P&F INDUSTRIES INC
Form 10-K
March 29, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2018

or

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

Commission File Number 1-5332

P&F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**22-1657413** (I.R.S. Employer Identification Number)
445 Broadhollow Road, Suite 100, Melville, New York (Address of principal executive offices)	**11747** (Zip Code)

Registrant’s telephone number, including area code: **(631) 694-9800**

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	**(Name of each exchange on which registered)**
Class A Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 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 every Interactive Data File required to be submitted 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 such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 x Smaller reporting company x
Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for the 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

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant, based on the last sale price on June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $19,788,916. For purposes of this calculation, shares of Common Stock held by each executive officer and director have been excluded since those persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 21, 2019, there were 3,177,560 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2019.

P&F INDUSTRIES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 made by or on behalf of P&F Industries, Inc. and subsidiaries (the "Company"). The Company and its representatives may, from time to time, make written or verbal forward looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission, such as this Annual Report on Form 10-K ("Report"), and in its reports to stockholders. Any statements made in the Report that is not historical or current facts may be deemed to be forward looking statements. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," "may," "would," "could," "should" and their opposites and simi expressions identify statements that constitute forward looking statements within the meaning of the Reform Act. Any forward-looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. Such forward looking statements are subject to various risks and uncertainties, including those risk factors described in Item 1A of Part I, "Risk Factors" of this Report, which may cause actual results to differ materially from the forward-looking statements. You are therefore cautioned against relying on any forward-looking statements. Forward looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

ITEM 1. Business

P&F is a Delaware corporation incorporated on April 19, 1963. The Company conducts its business through a wholly-owned subsidiary, Continental Tool Group, Inc. (“Continental”), which in turn operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”). Exhaust Technologies Inc. (“ETI”) and Universal Air Tool Company Limited (“UAT”) are wholly-owned subsidiaries of Florida Pneumatic. Effective April 5, 2017, the Company purchased substantially all of the operating assets, less certain payables of Jiffy Air Tool, Inc. (“Jiffy”) through a wholly-owned subsidiary of Florida Pneumatic. See Note 2 to our consolidated financial statements for further discussion. The business of Air Tool Service Company (“ATSCO”) operates through a wholly-owned subsidiary of Hy-Tech. On February 12, 2016, the Company sold an indirect wholly-owned subsidiary Nationwide Industries, Inc. (“NWI”) and then sold the real property used by NWI effective November 1, 2016.

Florida Pneumatic

Florida Pneumatic imports and sells pneumatic hand tools, most of which are of its own design, primarily to the retail, industrial, automotive and aerospace markets. Its products include sanders, grinders, drills, saws and impact wrenches. These tools are similar in appearance and function to electric hand tools, but are powered by compressed air, rather than by electricity or battery. Air tools, as they are more commonly referred to, generally offer better performance and weigh less than their electrical counterparts. Florida Pneumatic imports approximately seventy-five types of pneumatic hand tools, most of which are sold at prices ranging from $50 to $1,000, under the names “Florida Pneumatic,” “Universal Tool”, “Jiffy Air Tool”, AIRCAT, NITROCAT, as well as under the trade names or trademarks of several private label customers. These products are sold to retailers, distributors, and private label customers through in-house sales personnel and manufacturers’ representatives. The AIRCAT and NITROCAT brands of pneumatic tools are sold primarily to the automotive service and repair market (“automotive market”). Users of Florida Pneumatics’ hand tools include industrial maintenance and production staffs, do-it-yourself mechanics, professional automobile mechanics and auto body personnel. Jiffy manufactures and distributes pneumatic tools and components primarily to aerospace manufacturers.

Florida Pneumatic also markets, through its Berkley Tool division (“Berkley”), a product line that includes pipe and bolt dies, pipe taps, wrenches, vises and stands, pipe and tubing cutting equipment, hydrostatic test pumps, and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Florida Pneumatic markets Berkley’s products through industrial distributors and contractors. Florida Pneumatic also assembles and markets a line of compressor air filters.

There are redundant supply sources for nearly all products purchased.

The primary competitive factors in the industrial and automotive pneumatic tool market are quality, breadth and availability of products, customer service, technical support, price and brand name awareness. The primary competitive factors in the retail pneumatic tool market are price, service and brand-name awareness. The primary competitive factors in the aerospace market are quality, technology and service levels. Florida Pneumatics' are sold directly to the retailers, direct to customers and through distributors. Currently, there is minimal seasonality to Florida Pneumatics' revenue.

Jiffy manufactures its own products in the United States. During 2018, Florida Pneumatic purchased approximately 35% of its pneumatic tools from China, 64% from Taiwan and 1% from Japan and Europe. Florida Pneumatic performs final assembly on certain of its products at its factory in Jupiter, Florida.

Hy-Tech

Hy-Tech designs, manufactures and distributes industrial tools, systems, gearing, accessories and a wide variety of replacement parts under the brands ATP, Numatx, Thaxton, OZAT and Quality Gear. Hy-Tech produces and sells heavy-duty pneumatic impact tools, grinders, air motors, hydro-pneumatic riveters, hydrostatic test plugs, impact sockets and custom gears, with prices ranging from $300 to $42,000.

Hy-Tech's "Engineered Solutions" products are sold direct to Original Equipment Manufacturers (OEM's), and industrial branded products are sold through a broad network of specialized industrial distributors serving power generation, petrochemical, aerospace, construction, railroad, mining, ship building and fabricated metals. Hy-Tech works directly with their industrial customers, designing and manufacturing products from finished components to complete turnkey systems to be sold under their own brand names.

Nearly all of Hy-Tech brands are manufactured in the United States of America. Hy-Tech does distribute OZAT brand impact sockets, striking wrenches and accessories imported from Israel.

The sales of Hy-Tech products through various channel and direct customers are managed by both direct sales personnel and a network of specialized manufacturer representatives. Further, its products are sold as standard off-the-shelf and also produced to be sold for customer specific specifications.

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The business is not seasonal but may be subject to periodic outage and maintenance schedules in refineries, power generation and chemical plants. The value proposition for Hy-Tech's products are quality, technical expertise, availability, breadth of products, and customer service and technical support.

Hy-Tech sources its raw materials from various well-established suppliers throughout the United States. There are redundant sources for all materials.

Patents, Trademarks and Other Intellectual Property

The Company holds several patents, trademarks, and copyrights of various durations, and it believes that it holds or licenses all of the patent, trademark, copyright, and other intellectual property rights necessary to conduct its business. The Company relies upon patents, copyrights, trademarks, and trade secret laws to establish and maintain its proprietary rights in many of its products. There can be no assurance that any of its patents, trademarks or other intellectual property rights will not be challenged, invalidated, or circumvented, or that any rights granted thereunder will provide competitive advantages to it. In addition, there can be no assurance that patents will be issued from pending patent applications filed by the Company, or that claims allowed on any future patents will be sufficiently broad to protect our technology or designs. Further, the laws of some foreign countries may not permit the protection of our proprietary rights to the same extent as do the laws of the United States.

Customers

The Company is not dependent on any one customer. During 2018 and 2017 it had one customer, The Home Depot, that accounted for 26.5% and 27.1% of its revenue, respectively. Other than the aforementioned, in 2018 and 2017, the Company did not have any customer that accounted for more than ten percent of its consolidated revenue.

Employees

The Company employed 180 full-time employees as of December 31, 2018. At various times during the year our operating units may employ seasonal or part-time help, as necessary. None of the Company's employees are represented by a union.

Information Available on the Company's Website

Additional information regarding the Company and its products is available on the Company's website at www.pfina.com . In addition, the Company's (i) charters for the Audit, Compensation, Corporate Governance and Nominating, and Strategic Planning and Risk Assessment Committees of the Company's Board of Directors and of the Lead Independent Director; and (ii) Code of Business Conduct and Ethics are available on the Company's website. P&F's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Proxy Statements on Schedule 14A and Current Reports on Form 8-K, as well as any amendments to those reports and certain other filings, are made available to the public at no charge, other than an investor's own internet access charges, through the "SEC Filings" section of the Company's website. The Company makes such material available on its website as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at www.sec.gov. The SEC's Public Reference Room can be contacted at 100 F Street, N.E., Washington, D.C. 20549. The information on the Company's website is not, and should not be considered, part of this Annual Report on Form 10-K and is not incorporated by reference to this report.

ITEM 1A. Risk Factors

A wide range of factors could materially affect our performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results elsewhere in this report, the following factors, among others, could adversely affect our business, including our results of operations or financial position:

- *Exposure to fluctuations in energy prices.* Fluctuations in energy prices, including crude oil and gas prices, could negatively impact the activities of those of our customers involved in extracting, refining or exploring for crude oil and gas, resulting in a corresponding adverse effect on the demand for the products that they purchase from us. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of other economic factors that are beyond our control. Worldwide economic, political and military events, including war, terrorist activity, events in the Middle East and initiatives by the Organization of the Petroleum Exporting Countries (OPEC), have contributed, and are likely to continue to contribute, to price and volume volatility. Such volatility could result in a material adverse effect on our business, results of operations or financial position.

- *Debt and debt service requirements.* The amount of our debt from time to time could have important consequences. For example, it could: increase our vulnerability to general adverse economic and industry conditions; limit our ability to fund future capital expenditures, working capital and other general corporate requirements and limit our flexibility in planning for, or reacting to, changes in our business.

- *Borrowing and compliance with covenants under our credit facility.* Our credit facility contains affirmative and negative covenants including financial covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our current credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, to the extent we have significant outstanding borrowings at said time, we may not have sufficient assets to repay our asset-based credit facility and our other indebtedness. Also, should there be an event of default, or a need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Further, the amount available for borrowing under our asset-based revolving loan facility is subject to a borrowing base, which is determined by taking into account, among other things, our accounts receivable, inventory and machinery and equipment. Fluctuations in our borrowing base impact our ability to borrow funds pursuant to the revolving loan facility.

- *Disruption in the global capital and credit markets.* If global economic and financial market conditions deteriorate, it could have a material adverse effect on our financial condition and results of operations. In particular, lower consumer spending may result in reduced demand and orders for certain of our products, order cancellations, lower revenues, increased inventories, and lower gross margins. Further, if our customers experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in further reduced orders for our products, order cancellations, inability of customers to timely meet their payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense; and a severe financial difficulty experienced by our customers may cause them to become insolvent or cease business operations.

- *The strength of the retail economy in the United States and abroad.* Our business is subject to economic conditions in major markets in which we operate, including recession, inflation, deflation, general weakness in retail and industrial markets, as well as the exposure to liabilities under anti-corruption laws in various countries, such as the U.S. Foreign Corrupt Practices Act, currency instability, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. The strength of such markets is a function of many factors beyond our control, including interest rates, employment levels, availability of credit and consumer confidence.

- *Risks associated with sourcing from overseas*. We import finished goods and component parts. Any difficulty or inability on the part of manufacturers of our products or other participants in our supply chain in obtaining sufficient financing to purchase raw materials or to finance general working capital needs, or their inability to obtain raw materials due to shortages or other factors, may result in delays or non-delivery of shipments of our products. Additionally, material increases in raw material commodity prices could further adversely affect our results of operations and financial position. Our foreign suppliers may encounter interruption in their ability to continue to provide us with products on a short-term or long-term basis. Although we believe that there are redundant sources available and maintain multiple sources for most of our products, there may be costs and delays associated with securing such sources and there can be no assurance that such sources would provide the same quality of product at similar prices. Further, substantially all of our import operations are subject to customs' requirements and to tariffs and quotas set by governments through mutual agreements, bilateral actions or, in some cases unilateral action. The countries in which our products and materials are manufactured or imported from, may from, time to time impose additional quotas, duties, tariffs or other restrictions on its imports or adversely modify existing restrictions. Furthermore, imported products and materials may be subject to future tariffs or other trade measures in the U.S. Adverse changes in these import costs and restrictions, or our suppliers' failure to comply with customs regulations or similar laws could harm our business. Specifically, in 2018 the United States announced the implementation of new tariffs which include items imported by us from China. The implementation of additional tariffs, or increased amounts on current tariffs, on items imported by us from China or other countries could increase our costs and could result in lowering our gross margin on products sold, and could cause us to have to stop supplying certain customers.

- *Importation delays.* Our ability to import products in a timely and cost-effective manner may also be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the U.S. and other countries. These issues could delay importation of products or require us to locate alternative ports or warehousing providers to avoid disruption to customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on our business and financial condition.

- *Customer concentration.* We have several key customers, one of which accounted for approximately 26.5% of our 2018 consolidated revenue and 32.6% of our consolidated accounts receivable. Loss of key customers or a material negative change in our relationships with our key customers could have a material adverse effect on our business, results of operations or financial position.

- *Adverse changes in currency exchange rates.* A majority of our products are manufactured outside the United States, a portion of which are purchased in the local currency. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar which could have an adverse effect on our results of operations or financial position. We believe our most significant foreign currency exposures are the Taiwan dollar ("TWD") and the Chinese Renminbi ("RMB"). Purchases from Chinese sources are made in U.S. dollars ("USD"). However, if the RMB were to be revalued against the dollar, there could be a significant negative impact on the cost of our products. Further, the reporting currency for our consolidated financial statements is the USD. Certain of the Company's assets, liabilities, expenses and revenues are denominated in currencies other than the USD. In preparing our Consolidated Financial Statements, those assets, liabilities, expenses and revenues are translated into USD at applicable exchange rates. Increases or decreases in exchange rates between the USD and other currencies affect the USD value of those items, as reflected in the Consolidated Financial Statements. Substantial fluctuations in the value of the USD could have a significant impact on the Company's financial condition and results of operations.

- *Impairment of long-lived assets and goodwill.* The inability to generate future cash flows sufficient to support the recorded amounts of goodwill, other intangible assets and other long-lived assets could result in future impairment charges.

- *Unforeseen inventory adjustments or changes in purchasing patterns.* We make purchasing decisions based upon a number of factors including an assessment of market needs and preferences, manufacturing lead times and cash flow considerations. To the extent that our assumptions result in inventory levels being too high or too low, there could be a material adverse effect on our business, results of operations or financial position.

- *Market acceptance of products.* There can be no assurance that the market continues its acceptance of the products we introduced in recent years or will accept new products (including the introduction of products into new geographic markets) introduced or scheduled for introduction in 2018. There can also be no assurance that the level of sales generated from these new products or geographic markets relative to our expectations will materialize.

- *Competition.* The markets in which we sell our products are highly competitive on the basis of price, quality, availability, post-sale service and brand-name awareness. A number of competing companies are well-established manufacturers that compete on a global basis.

- *Technology.* Our business is subject to the evolution of technology over time. There can be no assurance that our current level of technology will be sufficient to satisfy our markets in the future.

- *Price reductions.* Price reductions in response to customer and competitive pressures, as well as price reductions or promotional actions taken in order to drive demand, could have a material adverse effect on our business, results of operations or financial position.

- *Interest rates.* Interest rate fluctuations and other capital market conditions could have a material adverse effect on our business, results of operations or financial position.

- *Litigation and insurance.* The effects of litigation and product liability exposure, as well as other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission and our public announcements could have a material adverse effect on our business, results of operations or financial position. Further, while we maintain insurance policies to protect against most potential exposures, events may arise against which we may not be adequately insured.

- *Retention of key personnel.* Our success depends to a significant extent upon the abilities and efforts of our key personnel. The loss of the services of any of our key personnel or our inability to attract and retain qualified personnel in the future could have a material adverse effect on our business, results of operations or financial position.

- *Acquisition of businesses.* Part of our business strategy is to opportunistically acquire complementary businesses, which involve risks that could have a material adverse effect on our business, financial condition and results of operations. These risks include:

- Loss or significant decline in the revenue of customers of the acquired businesses;
- Inability to integrate successfully the acquired businesses’ operations;
- Inability to coordinate management and integrate and retain employees of the acquired businesses;
- Difficulties in implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- Failure to realize anticipated synergies, economies of scale or other anticipated benefits, or to maintain operating margins;
- Strain on our personnel, systems and resources, and diversion of attention from other priorities;
- Incurrence of additional debt and related interest expense;
- Unforeseen or contingent liabilities of the acquired businesses; and
- Large write-offs or write-downs, or the impairment of goodwill or other intangible assets.

- *Regulatory environment.* We cannot anticipate the impact of changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, in both domestic and foreign jurisdictions. Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied, could significantly impact our business and the economy as a whole.

- *The threat of terrorism and related political instability and economic uncertainty.* The threat of potential terrorist attacks on the United States and throughout the world and political instability has created an atmosphere of economic uncertainty in the United States and in foreign markets. Our results may be impacted by the macroeconomic effects of those events. Also, a disruption in our supply chain as a result of terrorist attacks or the threat thereof may significantly affect our business and its prospects. In addition, such events may also result in heightened domestic security and higher costs for importing and exporting shipments of components and finished goods. Any of these occurrences may have a material adverse effect on our financial position, cash flow or results in any reporting period.

- *Business disruptions or other costs associated with information technology, cyber-attacks, system implementations, data privacy, or catastrophic losses.* We rely heavily on computer systems to manage and operate our businesses, and record and process transactions. Computer systems are important to production planning, customer service and order fulfillment among other business-critical processes. Consistent and efficient operation of the computer hardware and software systems is imperative to the successful sales and earnings performance. Despite efforts to prevent such situations, and loss control and risk management practices that partially mitigate these risks, our systems may be affected by damage or interruption from, among other causes, fire, natural disasters, power outages, system failures or computer viruses. Computer hardware and storage equipment that is integral to efficient operations, such as e-mail, telephone and other functionality, is concentrated in certain physical locations in which we operate. Additionally, we rely on software applications and enterprise cloud storage systems and cloud computing services provided by third-party vendors, and our business may be adversely affected by service disruptions or security breaches in such third-party systems. Security threats and sophisticated computer crime pose a potential risk to the security of our information technology systems, cloud storage systems, networks, services and assets, as well as the confidentiality and integrity of some of our customers' data. If we suffer a loss or disclosure of business or stakeholder information due to security breaches, including as a result of human error and technological failures, and business continuity plans do not effectively address these issues on a timely basis, we may suffer interruptions in our ability to manage operations as well as reputational, competitive or business harm, which may adversely impact our results of operations and financial condition.

- *Unforeseen events.* We cannot anticipate the impact of unforeseen events, including but not limited to war and pandemic disease, on economic conditions and consumer confidence in our business.

The risk factors described above are not intended to be all-inclusive. There can be no assurance that we have correctly identified and appropriately assessed all factors affecting our business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact us. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on our business, results of operations or financial position.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Florida Pneumatic owns a 72,000 square foot plant facility located in Jupiter, Florida from which it conducts its operations. Its UAT subsidiary leases a 3,100 square foot facility from a non-affiliated lessor in High Wycombe, United Kingdom. This facility houses UAT's warehouse / distribution, as well as its office needs. The lease expires in 2019 and contains a five-year renewal clause.

In connection with the Jiffy acquisition in 2017, a wholly-owned subsidiary of Florida Pneumatic purchased certain real property, which consisted of land and the building located in Carson City, NV, from which Jiffy operates. The building is approximately 17,500 square feet.

Hy-Tech owns and operates out of a 51,000 square foot plant facility located in Cranberry Township, Pennsylvania and leases a 13,200 square foot facility located in Punxsutawney, Pennsylvania, which expires in 2021 and does not have a renewal clause.

The Company leases its executive office of approximately 5,000 square feet located in an office building in Melville, New York. This lease expires in August 2022. Beginning December 2018, the Company can give notice of its intention to leave twelve months from the date of notice.

Each facility described above either provides adequate space for the operations of the respective subsidiary for the foreseeable future or can be modified or expanded to provide some additional space.

The three owned properties described above are subject to mortgages and therefore pledged as collateral against the Company's credit facility, which is discussed further in Management's Discussion and Analysis – Liquidity and Capital Resources and Notes to Consolidated Financial Statements.

ITEM 3. Legal Proceedings

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. While the results of proceedings cannot be predicted with certainty, the Company believes that the final outcome of these proceedings will not have a material adverse effect on the Company's business, financial condition, or results of operations.

ITEM 4. Mine Safety Disclosures

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A Common Stock ("Common Stock") trades on the Nasdaq Global Market under the symbol PFIN. The ranges of the high and low closing sales prices for our Common Stock during the last two years were as follows:

2018	High	Low
First Quarter	$8.47	$7.17
Second Quarter	8.88	7.75
Third Quarter	8.74	7.66
Fourth Quarter	8.34	7.55

2017	High	Low
First Quarter	$8.74	$6.86
Second Quarter	6.98	5.71
Third Quarter	7.70	5.66
Fourth Quarter	8.63	6.81

As of March 21, 2019, there were approximately 645 holders of record of our Common Stock and the closing sale price of our stock as reported by the Nasdaq Global Market was $8.35.

The Company's Board of Directors approved a dividend policy under which the Company intends to declare a cash dividend to its stockholders in the amount of $0.20 per share per annum, payable in equal quarterly installments. In conjunction therewith, the Company's Board of Directors declared four quarterly cash dividends of $0.05 per share to stockholders during 2018 and 2017.

The Company intends to maintain the dividend policy; however, the declaration of dividends under this policy going forward is dependent upon the Company's financial condition, results of operations, capital requirements and other factors deemed relevant by the Company's Board of Directors.

The following table presents the Company's repurchase activity of its Common Stock during the three-month period ended December 31, 2018.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (1)	Maximum Number of Shares that may yet be Purchased Under the Plan or Program
October 1 through 31, 2018	15,240	$ 8.21	15,240	79,495
November 1 through 30, 2018 (2)	95,286	$ 8.13	9,495	70,000
December 1 through 31, 2018	3,398	$ 7.78	3,398	66,602

(1) On September 14, 2018, the Company publicly announced that its Board of Directors authorized a new stock repurchase program, and the Company adopted a new written trading plan thereunder for the purchase of up to 100,000 shares of its Common Stock. This stock repurchase program and trading plan are set to expire on September 16, 2019.

(2) Includes 85,791 shares purchased by the Company at $8.14 per common share in a privately negotiated transaction that was not part of the adopted written trading plan.

ITEM 6. Selected Financial Data

Not required.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT OVERVIEW

Overview

During 2018, our results of operations were impacted by a number of significant factors, such as:

· Aerospace revenue increased $4.1 million primarily driven by Jiffy

· Retail revenue improved, due to a delivery of a new/refreshed product offering to The Home Depot, which helped offset the decision in late 2017 to not renew a sales agreement with Sears ;

· 27.9% revenue growth in Industrial/catalog revenue

· 14.2% revenue growth at Hy-Tech with improved gross margin

KEY INDICATORS

Economic Measures

Much of our business is driven by the ebbs and flows of the general economic conditions in both the United States and, to a lesser extent, abroad. We focus on a wide array of customer types including, but not limited to large retailers, aerospace manufacturers, large and small resellers of pneumatic tools and parts, and automotive related customers. We tend to track the general economic conditions of the United States, industrial production and general retail sales.

A key economic measure relevant to us is the cost of the raw materials in our products. Key materials include metals, especially various types of steel and aluminum. Also important is the value of the United States Dollar ("USD") in relation to the Taiwanese dollar ("TWD"), as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in USD; however, if the Chinese currency, the Renminbi ("RMB"), were to be revalued against the USD, there could be a negative impact on the cost of our products. Additionally, we closely monitor the fluctuation in the Great British Pound ("GBP") to the USD, and the GBP to TWD, both of which can have an impact on the consolidated results. In addition, we monitor the number of operating rotary drilling rigs in the United States, as a means of gauging oil production, which is a key factor in our sales into the oil and gas exploration and extraction sector.

As the result of several new tariffs imposed in the second half of 2018, specifically those imposed on products imported from China, we now must consider tariffs a key economic measure, as a significant portion of products imported by Florida Pneumatic for our Retail customers are subject to these tariffs.

Lastly, the cost and availability of a quality labor pool in the countries where products and components are manufactured, both overseas as well as in the United States, could materially affect our overall results.

Operating Measures

Key operating measures we use to manage our operations are: orders; shipments; development of new products; customer retention; inventory levels and productivity. These measures are recorded and monitored at various intervals, including daily, weekly and monthly. To the extent these measures are relevant, they are discussed in the detailed sections below.

Financial Measures

Key financial measures we use to evaluate the results of our business include: various revenue metrics; gross margin; selling, general and administrative expenses; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; operating cash flows and capital expenditures; return on sales; return on assets; days sales outstanding and inventory turns. These measures are reviewed at monthly, quarterly and annual intervals and compared to historical periods as well as to established objectives. To the extent that these measures are relevant, they are discussed in detail below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Certain of these accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates pertaining to such matters as bad debts, inventory reserves, goodwill and intangible assets, warranty reserves, sales discounts and taxes. We base our estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods. Actual results may differ from these estimates.

We consider the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the Company’s consolidated financial statements and the uncertainties that could impact the Company’s financial position, results of operations and cash flows.

Revenue Recognition

Our accounting policy relating to revenue recognition reflects the impact of the adoption of Accounting Standard Codification, (“ASC”) 606 *Revenue from Contracts with Customers* ("ASC 606"), which is discussed further in our Notes to our Consolidated Financial Statements. As a result of our adoption of ASC 606 we record revenue based on a five-step model. We sell our goods on terms that transfer title and risk of loss at a specified location, which may be our warehouse, destination designated by our customer, port of loading or port of discharge, depending on the final destination of the goods. Other than standard product warranty provisions, our sales arrangements provide for no other post-shipment obligations. We offer rebates and other sales incentives, promotional allowances or discounts to certain customers, typically related to purchase volume, and are classified as a reduction of revenue and recorded at the time of sale, using the most likely amount approach. We periodically evaluate whether an allowance for sales returns is necessary. Historically, we have experienced minimal sales returns. If we believe there are material potential sales returns, we would provide the necessary provision against sales.

Performance obligations underlying our core revenue sources remain substantially unchanged. Our revenue is generated through the sale of finished products, and is generally recognized at the point in time when merchandise is transferred to the customer with a fixed payment due generally within 30 to 90 days, and in an amount that considers the impacts of estimated allowances. Further, we have made a policy election to account for shipping and handling activities that occur after the customer has obtained control of the products as fulfillment costs rather than as an additional promised service. This election is consistent with our prior policy, and therefore the adoption of ASC 606 relating to shipping and handling activities did not have any impact on its financial results. Additionally, as the result of the adoption of ASC 606, our accounting for certain expenses that in prior periods were accounted for as a selling expense are now treated as an adjustment to gross revenue. There are no remaining performance obligations as of December 31, 2018.

See Note 1 to our Consolidated Financial Statements for further discussion and disclosures relating to ASC 606.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. We sell our products to retailers, distributors and OEMs involved in a variety of industries. We perform continuing credit evaluations of our customers' financial condition, and although we generally do not require collateral, letters of credit may be required from customers in certain circumstances. Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in the determination include, among other factors, number of days an invoice is past due, customer historical trends, available credit ratings information, other financial data and the overall economic environment. Collection agencies may also be utilized if management so determines.

We record an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. We also may record as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and our assessment of the general financial conditions affecting our customer base. If actual collection experience changes, revisions to the allowance may be required. We have a limited number of customers with individually large amounts due at any given consolidated balance sheet date. Further, any unanticipated change in the creditworthiness of any of our customers could have a material effect on our results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, we believe that our allowance for doubtful accounts as of December 31, 2018 and 2017 were adequate. However, actual write-offs in future periods could exceed the recorded allowance.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method or the weighted average method. Inventory, which includes materials, labor, and manufacturing overhead costs, is recorded net of an allowance for obsolete or slow-moving inventory (“OSMI”), as well as unmarketable inventory. Such allowance is based upon historical experience and management’s understanding of market conditions and forecasts of future product demand. Specifically, at Florida Pneumatic and Jiffy we generally place a 100% reserve on inventory that has not had any sales or usage in more than two years. Hy-Tech’s methodology is primarily based on inventory turns, with inventory items that turn less frequently, receiving a greater allowance. Changes in our OSMI impact the Company’s balance sheet, gross profit, and net earnings.

Goodwill and Indefinite-Lived Intangible Assets

In accordance and compliance with authoritative guidance issued by the Financial Accounting Standards Board (“FASB”), we test goodwill for impairment on an annual basis. This test is performed as of the last day in November, or more frequently if we believe indicators of impairment might exist. Goodwill is tested at a level of reporting referred to as "the reporting unit." The Company's reporting units are Hy-Tech and Florida Pneumatic. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If the carrying amount of the reporting unit is less than its fair value, no impairment exists and no further action is required. If the carrying amount of a reporting unit exceeds its fair value, the entity will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value.

The Company also tests indefinite-lived intangible assets for impairment at least annually as of the last day of November. The evaluation of goodwill and indefinite-lived intangible assets requires that management prepare estimates of future operating results for each of the operating units. These estimates are made with respect to future business conditions and estimated expected future cash flows to determine estimated fair value. However, if, in the future, key drivers in our assumptions or estimates such as (i) a material decline in general economic conditions; (ii) competitive pressures on our revenue, or our ability to maintain margins; (iii) significant price increases from our vendors that cannot be passed through to our customers; and (iv) breakdowns in supply chain, or other possible factors beyond our control occur, an impairment charge against our intangible assets may be required.

Impairment of Long-Lived Assets

We review long-lived assets, including property, plant, and equipment and identifiable intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, a significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life. If any of these factors exist, we are required to test the long-lived asset for recoverability and may be required to recognize an impairment charge for all or a portion of the asset's carrying value.

Income Taxes

We account for income taxes using the asset and liability approach. This approach requires the recognition of current tax assets or liabilities for the amounts refundable or payable on tax returns for the current year, as well as the recognition of deferred tax assets or liabilities for the expected future tax consequences of temporary differences that can arise between (a) the amount of taxable income and pretax financial income for a year, such as from net operating loss carryforwards and other tax credits, and (b) the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates. The impact on deferred tax assets and liabilities of changes in tax rates and laws, if any, is reflected in the consolidated financial statements in the period enacted. Further, we evaluate the likelihood of realizing benefit from our deferred tax assets by estimating future sources of taxable income and the impact of tax planning strategies. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

We file a consolidated Federal tax return. P&F and certain of its subsidiaries file combined tax returns in New York, California and Texas. All subsidiaries, other than UAT, file other state and local tax returns on a stand-alone basis. UAT files an income tax return with the taxing authorities in the United Kingdom.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as income taxes in the consolidated statements of operations and comprehensive income (loss).

The authoritative guidance for income taxes requires a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50%) such assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations. We continually evaluate our deferred tax assets to determine if a valuation allowance is required.

For current and deferred tax provisions, the authoritative guidance requires entities to account for the effects of new income tax legislation in the same reporting period that the tax legislation is enacted. For recent tax law changes known as the U.S. Tax Cuts and Jobs Act of 2017 (the "Act") enacted on December 22, 2017, the Staff of the Securities and Administration Commission issued Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which permitted us to calculate and recognize provisional tax estimates for fiscal 2017 for the accounting related to the enactment of the Act. As a result, we recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities in our consolidated financial statements for the year ended December 31, 2017. During 2018, we finalized our computation of the impact of the Act. Additional information is contained in Note 10, Income Taxes, to the consolidated financial statements.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance allows companies to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which they are subject to the rules (the period cost method), or (ii) account for GILTI in the Company’s measurement of deferred taxes (the deferred method). After completing the analysis of the GILTI provisions, we elected to account for GILTI using the period cost method.

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RESULTS OF OPERATIONS

2018 compared to 2017

We determined that, based on a number of factors including Sears' continuing financial difficulties, the sale of the Craftsman brand by Sears to Stanley Black & Decker, and our level of working capital exposure in relation to our return on that investment pertaining to Sears, it was in our best interest not to renew a supply agreement between us and Sears, effective September 30, 2017. As a result, the comparative results discussed below reflect sales attributable to shipments to Sears during 2017, whereas there were no shipments to Sears in 2018.

During the third quarter of 2018, Florida Pneumatic commenced the shipment to The Home Depot ("THD") of an improved line of pneumatic tools, which replaced much of THD's previous product offering. Gross margin for the new product line is projected to be approximately 2% less than recent historic levels. Further, in an effort to assist THD in promoting the roll out of the new products, Florida Pneumatic agreed to contribute approximately $1,088,000 to THD. This contribution is being ratably amortized over a four-year period commencing August 2018, and will be tested for impairment during said period.

We adopted ASC 606 effective January 1, 2018. The most significant impact of this adoption to our results of operations was that beginning January 1, 2018 we now classify certain expenses as deductions against gross revenue, that prior to the adoption, were accounted for as a selling expense. The adoption of ASC 606 reduced our 2018 revenue, gross profit and selling expenses approximately $1,007,000.

Effective July 6, 2018, the Office of the United States Trade Representative ("USTR") announced that an additional 25% tariff be imposed on certain Chinese-made products. This additional tariff raised the cost of a significant number of products that we sell, primarily to THD. We were able to pass through most of the costs associated with the additional tariffs. Further, the USTR announced that effective September 24, 2018, a new group of Chinese–made products was subject to an additional 10% tariff. The USTR stated that commencing January 1, 2019, an additional tariff of 15% would be imposed on this second group of products increasing the additional tariff to 25%. It was later announced that this proposed additional 15% increase would be delayed until March 1, 2019. However, in February 2019, President Trump delayed imposing the additional 15% tariffs on Chinese goods, citing substantial progress was being made in the on-going international trade talks between the United States and China.

Based on conversations with our overseas suppliers and THD relating to additional costs to be incurred effective January 1, 2019 relating to the September 24, 2018 tariff of 10.0%, we believe we are able to avoid substantially all of the impact of such tariffs. There is no guarantee that we will be able to avoid some or all of the impact associated with potential additional 15% tariffs discussed above. Should we be unable to avoid such additional costs, our gross margin on these products will be severely impacted, or could cause us to terminate or alter certain customer relationships.

Lastly, we believe that over time, several newer technologies and features will have a greater impact on the market for our traditional pneumatic tool offerings. The impact of this evolution has been felt initially by the advent of advanced cordless operated hand tools in the automotive aftermarket. We continue to perform a cost-benefit analysis of developing or incorporating more advanced technologies in our tool platforms.

Other than the aforementioned, or matters that may be discussed below, there are no major trends or uncertainties that had, or we could have reasonably expected to have a material impact on our revenue, nor was there any unusual or infrequent event, transaction or any significant economic change that materially affected our results of operations.

Unless otherwise discussed elsewhere in the Management's Discussion and Analysis, we believe that our relationships with our key customers and suppliers remain satisfactory.

REVENUE

The tables set forth below provide an analysis of our revenue for the years ended December 31, 2018 and 2017.

Consolidated

	Year Ended December 31,					
	2018		2017		Increase	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Florida Pneumatic	$50,720,000	78.0 %	$46,471,000	78.8 %	$4,249,000	9.1 %
Hy-Tech	14,275,000	22.0	12,503,000	21.2	1,772,000	14.2
Total	$64,995,000	100.0 %	$58,974,000	100.0 %	$6,021,000	10.2 %

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Florida Pneumatic

Florida Pneumatic markets its air tool products to four primary sectors within the pneumatic tool market; Retail, Automotive, Industrial/catalog and the Aerospace market. It also generates revenue from its Berkley products line, as well as a line of air filters and other OEM parts (“Other”).

	Year Ended December 31,				
	2018		2017		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Retail customers	$18,234,000	35.9 %	$19,894,000	42.8 %	$(1,660,000)	(8.3)%
Automotive	14,430,000	28.5	13,901,000	29.9	529,000	3.8
Industrial/catalog	6,784,000	13.4	5,303,000	11.4	1,481,000	27.9
Aerospace	10,611,000	20.9	6,506,000	14.0	4,105,000	63.1
Other	661,000	1.3	867,000	1.9	(206,000)	(23.8)
Total	$50,720,000	100.0 %	$46,471,000	100.0 %	$4,249,000	9.1 %

Key factors impacting Florida Pneumatic’s 2018 revenue, compared to 2017 revenue, include a net decline in shipments to its Retail customers. As previously disclosed, we elected not to renew an agreement with Sears, which expired September 30, 2017. This decision was the primary factor for a $3.5 million year over year decline in Sears’s revenue partially offset by increases in sales to THD of $1.2 million and $577,000 to another Retail customer. As the result of the adoption of ASC 606 discussed earlier, Florida Pneumatics’ 2018 revenue attributable to THD was reduced by $1,007,000, with a like amount reducing gross profit and our Selling and General and Administrative costs, discussed below. Additionally, during the third quarter of 2018, Florida Pneumatic shipped a new / refreshed line of pneumatic tools to THD. This roll-out was the primary factor for the increase in year over year improvement. It is likely that revenue from a roll-out of a new/refreshed line will not reoccur in 2019. The 27.9% year over year increase in Industrial/catalog revenue was due primarily to market conditions, and an improved product offering. Lastly, the most significant product line change at Florida Pneumatic was the improvement in Jiffy revenue. Jiffy, acquired in April 2017, enabled us to approach the aerospace sector with a much stronger brand. Jiffy’s monthly average revenue increased from $685,000 during the nine-month period ended December 31, 2017, to $884,000 for the twelve-month period ended December 31, 2018. Further, during 2018, Jiffy improved its manufacturing output thereby improving on-time delivery performance. Additionally, orders from a major aerospace manufacturer and a major tools distributor were key factors in their improved revenue. The reduction in revenue from our Other product lines was due to in part from the loss of a key supplier, and the change in Florida Pneumatic’s focus away from the smaller lines to the more profitable product lines.

Hy-Tech

Hy-Tech designs, manufactures and sells a wide range of industrial products under the brands ATP, ATSCO, OZAT and NUMATX, which are categorized as “ATP” for reporting purposes and include products such as heavy duty air tools, industrial grinders, impact sockets, gears and “Engineered Solutions” or OEM business. Thaxton is reported with its general machining business as “Other” below.

	Year Ended December 31,						
	2018		2017		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
ATP	$12,958,000	90.8 %	$11,116,000	88.9 %	$1,842,000	16.6
Other	1,317,000	9.2	1,387,000	11.1	(70,000)	(5.0)
Total	$14,275,000	100.0 %	$12,503,000	100.0 %	$1,772,000	14.2

Hy-Tech’s “Engineered Solutions” products offering, which is designed to market its engineering and manufacturing expertise, and develop different applications for their tools, motors and accessories continues to expand. Revenue from this offering during 2018 increased $574,000 or 54%, when compared to 2017. We believe the development of the Engineered Solutions offering will continue to provide Hy-Tech an opportunity to generate additional sources of revenue in the future. Additionally, ATSCO revenue improved $897,000 or 37% over the prior year. Further, revenue generated from its NUMATX product line, which we acquired in September of 2017, also increased more than $244,000, when compared to 2017 revenue. Further, 2018 revenue from the sale of ATP tools and parts along with OZAT sockets, in the aggregate, increased $175,000, or 3% over the prior year.

Hy-Tech intends to focus on expanding its Engineered Solutions, NUMATX and other, newer expanding technologies and offerings. As such, it is possible that revenue from certain product lines and sectors, such as oil and gas, may decline.

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Historically, a major component of Hy-Tech’s revenue was derived from the oil and gas sector. However, we intend to emphasize our Engineered Solutions product offering, and other newer technologies. As such it is likely that we will slowly migrate away the from oil and gas sector.

GROSS MARGIN

	Year Ended December 31,		Increase/(Decrease)	
	2018	2017	Amount	%
Florida Pneumatic	$18,554,000	$17,432,000	$1,122,000	6.4 %
As percent of respective revenue	36.6 %	37.5 %	(0.9)% pts	
Hy-Tech	$4,633,000	$3,652,000	$981,000	26.9
As percent of respective revenue	32.5 %	29.2 %	3.3 % pts	
Total Tools	$23,187,000	$21,084,000	$2,103,000	10.0
As percent of respective revenue	35.7 %	35.8 %	(0.1)% pts	

As discussed earlier in this Management’s Discussion and Analysis, we adopted ASC 606, effective January 1, 2018. This adoption reduced Florida Pneumatics’ 2018 gross profit by $1,007,000, thus lowering its 2018 gross margin effectively by 1.2 percentage points. The additional tariffs imposed during the second half of 2018, discussed above, also negatively impacted Florida Pneumatics’ Retail gross margin. Further, various promotions and discounts offered during 2018 on our Automotive lines also contributed to the decline in year over year gross margin comparison. The previous factors were partially offset by improved gross margin in Aerospace due primarily to improved manufacturing output resulting in greater overhead absorption and to a lesser degree, product mix, and Industrial/catalog, the gross margin for which improved due to price increases and product mix.

Hy-Tech’s 2018 gross margin increased 3.3 percentage points, compared to 2017. Factors contributing to the positive change include, among other things: (a) the adjustment to Hy-Tech’s 2018 allowance for obsolete / slow moving inventory (“OSMI”) was less than the adjustment recorded in 2017, as inventory turns improved, which directly impacts the computation of Hy-Tech’s OSMI; (b) improved overhead absorption during 2018, compared to 2017 also contributed to the higher gross margin. While the gross margin on the Engineered Solutions revenue increased in 2018, compared to 2017, we believe that gross margin on the Engineered Solutions products should continue to increase as the result of manufacturing experience, and greater volume through the facility.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (“SG&A”) include salaries and related costs, commissions, travel, administrative facilities, communications costs and promotional expenses for our direct sales and marketing staff, administrative and executive salaries and related benefits, legal, accounting and other professional fees as well as general corporate overhead and certain engineering expenses.

Our SG&A during 2018 was $21,705,000, compared to $21,034,000 in 2017. Stated as a percent of revenue, our SG&A declined 2.3 percentage points to 33.4% in 2018 from 35.7% in 2017. It should be noted that as the result of the adoption of the new revenue recognition standard ASC 606, discussed above, we now classify certain expenses totaling $1,007,000 as reductions against gross revenue that in 2017, prior to the adoption, were accounted for as variable expenses in our SG&A.

Significant components to the net dollar increase include: i) an increase in Jiffy SG&A expenses of $725,000, due primarily to a full year of SG&A in 2018, compared to 2017, which included expenses for only nine months; ii) a $751,000 increase in non-Jiffy compensation expenses that include base salaries and wages, accrued performance-based bonus incentives, associated payroll taxes and employee benefits, and iii) an increase of $114,000 in non-cash stock-based compensation. These increases were partially offset by: i) a decrease in non-Jiffy variable expenses, which include costs such as: commissions, advertising, travel and warranty of $394,000, due primarily to accounting for certain lower Retail revenue; ii) a reduction of professional fees of $491,000, most of which was due to the acquisition of Jiffy in 2017 and recruitment fees for executive positions at Hy-Tech in 2017, and iii) a reduction in depreciation and amortization of $113,000 due in part to certain assets being fully depreciated.

OTHER EXPENSE - NET

The table below provides an analysis of our Other expense - net for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
Escrow refund	$ —	$ (27,000)
Fair value adjustment to contingent consideration - JIFFY	150,000	158,000
Total	$ 150,000	$ 131,000

Other expense - net for 2017 consisted primarily of an adjustment to the fair value of the contingent consideration obligation to the Jiffy Seller, partially offset by the receipt of the balance of an escrow related to the sale 2016 of the real property.

INTEREST EXPENSE - NET

	Year Ended December 31,	
Interest expense – net attributable to:	2018	2017
Short-term borrowings	$ 118,000	$ 102,000
Term loans, including Capital Expenditure Term Loans	15,000	3,000
Amortization expense of debt issue costs	95,000	63,000
Interest income	(5,000)	—
Total	$ 223,000	$ 168,000

The 2018 interest expense on our short-term borrowing increased $16,000, compared to the prior year due to higher average interest rates and higher average borrowings. Interest on Term loans increased as the result of the creation of a new Capital expenditure loan. The increase in Amortization of debt issue costs is due primarily to the amortizing of certain costs incurred with the amendment to our Loan and Security Agreement in April 2017 that related to the Jiffy acquisition.

INCOME TAX EXPENSE

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. Among other things this Act reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred, created new provisions related to foreign sourced earnings, eliminated the domestic manufacturing deduction and moves to a hybrid territorial system. At December 31, 2017, we had not completed our accounting for the tax effects of The Act; however, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. In accordance with the Securities and Exchange Commission's Staff Accounting Bulletin 118 ("SAB 118"), income tax effects of The Act were refined upon obtaining, preparing, and analyzing additional information during the measurement period. At December 31, 2018, the Company had completed its accounting for the tax effects of The Act.

The provision for income taxes in 2018 was $253,000, compared to $635,000, in 2017. Significant factors impacting the 2018's net effective tax rate of 22.8%, were non-deductible permanent differences and state and local taxes, partially offset by the favorable impact caused by the remeasurement of the impact of the Act and benefits related to foreign tax differential. See Note 10 – Income Taxes, to Consolidated Financial Statements for further discussion and analysis.

We calculated our best estimate of the impact of the Act in our 2017 income tax provision in accordance with our understanding of the Act and guidance available and, as a result, recorded $643,000 as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The $643,000 referred to above consists of two parts, a provisional amount related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future of $588,000 and a provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $55,000 based on cumulative foreign earnings of $352,000. As a result, our income tax provision for entire 2017 was $635,000, or an effective tax rate of 255.0%. As a result of the Act, we remeasured our U.S. Federal deferred tax assets and liabilities at the rate they are expected to reverse in the future. We recorded a cumulative charge of $588,000 ($0 in 2018 and $588,000 charge in 2017). The Act required a mandatory deemed repatriation of post-1986 undistributed foreign earnings, which resulted in a one-time transition tax. We recorded a cumulative charge of $16,000 ($39,000 benefit in 2018 and $55,000 charge in 2017).

LIQUIDITY AND CAPITAL RESOURCES

We monitor such metrics as days' sales outstanding, inventory requirements, accounts payable and capital expenditures to project liquidity needs, as well as evaluate return on assets. Our primary sources of funds are operating cash flows and our Revolver Loan ("Revolver") with our bank.

We gauge our liquidity and financial stability by various measurements, some of which are shown in the following table:

	December 31,	
	2018	2017
Working capital	$22,323,000	$24,278,000
Current ratio	3.26 to 1	4.08 to 1
Shareholders' equity	$45,535,000	$46,013,000

Credit facility

In October 2010, we entered into a Loan and Security Agreement ("Credit Agreement") with an affiliate of Capital One, National Association ("Capital One" or the "Bank"). The Credit Agreement, as amended, among other things, provides the ability to borrow funds under a Revolver arrangement. Revolver borrowings are secured by the Company's accounts receivable, inventory, equipment and real property. Additionally, there is a $1,600,000 line available for capital expenditures ("Capex line"). The Credit Agreement also includes a Term Loan, (the "Term Loan") as defined in the Credit Agreement. This Term Loan remains in place to enable the Company and Capital One to facilitate future term loan borrowings more efficiently and less costly, should a need arise. P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross-guaranteed by certain other subsidiaries. The Credit Agreement was to expire on February 11, 2019, however, we and the bank extended the Credit Agreement to February 8, 2024. See Note 12 – Subsequent Events to our consolidated financial statements.

At our option, Revolver borrowings bear interest at either LIBOR ("London Interbank Offered Rate") or the Base Rate, as the term is defined in the Credit Agreement, or a combination of the two, plus an Applicable Margin, as defined in the Credit Agreement. We are subject to limitations on the number of LIBOR borrowings.

Contemporaneously, with the acquisition of the Jiffy business discussed in Note 2 to the consolidated financial statements, we entered into a Second Amended and Restated Loan and Security Agreement (the "2017 Agreement") with Capital One. The 2017 Agreement, among other things, amended the Credit Agreement by: (1) increasing the maximum amount we can borrow under the Revolver Commitment (as defined) to $16,000,000, subject to certain borrowing base criteria, and (2) modifying certain borrowing base criteria as well as financial and other covenants. We incurred approximately $84,000 of debt issue costs in connection with the 2017 Agreement.

Applicable Margins rates at December 31, 2018 and 2017 were 1.50% and 1.75%, respectively. The Applicable Margin added to the Base Rate borrowings at December 31, 2017 were 0.50% and 0.75%, respectively.

At December 31, 2018, we had a $100,000 Term Loan borrowing which is included in Current maturities of long-term debt on the consolidated balance sheet. At December 31, 2018 and 2017, this Term Loan was at LIBOR plus the Applicable Margin.

In April 2018, we borrowed $400,000 against the Capex line. This borrowing is to be repaid in equal principle monthly installments of approximately $6,700, with the balance due at the Maturity Date, as defined in the Credit Agreement. $300,000 of this borrowing is at LIBOR plus Applicable Margin, with the balance of $100,000 at the Base Rate, plus Applicable Margin. The Applicable Margin added to the Base Rate, and LIBOR borrowing at December 31, 2018 was 1.50% and 0.50%, respectively. At December 31, 2018, the balance due on the Capex loan was approximately $353,000. This obligation at December 31, 2018 is included in Current maturities of long-term debt on our consolidated balance sheet.

At December 31, 2018, we had approximately $12,024,000 available under the Credit Facility.

We provide Capital One monthly financial statements, monthly borrowing base certificates and monthly certificates of compliance with various financial covenants. We believe we are in compliance with all financial and non-financial covenants. As part of the 2017 Agreement, if an event of default occurs, the interest rate would increase by two percent per annum during the period of default, in addition to other remedies provided to Capital One.

We believe that should a need arise whereby the current credit facility is insufficient, we can borrow additional amounts against our real property or other assets.

<u>Short–Term Borrowings</u>

At December 31, 2018, our short-term or Revolver borrowing was $2,096,000, compared to $1,928,000, at December 31, 2017. Applicable Margin Rates, at December 31, 2018 for LIBOR and Base Rates were 1.50% and 0.50%, respectively, and 1.75% and 0.75%, respectively at December 31, 2017.

	LIBOR %	Base Rate %
Range of Applicable Margins added to Revolver borrowings during 2018 and 2017:	1.50 points to 1.75 points	0.50 points to 0.75 points

Our average balance of short-term borrowings during 2018 was $3,113,000, compared to $3,092,000, during 2017.

The Company's Term Loan borrowings are:

	December 31, 2018	December 31, 2017
Term Loan	$ 100,000	$ 100,000
Capex borrowing	354,000	—
Debt issue costs	(1,000)	(6,000)
	453,000	94,000
Less current maturities	453,000	—
	$ —	$ 94,000

<u>Cash Flows</u>

At December 31, 2018, cash provided by operating activities for the year was $2,966,000, compared to cash provided by operating activities for the year ended December 31, 2017 of $4,634,000. At December 31, 2018, our cash balance was $999,000, compared to $1,241,000 at December 31, 2017. Cash at our UAT subsidiary at December 31, 2018 and 2017 was $227,000 and $501,000, respectively. We operate under the terms and conditions of the Credit Facility. As a result, all domestic cash receipts are remitted to Capital One lock-boxes.

Our total debt to total book capitalization (total debt divided by total debt plus equity) at December 31, 2018 was 5.3%, compared to 4.2% at December 31, 2017. We anticipate being able to generate cash from operations during 2019.

Capital spending during the year ended December 31, 2018 was $1,878,000, compared to $910,000 in 2017. Capital expenditures currently planned for 2019 are approximately $1,739,000, which we expect will be financed through the Credit Facility. The major portion of these planned capital expenditures will be for new metal cutting equipment, tooling and information technology hardware and software.

Subsequent to year-end, we borrowed approximately $3,000,000 to finance the repurchase of approximately 390,000 shares of our Common Stock – see Note 12 – Subsequent Events.

In March 2016, our Board of Directors approved the initiation of a dividend policy under which the Company intends to declare quarterly cash dividends to its stockholders in the amount of $0.05 per quarter. During 2018 our Board of Directors approved the payment of dividends of $0.05 per common share to the shareholders of record in February 2018, May 2018, August 2018, and November 2018. During 2017, our Board of Directors voted to approve the payment of four quarterly dividends. As such, in February 2017, May 2017, August 2017, and November 2017, the Company paid a $0.05 per share dividend to the shareholders of record. The aggregate of such dividend payments was approximately $723,000 and $722,000 for the year ended December 31, 2018 and 2017, respectively. Our Board of Directors expects to maintain this dividend policy; however, the future declaration of dividends under this policy is dependent upon several factors, which includes such things as our overall financial condition, results of operations, capital requirements and other factors our board may deem relevant.

On August 9, 2017, our Board of Directors authorized us to repurchase up to 100,000 shares of our Common Stock over a period of up to twelve months (the “2017 Repurchase Program”). On August 24, 2017, we announced that, pursuant to the 2017 Repurchase Program, we had adopted a written trading plan in accordance with the guidelines specified under Rule 10b5-1 under the Securities Exchange Act of 1934. A plan under Rule 10b5-1 allows us to repurchase shares at times when it might otherwise be prevented from doing so by securities laws or because of self-imposed trading blackout periods. Repurchases made under the plan are subject to the SEC’s regulations, as well as certain price, market, volume, and timing constraints specified in the plan. Under the 2017 Repurchase Program, we repurchased 94,600 shares of its Common Stock, 46,878 during 2017 and 47,722 during 2018, at an aggregate cost of approximately $753,000.

On September 12, 2018, subsequent to the expiration of the 2017 Repurchase Program, our Board of Directors authorized us to repurchase up to 100,000 additional shares of our Common Stock (the "2018 Repurchase Program") from time to time over the next twelve months through a 10b5-1 trading plan, and potentially through open market purchases, privately-negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. On September 14, 2018, we announced that, pursuant to the 2018 Repurchase Program, we adopted a written trading plan in accordance with the guidelines specified under Rule 10b5-1 under the Securities Exchange Act of 1934. Repurchases made under the plan, that commenced on September 17, 2018, are subject to the SEC's regulations, as well as certain price, market, volume, and timing constraints specified in the plan. Since the inception of the 2018 Repurchase Program through December 31, 2018, we repurchased 33,398 shares of our Common Stock at an aggregate cost of approximately $272,000.

In June 2018 and November 2018, we purchased 18,140 shares and 85,791 shares, respectively, of our Common Stock in two separate, privately negotiated transactions. These transactions were outside of the 2018 Repurchase Program and the 2017 Repurchase Program, pursuant to additional authorization of our Board of Directors at a total cost of $150,000 and $698,000, respectively. The June 2018 purchase price per share was equal to five percent below the average of the closing price of our Common Stock for the three days prior to the transaction. The November 2018 purchase price based on the average closing price over the three days prior to the date of transaction.

At December 31, 2018, we had $6,700,000, of open purchase order commitments, compared to $7,138,000 at December 31, 2017.

Customer concentration

At December 31, 2018, THD accounted for 26.5% of our consolidated revenue, compared to 27.1% of 2017's revenue. Further, accounts receivable at December 31, 2018 and 2017 from THD were 32.6% and 31.0%, respectively. There was no other customer that accounted for more than 10% of revenue or accounts receivable in 2018 or 2017.

IMPACT OF INFLATION

We believe that the effects of changing prices and inflation on our consolidated financial position and our results of operations have been minimal.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1, "Summary of Accounting Policies," to our consolidated financial statements for additional discussion of recent accounting standards and pronouncements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Required

ITEM 8. Financial Statements and Supplementary Data

P&F INDUSTRIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of P&F Industries, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of P&F Industries, Inc. and Subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related consolidated notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2008.

Jericho, New York
March 29, 2019

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	$ 999,000	$1,241,000
Accounts receivable — net	9,574,000	10,047,000
Inventories	20,496,000	19,657,000
Prepaid expenses and other current assets	1,137,000	1,224,000
TOTAL CURRENT ASSETS	32,206,000	32,169,000
PROPERTY AND EQUIPMENT		
Land	1,281,000	1,281,000
Buildings and improvements	6,262,000	6,138,000
Machinery and equipment	22,612,000	20,579,000
	30,155,000	27,998,000
Less accumulated depreciation and amortization	20,380,000	19,091,000
NET PROPERTY AND EQUIPMENT	9,775,000	8,907,000
GOODWILL	4,436,000	4,447,000
OTHER INTANGIBLE ASSETS — net	7,800,000	8,533,000
DEFERRED INCOME TAXES — net	628,000	872,000 &nb"9%" style="BORDER-BOTTOM: black 2px solid; TEXT-ALIGN: right">(685)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt financing	8,836	7,704
Principal debt payments	(4,429)	(9,034)
Net cash provided by (used in) financing activities	4,407	(1,330)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,770)	5,615
CASH AND CASH EQUIVALENTS, beginning of period	27,847	25,756
CASH AND CASH EQUIVALENTS, end of period	$ 15,077	$31,371

SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 599	$694
Income taxes paid – net of refunds	$ 929	$132

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AMREP CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)
Six Months Ended October 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 second quarter and first six months of 2013 and 2012 mean the fiscal three and six month periods ended October 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):

	October 31, 2012	April 30, 2012
Media Services operations:		
Subscription Fulfillment Services	$13,281	$11,989
Newsstand Distribution Services, net of estimated returns	36,455	26,438
Product Services and Other	3,389	2,698
	53,125	41,125
Less allowance for doubtful accounts	(247)	(581)
	$52,878	$40,544
Real estate operations and corporate:		
Mortgage notes and other receivables	$83	$55
Less allowance for doubtful accounts	-	-
	$83	$55

Newsstand Distribution Services accounts receivable are net of estimated magazine returns of $81,685,000 and $69,973,000 at October 31, 2012 and April 30, 2012.

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(3) Investment Assets, Net

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

	October 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 under contract 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):

	October 31, 2012	April 30, 2012
Land, buildings and improvements	$29,668	$29,624
Furniture and equipment	23,018	22,836
	52,686	52,460
Less accumulated depreciation	(27,522)	(26,536)
	$25,164	$25,924

(5) Intangible and Other Assets, Net

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

	October 31, 2012		April 30, 2012	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Software development costs	$1,706	$ 1,682	$1,964	$ 1,905
Deferred order entry costs	1,257	-	1,320	-
Prepaid expenses	3,306	-	3,315	-
Customer contracts and relationships	15,000	7,236	15,000	6,612
Other	1,665	892	1,671	773
	$22,934	$ 9,810	$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):

	October 31, 2012	April 30, 2012
Publisher payables, net	$74,090	$75,982
Accrued expenses	2,650	3,527
Trade payables	2,900	2,042
Other	4,336	4,169
	$83,976	$85,720

Newsstand Distribution Services accounts payable are net of estimated magazine returns of $77,628,000 and $66,384,000 at October 31, 2012 and April 30, 2012.

(7) Notes Payable

Notes payable consist of the following (in thousands):

	October 31, 2012	April 30, 2012
Credit facilities:		
Media Services operations	$5,098	$-
Real estate operations	16,214	16,839
Other notes payable	4,420	4,486
	$25,732	$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’s original maturity date was May 12, 2013, but the lender and the borrowers entered into the First Amendment dated October 1, 2012 (the “First Amendment”) to the Media Services Credit Facility extending the term of the facility by one year to May 12, 2014. In addition, the First Amendment revised certain covenants and reduced the facility’s borrowing limit from the original $20,000,000 to $15,000,000, in accordance with Media Services’ request. Among the borrowers’ covenants in the Media Services Credit Facility is one requiring the borrowers to maintain a minimum fixed charge coverage ratio (as defined). 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 the borrowing group’s parent that is not a party to the Media Services Credit Facility. At October 31, 2012, the borrowing availability under the Media Services Credit Facility was $13,601,000, and there was $5,098,000 outstanding against this availability. The highest amount borrowed during the quarter ended October 31, 2012 was $5,668,000.

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

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plus a margin of 3%, 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% plus a margin of 2% (that is, not less than 5%). 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%, which may be reduced to 2.75% depending on the borrowers' financial condition.

AMREP Southwest has a non-revolving loan (the "ASW Loan") which in August 2012 had and continues to have an outstanding principal amount of $16,214,000. The ASW Loan was scheduled to mature on September 1, 2012. In August 2012, a company (the "New Lender") wholly-owned by the Vice Chairman of the Company's Board of Directors and holder of more than 40% of its outstanding shares purchased the ASW Loan from the bank that made it and agreed to extend its maturity to December 1, 2012 on its existing terms except for the elimination of a requirement that a portion of proceeds received by AMREP Southwest from real estate sales be applied to the principal. Another director and holder of more than 10% of the Company's outstanding shares purchased a 20% participation in the ASW Loan from the New Lender. In November 2012, the terms of the ASW Loan were further amended effective December 1, 2012 (the "December 2012 Amendment"). The maturity of the ASW Loan has been extended by five years to December 1, 2017. From December 1, 2012, the ASW Loan bears interest monthly at 8.5% per annum. No payments of principal are required until maturity except that on a quarterly basis AMREP Southwest is required to make principal payments in an amount equal to 25% of the net cash from sales of land (as defined) it received in the prior quarter. As additional security for the ASW Loan, the New Lender has received a pledge of the stock of AMREP Southwest's wholly-owned subsidiary, Outer Rim Investments, Inc., and a first mortgage on the land AMREP Southwest owns in Rio Rancho, New Mexico that was not previously mortgaged to secure the ASW Loan. Outer Rim Investments, Inc. owns approximately 12,000 acres of land in Sandoval County, New Mexico, largely comprised of scattered lots, which at present is not being actively offered for sale. A sale transaction by AMREP Southwest of the newly mortgaged land for more than $50,000 or of any AMREP Southwest-owned land other than land zoned and designated as a residential classification for more than $100,000 requires the New Lender's approval. Otherwise, the New Lender is required to release the lien of its mortgage on any land being sold by AMREP Southwest in the ordinary course to an unrelated party on terms AMREP Southwest believes to be commercially reasonable and at a price AMREP Southwest believes to be not less than the land's fair market value or, in the case of the newly mortgaged land, its wholesale value, upon receipt of AMREP Southwest's certification to such effect. The ASW Loan may be prepaid at any time without premium or penalty except that if the prepayment is in connection with the disposition of AMREP Southwest or substantially all of its assets there is a prepayment premium, initially 5% of the amount prepaid, with the percentage declining by 1% each year. The ASW Loan continues to contain a number of covenants and restrictions, including a requirement that AMREP Southwest maintain a cash reserve of not less than $500,000 in the control of the New Lender to fund interest payments and covenants requiring AMREP Southwest to maintain a minimum tangible net worth (as defined) and restricting AMREP Southwest from making any distributions or other payments to the Company beyond a stated management fee, which management fee AMREP Southwest is not currently paying to the Company.

Prior to December 1, 2012, the interest on the ASW Loan was at the fluctuating rate of reserve adjusted 30-day LIBOR (0.212% at October 31, 2012) plus 3.5%, but not less than 5%. At October 31, 2012, the interest rate was 5% and the cash reserve was $529,000. Prior to its purchase by the New Lender, the ASW Loan was secured by a mortgage on certain real property of AMREP Southwest with a book value of approximately $55,000,000, which mortgage remains in place in favor of the New Lender in addition to the new collateral that the New Lender received in connection with the December 2012 Amendment, and the terms of the ASW Loan included a requirement, eliminated by the December 2012 Amendment, that the appraised value of the collateral be at least 2.5 times the outstanding principal of the loan.

Other notes payable consist of a $4,374,000 mortgage note payable on a warehouse with a maturity date of February 2018 and an interest rate of 6.35%, and $46,000 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 $139,000.

(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 October 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

During the quarter ended October 31, 2012, the Company reached a settlement with the Internal Revenue Service with respect to an examination of its 2010 and 2005 federal tax returns. As a result, the Company paid $597,000 in taxes related to deferred gains on investment assets not previously recognized and the timing of certain deductible expenses, and accrued $33,000 of interest related to the payment. The Company charged (i) $589,000 to previously accrued current and deferred income tax liabilities and (ii) $41,000 to the income tax provision in the accompanying consolidated financial statements as a result of this settlement.

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 October 31, 2012 and April 30, 2012. As a result of either the expiration of statutes of limitations or the recognition and measurement considerations applicable to such benefits, 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 October 31, 2012 and $54,000 at April 30, 2012 and was the approximate carrying amount at those dates. At October 31, 2012 and April 30, 2012, the estimated fair values of the Company's long-term, fixed-rate notes payable were $4,739,000 and $4,839,000 compared with carrying amounts of $4,420,000 and $4,486,000.

The fair value of the ASW Loan, based on its renegotiated terms effective December 1, 2012, is estimated to be approximately $13,625,000 at October 31, 2012 as compared to its carrying value of $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 by August 15, 2013 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 Comapny'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 and six month periods ended October 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 October 31, 2012 (a):						
Revenues	$ 14,456	$ 2,287	$ 4,523	$ 119	$ (68)	$ 21,317
Net income (loss)	289	111	345	(787)	318	276
Provision (benefit) for income taxes	171	112	202	(382)	169	272
Interest expense (income), net (b)	534	(365)	30	498	(383)	314
Depreciation and amortization	711	91	53	20	37	912
EBITDA (c)	$ 1,705	$ (51)	$ 630	$ (651)	$ 141	$ 1,774

Capital expenditures	$ 61	$ 201	$ -	$ -	$ -	$ 262

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Three months ended October 31, 2011 (a):						
Revenues	$ 16,510	$ 2,552	$ 2,958	$ 1,396	$ (65)	$ 23,351
Net income (loss)	684	154	134	(130)	241	1,083
Provision (benefit) for income taxes	420	177	79	(17)	124	783
Interest expense (income), net (b)	561	(370)	35	413	(283)	356
Depreciation and amortization	1,082	134	64	21	37	1,338
EBITDA (c)	$ 2,747	$ 95	$ 312	$ 287	$ 119	$ 3,560
Capital expenditures	$ 129	$ 27	$ 13	$ -	$ -	$ 169
Six months ended October 31, 2012 (a):						
Revenues	$ 28,058	$ 4,626	$ 8,170	$ 193	$ (134)	$ 40,913
Net income (loss)	46	263	472	(1,752)	639	(332)
Provision (benefit) for income taxes	28	225	277	(946)	337	(79)
Interest expense (income), net (b)	1,061	(718)	57	984	(743)	641
Depreciation and amortization	1,447	194	114	40	73	1,868
Impairment of assets	-	-	-	169	-	169
EBITDA (c)	$ 2,582	$ (36)	$ 920	$ (1,505)	$ 306	$ 2,267
Capital expenditures	$ 91	$ 201	$ -	$ -	$ -	$ 292
Six months ended October 31, 2011 (a):						
Revenues	$ 33,186	$ 4,899	$ 5,312	$ 1,578	$ (131)	$ 44,844
Net income (loss)	1,048	184	(22)	(890)	484	804
Provision (benefit) for income taxes	634	225	(13)	(461)	250	635
Interest expense (income), net (b)	1,132	(728)	66	808	(561)	717
Depreciation and amortization	2,189	271	128	41	74	2,703
EBITDA (c)	$ 5,003	$ (48)	$ 159	$ (502)	$ 247	$ 4,859
Capital expenditures	$ 616	$ 68	$ 13	$ -	$ -	$ 697

(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.

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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 second quarter and first six months of 2013 and 2012 mean the fiscal three and six month periods ended October 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 second quarter of 2013 that had a material impact on its consolidated financial statements.

RESULTS OF OPERATIONS

For the second quarter of 2013, the Company had net income of $276,000, or $0.05 per share, compared to $1,083,000, or $0.18 per share, for the second quarter of 2012. For the first six months of 2013, the Company had a net loss of $332,000, or $0.06 per share, compared to net income of $804,000, or $0.13 per share, for the same period of 2012. The results for the first six months of 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 during the first quarter of 2013. Revenues

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were $21,317,000 and $40,913,000 in the second quarter and first six months of 2013 compared to $23,351,000 and $44,844,000 for the same periods of the prior year.

Revenues from Media Services decreased from $22,020,000 and $43,396,000 for the second quarter and first six months of 2012 to $21,266,000 and $40,854,000 for the same periods in 2013. Magazine publishers are the principal customers of these businesses, and they have continued to be negatively impacted by increased competition from new media sources and weakness in the U.S. economy. The result has been 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 $16,510,000 and $33,186,000 for the second quarter and first six months of 2012 to $14,456,000 and $28,058,000 for the same periods of 2013, while revenues from Newsstand Distribution Services operations decreased from $2,552,000 and $4,899,000 for the second quarter and first six months of 2012 to $2,287,000 and $4,626,000 for the same periods of 2013. Revenues from Product Services and Other increased from $2,958,000 and $5,312,000 for the second quarter and first six months of 2012 to $4,523,000 and $8,170,000 for the same periods of 2013, reflecting revenue increases in both the product services business and the temporary staffing business. Media Services operating expenses were $17,040,000 and $33,407,000 (80.1% and 81.8% of related revenues) for the second quarter and first six months of 2013 compared to $17,263,000 and $35,079,000 (78.4% and 80.8% of related revenues) for the same periods in 2012. The decrease in Media Services operating expenses for the second quarter of 2013 compared to the prior year period was primarily attributable to reduced facilities and equipment expense, including depreciation, ($477,000), partially offset by increased (i) payroll and benefits ($142,000) and (ii) supplies expense ($168,000). The decrease in Media Services operating expenses for the six month period of 2013 compared to the prior year period was primarily attributable to reduced (i) facilities and equipment expense, including depreciation, ($968,000), (ii) payroll and benefits ($300,000) and (iii) supplies expense ($258,000).

General and administrative costs of Media Services operations were $1,949,000 and $4,038,000 (9.2% and 9.9% of Media Services revenues) for the second quarter and first six months of 2013 compared to $2,113,000 and $4,338,000 (9.6% and 10.0% of Media Services revenues) for the same periods of 2012. The decreases in both periods were primarily attributable to lower payroll and benefits as well as reduced legal costs.

There were no revenues from land sales at AMREP Southwest for the second quarter and first six months of 2013 compared to $1,327,000 and $1,435,000 for the same periods of 2012. Results for both periods were substantially lower than the Company has historically experienced in its principal market of Rio Rancho, New Mexico, due to the 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 83% and 79% for the second quarter and first six months 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 $57,000 and $111,000 for the second quarter and first six months of 2013 compared to $80,000 and $139,000 for the same periods of 2012. Other operating expenses decreased $241,000 and $187,000 for the second quarter and first six months of 2013 compared to the same periods of 2012, primarily due to lower real estate taxes as a result of the finalization of negotiations with the Sandoval County, New Mexico tax assessor for calendar year 2012 real estate taxes, partially offset by increased land maintenance costs.

General and administrative costs of real estate operations and corporate were $1,106,000 and $2,178,000 for the second quarter and first six months of 2013 compared to $1,010,000 and $2,046,000 for the same periods of 2012. The increases in both periods were primarily attributable to an increase in payroll and benefits resulting from changes in certain management positions.

The Company’s effective tax rate was 49.6% and 19.2% for the second quarter and first six months of 2013 compared to 42.0% and 44.1% for the same periods of 2012. The difference between the statutory tax rate and the effective rate of the tax provision or 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, and recognition of additional tax expense associated with the finalization of an Internal Revenue Service examination of the Company’s fiscal 2010 and 2005 tax years. The effect of the interest accrual related to unrecognized tax positions was to reduce the tax benefit associated with the pre-tax loss for the first six months of 2013 and to increase the tax provision associated with the pre-tax income for the second quarter of 2013 and both the three and six month periods in 2012.

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 October 31, 2012 and April 30, 2012. As a result of either the expiration of statutes of limitations or the recognition and measurement considerations applicable to such benefits, 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 its Media Services banking facility. 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 matures May 12, 2014. The Company’s Media Services businesses also rely on cash flow from operations and they operate with negative working capital, primarily as a result of liquidity provided by one material customer contract that expires June 2014. A loss of this customer contract would have a material adverse effect on the Company. AMREP Southwest finances its business from 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 Loan) that matures December 1, 2017 under which it may not borrow any additional funds.

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 by August 15, 2013 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 October 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 $52,878,000 at October 31, 2012, primarily due to the effect of increased quarter-end billings at October 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 $26,862,000 at October 31, 2012 and $19,383,000 at April 30, 2012.

Real estate inventory was $75,506,000 at October 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 $71,213,000 at October 31, 2012. The balance of real estate inventory consisted of properties in Colorado. Investment assets decreased from $11,262,000 at April 30, 2012 to $11,093,000 at October 31, 2012 as a result of an impairment charge recognized on an asset in Rio Rancho, New Mexico during the quarter ended July 31, 2012.

Accounts payable and accrued expenses decreased from $85,720,000 at April 30, 2012 to $83,976,000 at October 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 $292,000 for the first six months of 2013 and $697,000 for the same period of 2012, primarily for facility and equipment upgrades for the Media Services businesses.

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's original maturity date was May 12, 2013, but the lender and the borrowers entered into the First Amendment dated October 1, 2012 (the "First Amendment") to the Media Services Credit Facility extending the term of the facility by one year to May 12, 2014. In addition, the First Amendment revised certain covenants and reduced the facility's borrowing limit from the original $20,000,000 to $15,000,000, in accordance with Media Services' request. Among the borrowers' covenants in the Media Services Credit Facility is one requiring the borrowers to maintain a minimum fixed charge coverage ratio (as defined). 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 the borrowing group's parent that is not a party to the Media Services Credit Facility. At October 31, 2012, the borrowing availability under the Media Services Credit Facility was $13,601,000, and there was $5,098,000 outstanding against this availability. The highest amount borrowed during the quarter ended October 31, 2012 was $5,668,000.

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%, 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% plus a margin of 2% (that is, not less than 5%). 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%, which may be reduced to 2.75% depending on the borrowers' financial condition.

AMREP Southwest has a non-revolving loan (the "ASW Loan") which in August 2012 had and continues to have an outstanding principal amount of $16,214,000. The ASW Loan was scheduled to mature on September 1, 2012. In August 2012, a company (the "New Lender") wholly-owned by the Vice Chairman of the Company's Board of Directors and holder of more than 40% of its outstanding shares purchased the ASW Loan from the bank that made it and agreed to extend its maturity to December 1, 2012 on its existing terms except for the elimination of a requirement that a portion of proceeds received by AMREP Southwest from real estate sales be applied to the principal. Another director and holder of more than 10% of the Company's outstanding shares purchased a 20% participation in the ASW Loan from the New Lender. In November 2012, the terms of the ASW Loan were further amended effective December 1, 2012 (the "December 2012 Amendment"). The maturity of the ASW Loan has been extended by five years to December 1, 2017. From December 1, 2012, the ASW Loan bears interest monthly at 8.5% per annum. No payments of principal are required until maturity except that on a quarterly basis AMREP Southwest is required to make principal payments in an amount equal to 25% of the net cash from sales of land (as defined) it received in the prior quarter. As additional security for the ASW Loan, the New Lender has received a pledge of the stock of AMREP Southwest's wholly-owned subsidiary, Outer Rim Investments, Inc., and a first mortgage on the land AMREP Southwest owns in Rio Rancho, New Mexico that was not previously mortgaged to secure the ASW Loan. Outer Rim Investments, Inc. owns approximately 12,000 acres of land in Sandoval County, New Mexico, largely comprised of scattered lots, which at present is not being actively offered for sale. A sale transaction by AMREP Southwest of the newly

mortgaged land for more than $50,000 or of any AMREP Southwest-owned land other than land zoned and designated as a residential classification for more than $100,000 requires the New Lender's approval. Otherwise, the New Lender is required to release the lien of its mortgage on any land being sold by AMREP Southwest in the ordinary course to an unrelated party on terms AMREP Southwest believes to be commercially reasonable and at a price AMREP Southwest believes to be not less than the land's fair market value or, in the case of the newly mortgaged land, its wholesale value, upon receipt of AMREP Southwest's certification to such effect. The ASW Loan may be prepaid at any time without premium or penalty except that if the prepayment is in connection with the disposition of AMREP Southwest or substantially all of its assets there is a prepayment premium, initially 5% of the amount prepaid, with the percentage declining by 1% each year. The ASW Loan continues to contain a number of covenants and restrictions, including a requirement that AMREP Southwest maintain a cash reserve of not less than $500,000 in the control of the New Lender to fund interest payments and covenants requiring AMREP Southwest to maintain a minimum tangible net worth (as defined) and restricting AMREP Southwest from making any distributions or other payments to the Company beyond a stated management fee, which management fee AMREP Southwest is not currently paying to the Company.

Prior to December 1, 2012, the interest on the ASW Loan was at the fluctuating rate of reserve adjusted 30-day LIBOR (0.212% at October 31, 2012) plus 3.5%, but not less than 5%. At October 31, 2012, the interest rate was 5% and the cash reserve was $529,000. Prior to its purchase by the New Lender, the ASW Loan was secured by a mortgage on certain real property of AMREP Southwest with a book value of approximately $55,000,000, which mortgage remains in place in favor of the New Lender in addition to the new collateral that the New Lender received in connection with the December 2012 Amendment, and the terms of the ASW Loan included a requirement, eliminated by the December 2012 Amendment, that the appraised value of the collateral be at least 2.5 times the outstanding principal of the loan.

At October 31, 2012, the borrowers under both the Media Services Credit Facility and the ASW Loan were in compliance with the covenants of each facility.

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 October 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	$25,732	$139	$5,354	$272	$19,967
Operating leases and other	15,370	5,066	9,890	414	-
Total	$41,102	$5,205	$15,244	$686	$19,967

The Notes payable obligation is based on the renegotiated terms of the ASW Loan, which were effective on December 1, 2012. 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) $8,700,000 of accelerated pension funding as described above in the second paragraph under this Liquidity and Capital Resources section and (iii) $269,000 for the liability for uncertain tax positions and related accrued interest recorded in accordance with Accounting Standards Codification 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

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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”, “p “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 finance its future working capital and capital expenditure needs, (iii) the possible return of grant monies to the State of Florida and (iv) the material adverse effect in the event of the future loss of a specified material customer contract. 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 and to the development in that case reported in Item 1 of Part II of the Company's Quarterly Report on Form 10-Q filed September 13, 2012. On September 24, 2012, Kable Distribution Services, Inc. filed its answer to the amended complaint denying all allegations of wrongdoing against it. On October 9, 2012, the defendants filed a Petition for a Writ of Certiorari seeking review by the U.S. Supreme Court of the decision of the U.S. Second Circuit Court of Appeals vacating the U.S. District Court's judgment granting the defendants' motion to dismiss and denying the plaintiffs leave to file an amended complaint. Discovery in the case has started.

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 September 2012, the parties concluded the settlement of that proceeding, the agreement in principle for which was reported in Item 1 of Part II of the Company's Quarterly Report on Form 10-Q filed September 13, 2012.

Reference is made to the Distribution Integrated Services, Inc. v. Kable Distribution Services, Inc.; Island Periodicals Puerto Rico, LLC lawsuit, which is described in subdivision C of Item 3 of Part I of the 2012 Form 10-K. In September 2012, an intermediate appellate court reversed the previous decision of the lower court denying the plaintiff's request for a preliminary injunction restoring the plaintiff as Kable's subdistributor while the lawsuit continues. The defendants have appealed the intermediate appellate court's action to the Puerto Rico Supreme Court and issuance of the preliminary injunction has been stayed pending the outcome of the appeal.

Item 6. Exhibits

Exhibit No.	Description
3.2	By-Laws, as amended.
10.1	Incentive compensation plan for Michael P. Duloc for fiscal 2013.*
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

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: December 12, 2012	AMREP CORPORATION (Registrant)
	By: /s/ Peter M. Pizza Peter M. Pizza Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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