cash flow from operations, which has been minimal in recent years due to the poor conditions in its real estate markets, and from advances made to it by its parent. It also has a loan agreement (defined below as the ASW Credit Facility) under which no further borrowing is available. As described below, that facility was recently purchased from a bank, the original lender, by an affiliate of the Company's Vice Chairman, and now matures December 1, 2012, after the new holder granted a three month extension. AMREP Southwest will be having discussions with the new holder regarding the further extension of this arrangement, but there can be no assurance that this facility will be extended. If AMREP Southwest is unable to extend this facility, it would not have sufficient funds to satisfy the obligation, and the Company would be forced to seek either replacement financing or other sources of capital, such as by selling assets or issuing equity, which replacement financing or other sources of capital might not be available on acceptable terms. It is likely that the expiration without renewal or extension or the termination of either of the credit facilities or the customer contract described above would have a material adverse effect on the Company.

Due to the closing of certain facilities in connection with the consolidation of the Company's Subscription Fulfillment Services business and an associated work force reduction, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations thereunder accorded to the Pension Benefit Guaranty Corporation (the "PBGC") the right to require the Company to accelerate the funding of approximately \$11,700,000 of accrued pension-related obligations to the Plan. In August 2012, the Company and the PBGC reached an agreement with respect to this funding obligation which provides for the Company to make a \$3,000,000 cash contribution to the Plan, which was made on August 16, 2012. The agreement also provides that if, before the expiration of one year from its date, the Company is unable to pay the remaining liability or adequately secure it with collateral acceptable to the PBGC, the Company will be required to either (i) provide a letter of credit equal to 110% of the remaining liability or establish a cash escrow for 100% of the remaining liability, to be maintained for five years or until the remaining liability is discharged, if sooner or (ii) discharge the remaining liability in quarterly installments over a five year period and secure it with collateral acceptable to the PBGC. In the event the Company fails to meet

the terms of the agreement, the PBGC could seek immediate payment of the amount due or attempt to force a termination of the Plan. The Company is unable to offer any assurance that it will be able to discharge the Plan funding obligation within one year or meet the PBGC's requirements for securing or paying the undischarged amount, nor can it offer any assurance that upon such inability it will be able to negotiate with the PBGC to obtain further relief. Refer to Note 11 to the consolidated financial statements included in the 2012 Form 10-K for additional Plan information.

In June 2009, Palm Coast received \$3,000,000 pursuant to an agreement with the State of Florida (the "Award Agreement") as part of the incentives made available in connection with the Company's project, completed in the second quarter of fiscal 2011, to consolidate its Subscription Fulfillment Services operations at its Palm Coast, Florida location. The Award Agreement includes certain performance requirements in terms of job retention, job creation and capital investment through December 31, 2012 which, if not met by Palm Coast, entitles the State of Florida to obtain the return of a portion, or all, of the \$3,000,000. Accordingly, the \$3,000,000 has been recorded as a liability in the accompanying balance sheet. The award monies, if any, to which Palm Coast becomes irrevocably entitled will be amortized into income over the life of the assets acquired with those funds. As of July 31, 2012, Palm Coast had not met certain of the performance requirements, in large part due to the adverse economic conditions experienced by the magazine publishing industry since the Award Agreement was executed. Palm Coast is currently in discussions with the State of Florida regarding a comprehensive approach to address the current and anticipated reduction of performance during the term of the Award Agreement. The Company is unable to offer any assurance as to whether or when the award monies, in whole or in part, may have to be returned to the State of Florida.

Cash Flows from Operating Activities

Receivables from Media Services operations increased from \$40,544,000 at April 30, 2012 to \$47,760,000 at July 31, 2012, primarily due to the effect of increased quarter-end billings at July 31, 2012 compared to April 30, 2012 and the timing of the collection of receivables. Included in Media Services accounts receivable are receivables where a publisher bears the credit risk of non-collection of amounts due from customers to which the Company distributed the publisher's magazines. Receivables subject to this arrangement totaled \$23,883,000 at July 31, 2012 and \$19,383,000 at April 30, 2012.

Real estate inventory was \$75,479,000 at July 31, 2012 compared to \$75,401,000 at April 30, 2012. Inventory in the Company's core real estate market of Rio Rancho increased from \$71,109,000 at April 30, 2012 to \$71,187,000 at July 31, 2012. The balance of real estate inventory consisted of properties in Colorado. Investment assets decreased from \$11,262,000 April 30, 2012 to \$11,093,000 at July 31, 2012 as a result of an impairment charge recognized on an asset in Rio Rancho, New Mexico.

Accounts payable and accrued expenses decreased from \$85,720,000 at April 30, 2012 to \$85,222,000 at July 31, 2012, primarily from the timing of billings and payments due to publishers and vendors, as well as lower business volumes.

Cash Flows from Investing Activities

Capital expenditures totaled \$30,000 for the first three months of 2013 and \$528,000 for the same period of 2012, primarily for facility and equipment upgrades for the Media Services business.

Cash Flows From Financing Activities

Media Services has a Revolving Credit and Security Agreement with a bank (the "Media Services Credit Facility") that provides for a revolving credit loan and letter of credit facility, with availability within the facility's limit based upon the lesser of (i) a percentage of the borrowers' eligible accounts receivable or (ii) the recent level of collections of accounts receivable. The facility is scheduled to mature on May 12, 2013, but the lender has agreed in principle to amend the facility to extend its term to May 12, 2014 and, at Media Services' request, to lower the borrowing limit from the present \$20,000,000 to \$15,000,000. Subject to certain terms, funds may be borrowed, repaid and re-borrowed at any time. Borrowings under the Media Services Credit Facility are being used for Media Services working capital needs and general business purposes and, subject to the Media Services minimum Fixed Charge Coverage Ratio, as defined, being at a stated level, may also be used to provide payments on certain indebtedness due its parent that is not a party to the Media Services Credit Facility. At July 31, 2012, the borrowing availability under the Media Services Credit Facility was \$10,741,000, and there was \$2,440,000 outstanding, which was also the highest amount borrowed during the quarter ended July 31, 2012.

The borrowers' obligations under the Media Services Credit Facility are secured by substantially all of their assets other than real property. The revolving loans under the Media Services Credit Facility may be fluctuating rate borrowings or Eurodollar fixed rate based borrowings or a combination of the two as the borrowers may select. Fluctuating rate borrowings bear interest at a rate which is, at the borrowers' option, either (i) the reserve adjusted daily published rate for one month LIBOR loans plus a margin of 3.0%, or (ii) the highest of two daily published market rates and the bank lender's base commercial lending rate in effect from time to time, but in any case not less than 3.0% plus a margin of 2.0% (that is, not less than 5.0%). Eurodollar fixed rate based borrowings may be for one, two or six months and bear interest at the reserve adjusted Eurodollar interest rates for borrowings of such durations, plus a margin of 3.0%, which may be reduced to 2.75% depending on the borrowers' financial condition.

The Media Services Credit Facility requires the borrowers to meet certain covenants, including maintaining a minimum Fixed Charge Coverage Ratio, as defined. The borrowers were in compliance with this covenant at July 31, 2012. The Company believes that there may be violations of this covenant in the future. However, the lender's agreement in principle referred to above also provides for a modification of the required Fixed Charge Coverage Ratio so that it would more likely be satisfied. However, neither meeting the covenant's requirement in the future nor obtaining relief from the lender if it is not met can be assured. Under the terms of the Media Services Credit Facility, during the continuance of any violation of a covenant, among other things, the Media Services companies are barred from repaying indebtedness to or otherwise distributing funds to the parent company and the lender is entitled to terminate the Media Services Credit Facility and seek immediate payment of any outstanding borrowing. At July 31, 2012, the borrowers were also in compliance with the other covenants of the Media Services Credit Facility.

AMREP Southwest has a Loan Agreement and a related Promissory Note dated December 17, 2009 originally with a bank, both of which were amended on April 29, 2011 (said Loan Agreement and Promissory Note, as so amended, together, the "ASW Credit Facility"). The ASW Credit Facility is a non-revolving loan with an outstanding principal balance at July 31, 2012 of \$16,214,000, which was due September 1, 2012. The outstanding principal of the ASW Credit Facility bears fluctuating interest at the annual rate of reserve adjusted 30-day LIBOR (0.246% at July 31, 2012) plus 3.5%, but not less than 5.0%, and AMREP Southwest is required to maintain a cash reserve with the lender of not less than \$500,000 to fund the interest payments. At July 31, 2012, the interest rate was 5.0% and the cash reserve was \$537,000. The ASW Credit Facility is secured by a mortgage on certain real property of AMREP Southwest with a book value of approximately \$55,000,000 and requires that the appraised value of the collateral be at least 2.5 times the outstanding principal of the loan.

The ASW Credit Facility contains a number of covenants and restrictions, including a covenant requiring AMREP Southwest to maintain a minimum tangible net worth (as defined) and a covenant restricting AMREP Southwest from making distributions and other payments to the Company beyond a stated management fee. At July 31, 2012, AMREP Southwest was in compliance with all of these covenants.

On August 13, 2012, the ASW Credit Facility was purchased by a company organized and wholly-owned by the Company's Vice Chairman and 45.9% shareholder. The purchase price was \$15,250,000 plus accrued interest. Another director of the Company and substantial shareholder has purchased a 20% participation in the ASW Credit Facility from the new holder. The new holder has agreed to extend the due date of the ASW Credit Facility to December 1, 2012 on the existing terms except that no payment of principal is required prior to that date. The Company intends during this extension (i) to seek to negotiate with the new holder for the terms of a substantially longer extension, which likely would involve an increase in interest rate, and (ii) to determine if there is an alternate financing source available on terms more favorable than the new holder's terms, the proceeds of which would be used to repay the ASW Credit Facility at its outstanding principal amount or at some discount from that amount that might be acceptable to the new holder. The Company can offer no assurance that it will be successful in either of these efforts.

Future Payments Under Contractual Obligations

The Company is obligated to make future payments under various contracts, including its debt agreements and lease agreements, and is subject to certain other commitments and contingencies. The table below summarizes significant contractual obligations as of July 31, 2012 for the items indicated (in thousands):

| Contractual Obligations | Total | Less than 1 year | 1 – 3 years | 3 – 5 years | More than 5 years |
|----------------------------|----------|---------------------|----------------|----------------|----------------------|
| Notes payable | \$23,107 | \$18,791 | \$259 | \$280 | \$3,777 |
| Operating leases and other | 19,374 | 9,086 | 9,874 | 414 | - |
| Total | \$42,481 | \$27,877 | \$10,133 | \$694 | \$3,777 |

Operating leases and other includes approximately (i) \$3,000,000 for the possible required return of grant monies received from the State of Florida, (ii) a combined \$1,020,000 of required contributions to the Company's defined benefit pension plan as determined by the plan's actuary for the 2011 and 2012 plan years that are due at various dates through January 2013, (iii) \$11,700,000 of accelerated pension funding as described above in the second paragraph under this Liquidity and Capital Resources section and (iv) \$253,000 for the liability for uncertain tax positions and related accrued interest recorded in accordance with ASC 740. Any additional future defined benefit pension plan contributions necessary to satisfy the minimum statutory funding requirements are dependent upon various factors, including actual plan asset investment returns and discount rates applied. Refer to Notes 8, 9, 11, 12, 16 and 17 to the consolidated financial statements included in the 2012 Form 10-K for additional information on long-term debt, other liabilities, pension contributions, taxes and commitments and contingencies.

Risk Factors

In addition to the other information set forth in this report, the factors discussed in Part I, "Item 1A. Risk Factors" in the 2012 Form 10-K, which could materially affect the Company's business, financial condition or future results, should be carefully considered. The risks described in the 2012 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not

currently known to the Company or that currently are deemed to be immaterial also may materially adversely affect the Company's business, financial condition or operating results.

Statement of Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may from time to time make written or oral statements that are "forward-looking", including statements contained in this report and other filings with the Securities and Exchange Commission, reports to the Company's shareholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "forecasts", "may", "should", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and contingencies that are difficult to predict. These risks and uncertainties include, but are not limited to, the risks described above under the heading "Risk Factors". Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. The forward-looking statements contained in this report include, but are not limited to, statements regarding (i) the accelerated funding of a portion of the Company's defined benefit pension plan obligation, (ii) the Company's ability to satisfy or extend its obligations under its existing credit facilities and to finance its future working capital and capital expenditure needs, and (iii) the possible return of grant monies to the State of Florida. The Company undertakes no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. As a result of such evaluation, the chief executive officer and chief financial officer have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosure. The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

No change in the Company's system of internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the Anderson News, L.L.C., et al v. American Media, et al lawsuit, which is described in subdivision A. of Item 3 of Part I of the 2012 Form 10-K. The amended complaint in the lawsuit was filed on September 7, 2012.

Reference is made to the Nest, LLC arbitration, which is described in subdivision B. of Item 3 of Part I of the 2012 Form 10-K. In early August 2012, the parties reached an agreement in principle to settle the matter which provides for Kable News' insurance carrier to make a cash payment to Nest and Kable News to waive accumulated storage charges for other Nest publications to the settlement date.

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|---|
| 10.1 | Incentive compensation plan for Michael P. Duloc for fiscal 2012. (i) |
| 31.1 | Certification of the chief executive officer required by Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of the chief financial officer required by Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32 | Certification of the chief executive officer and chief financial officer required pursuant to 18 U.S.C. Section 1350. |

(i) Management contract or compensatory plan or arrangement in which directors or officers participate.

SIGNATURE

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.

Date: September 13, 2012

AMREP CORPORATION
(Registrant)

By: /s/ Peter M. Pizza
Peter M. Pizza
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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