

GEORGE RISK INDUSTRIES, INC.

Form 10-Q

December 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarter ended October 31, 2017

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-05378

GEORGE RISK INDUSTRIES, INC.

(Exact name of small business issuer as specified in its charter)

Colorado

84-0524756

(State of incorporation) (IRS Employers Identification No.)

802 South Elm St.
Kimball, NE 69145
(Address of principal executive offices) (Zip Code)

(308) 235-4645

(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the Registrant's Common Stock outstanding, as of December 19, 2017 was 3,533,834.

Transitional Small Business Disclosure Format: Yes No

GEORGE RISK INDUSTRIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited financial statements for the three and six-month period ended October 31, 2017, are attached hereto.

GEORGE RISK INDUSTRIES, INC.

CONDENSED BALANCE SHEETS

| | October 31, 2017 (unaudited) | April 30, 2017 |
|--|------------------------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$6,324,000 | \$6,456,000 |
| Investments and securities | 25,897,000 | 26,382,000 |
| Accounts receivable: | | |
| Trade, net of \$2,425 and \$2,425 doubtful account allowance | 2,212,000 | 1,848,000 |
| Other | — | 3,000 |
| Income tax overpayment | 127,000 | 253,000 |
| Inventories, net | 3,593,000 | 2,304,000 |
| Prepaid expenses | 254,000 | 193,000 |
| Total Current Assets | \$38,407,000 | \$37,439,000 |
| Property and Equipment, net, at cost | 979,000 | 739,000 |
| Other Assets | | |
| Investment in Limited Land Partnership, at cost | 273,000 | 273,000 |
| Projects in process | 1,000 | 13,000 |
| Other | 77,000 | — |
| Total Other Assets | \$351,000 | \$286,000 |
| Intangible Assets, net | 1,824,000 | — |
| TOTAL ASSETS | \$41,561,000 | \$38,464,000 |

See accompanying notes to the condensed financial statements.

GEORGE RISK INDUSTRIES, INC.

CONDENSED BALANCE SHEETS

| | October 31, 2017 (unaudited) | April 30, 2017 |
|---|------------------------------------|---------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable, trade | \$ 166,000 | \$ 69,000 |
| Asset acquisition payable | 2,000,000 | — |
| Dividends payable | 1,580,000 | 1,416,000 |
| Accrued expenses: | | |
| Deferred income taxes | 275,000 | 308,000 |
| Total Current Liabilities | \$4,021,000 | \$1,793,000 |
| Long-Term Liabilities | | |
| Deferred income taxes | 1,408,000 | 906,000 |
| Total Long-Term Liabilities | \$1,408,000 | \$906,000 |
| Commitments and Contingencies | — | — |
| Stockholders' Equity | | |
| Convertible preferred stock, 1,000,000 shares authorized, Series 1—noncumulative, \$20 stated value, 25,000 shares authorized, 4,100 issued and outstanding | 99,000 | 99,000 |
| Common stock, Class A, \$.10 par value, 10,000,000 shares authorized, 8,502,881 shares issued and outstanding | 850,000 | 850,000 |
| Additional paid-in capital | 1,933,000 | 1,736,000 |
| Accumulated other comprehensive income | 1,949,000 | 1,239,000 |
| Retained earnings | 35,441,000 | 35,981,000 |
| Less: treasury stock, 3,533,834 and 3,557,606 shares, at cost | (4,140,000) | (4,140,000) |
| Total Stockholders' Equity | \$36,132,000 | \$35,765,000 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$41,561,000 | \$38,464,000 |

See accompanying notes to the condensed financial statements

GEORGE RISK INDUSTRIES, INC.

CONDENSED INCOME STATEMENTS (Unaudited)

| | Three months ended Oct 31, 2017 | Six months ended Oct 31, 2017 | Three months ended Oct 31, 2016 | Six months ended Oct 31, 2016 |
|---|---|--|---|--|
| Net Sales | \$3,089,000 | \$5,337,000 | \$2,883,000 | \$5,549,000 |
| Less: Cost of Goods Sold | (1,416,000) | (2,511,000) | (1,284,000) | (2,670,000) |
| Gross Profit | \$1,673,000 | \$2,826,000 | \$1,599,000 | \$2,879,000 |
| Operating Expenses | | | | |
| General and Administrative | 290,000 | 519,000 | 230,000 | 441,000 |
| Sales | 443,000 | 859,000 | 487,000 | 971,000 |
| Engineering | 35,000 | 48,000 | 24,000 | 42,000 |
| Rent Paid to Related Parties | 4,000 | 9,000 | 4,000 | 9,000 |
| Total Operating Expenses | \$772,000 | \$1,435,000 | \$745,000 | \$1,463,000 |
| Income From Operations | 901,000 | 1,391,000 | 854,000 | 1,416,000 |
| Other Income (Expense) | | | | |
| Other | 1,000 | 3,000 | 7,000 | 10,000 |
| Dividend and Interest Income | 155,000 | 434,000 | 126,000 | 318,000 |
| Gain (Loss) on Investments | 9,000 | (28,000) | 38,000 | 85,000 |
| Gain (Loss) on Sale of Assets | — | 4,000 | — | — |
| | \$165,000 | \$413,000 | \$171,000 | \$413,000 |
| Income Before Provisions for Income Taxes | 1,066,000 | 1,804,000 | 1,025,000 | 1,829,000 |
| Provisions for Income Taxes: | | | | |
| Current Expense | (360,000) | (572,000) | (325,000) | (583,000) |
| Deferred Tax Benefit (Expense) | 16,000 | 8,000 | (8,000) | 13,000 |
| Total Income Tax Expense | \$(344,000) | \$(564,000) | \$(333,000) | \$(570,000) |
| Net Income | \$722,000 | \$1,240,000 | \$692,000 | \$1,259,000 |
| Cash Dividends | | | | |
| Common Stock (\$0.36 per share) | \$1,780,000 | \$1,780,000 | | |
| Common Stock (\$0.35 per share) | | | \$1,758,000 | \$1,758,000 |
| Income Per Share of Common Stock | | | | |
| Basic | \$0.15 | \$0.25 | \$0.14 | \$0.25 |
| Diluted | \$0.15 | \$0.25 | \$0.14 | \$0.25 |

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Weighted Average Number of Common Shares Outstanding

| | | | | |
|---------|-----------|-----------|-----------|-----------|
| Basic | 4,953,070 | 4,949,081 | 5,021,660 | 5,021,701 |
| Diluted | 4,973,570 | 4,969,581 | 5,042,160 | 5,042,201 |

See accompanying notes to the condensed financial statements

GEORGE RISK INDUSTRIES, INC.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

| | Three months ended Oct 31, 2017 | Six months ended Oct 31, 2017 | Three months ended Oct 31, 2016 | Six months ended Oct 31, 2016 |
|---|---|--|---|--|
| Net Income | \$ 722,000 | \$ 1,240,000 | \$ 692,000 | \$ 1,259,000 |
| Other Comprehensive Income, net of tax | | | | |
| Unrealized gain (loss) on securities: | | | | |
| Unrealized holding gains (losses) arising during period | 709,000 | 1,338,000 | (376,000) | 168,000 |
| Reclassification adjustment for gains (losses) included in net income | (32,000) | (117,000) | (7,000) | (25,000) |
| Income tax benefit (expense) related to other comprehensive income | (283,000) | (510,000) | 160,000 | (60,000) |
| Other Comprehensive Income | \$ 394,000 | \$ 711,000 | \$ (223,000) | \$ 83,000 |
| Comprehensive Income | \$ 1,116,000 | \$ 1,951,000 | \$ 469,000 | \$ 1,342,000 |

See accompanying notes to the condensed financial statements

GEORGE RISK INDUSTRIES, INC.

CONDENSED STATEMENT OF CASH FLOWS (Unaudited)

| | Six months ended Oct 31, 2017 | Six months ended Oct 31, 2016 |
|---|-------------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 1,240,000 | \$ 1,259,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 86,000 | 91,000 |
| (Gain) loss on sale of investments | 6,000 | (98,000) |
| Impairments on investments | 23,000 | 13,000 |
| Reserve for obsolete inventory | — | 15,000 |
| Deferred income taxes | (9,000) | (13,000) |
| (Gain) loss on sale of assets | (4,000) | — |
| Treasury stock issued | 200,000 | — |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (364,000) | 53,000 |
| Inventories | (1,290,000) | 286,000 |
| Prepaid expenses | (139,000) | 12,000 |
| Other receivables | 3,000 | — |
| Income tax overpayment | 127,000 | (2,000) |
| Increase (decrease) in: | | |
| Accounts payable | 98,000 | 97,000 |
| Accrued expenses | (33,000) | (16,000) |
| Asset acquisition payable | 2,000,000 | — |
| Net cash provided by (used in) operating activities | \$ 1,944,000 | \$ 1,697,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of assets | 4,000 | — |
| (Purchase) of property and equipment | (314,000) | (70,000) |
| Proceeds from sale of marketable securities | 2,002,000 | 37,000 |
| (Purchase) of marketable securities | (324,000) | (373,000) |
| (Purchase) of intangible assets | (1,824,000) | — |
| (Purchase) of long-term investment | — | (20,000) |
| Net cash provided by (used in) investing activities | \$ (456,000) | \$ (426,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| (Purchase) of treasury stock | (3,000) | (1,000) |
| Dividends paid | (1,617,000) | (1,596,000) |
| Net cash provided by (used in) financing activities | \$ (1,620,000) | \$ (1,597,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$ (132,000) | \$ (326,000) |

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| | | |
|--|--------------|-------------|
| Cash and Cash Equivalents, beginning of period | \$ 6,456,000 | \$5,918,000 |
| Cash and Cash Equivalents, end of period | \$ 6,324,000 | \$5,592,000 |

Supplemental Disclosure for Cash Flow Information:

Cash payments for:

| | | |
|---------------|------------|-----------|
| Income taxes | \$ 440,000 | \$706,000 |
| Interest paid | \$ 0 | \$0 |

Cash receipts for:

| | | |
|--------------|------|-----|
| Income taxes | \$ 0 | \$0 |
|--------------|------|-----|

Supplemental Disclosure of Noncash Investing and Financing Activities:

| | | |
|---|------------|---|
| Issuance of treasury stock as part of asset acquisition | \$ 200,000 | 0 |
|---|------------|---|

See accompanying notes to the condensed financial statements

GEORGE RISK INDUSTRIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

OCTOBER 31, 2017

Note 1 Unaudited Interim Financial Statements

The accompanying financial statements have been prepared in accordance with the instructions for Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2017 annual report on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year.

Accounting Estimates—The preparation of these financial statements requires the use of estimates and assumptions including the carrying value of assets. The estimates and assumptions result in approximate rather than exact amounts.

Recently Issued Accounting Pronouncements — In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The objective of this update is to provide a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This update is effective in annual reporting periods beginning after December 15, 2017 and the interim periods within that year. The Company is evaluating the impact of this update on the Company's financial statements.

In February of 2016, the FASB issued ASU 2016-02 *Leases*. Under the new guidance, lessees will be required to recognize so-called right-of-use assets and liabilities for most leases having lease terms of 12 months or more. This update is effective in annual reporting periods beginning after December 31, 2019 and the interim periods starting thereafter. The Company is evaluating the impact of this update on the Company's financial statements.

Note 2 Investments

The Company has investments in publicly traded equity securities, corporate bonds, state and municipal debt securities, real estate investment trusts, and money markets funds. The investments in securities are classified as

available-for-sale securities, and are reported at fair value. Available-for-sale investments in debt securities mature between December 2017 and November 2048. The Company uses the average cost method to determine the cost of securities sold and the amount reclassified out of accumulated other comprehensive income into earnings. Unrealized gains and losses are excluded from earnings and reported separately as a component of stockholders' equity. Dividend and interest income are reported as earned.

As of October 31, 2017 and April 30, 2017, investments consisted of the following:

| Investments at | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------|--------------|------------------------------|-------------------------------|---------------|
| October 31, 2017 | | | | |
| Municipal bonds | \$6,060,000 | \$111,000 | \$(218,000) | \$5,953,000 |
| Corporate bonds | \$129,000 | \$2,000 | \$- | \$131,000 |
| REITs | \$110,000 | \$2,000 | \$(5,000) | \$107,000 |
| Equity securities | \$15,474,000 | \$3,700,000 | \$(243,000) | \$18,931,000 |
| Money markets and CDs | \$775,000 | \$- | \$- | \$775,000 |
| Total | \$22,548,000 | \$3,815,000 | \$(466,000) | \$25,897,000 |

| Investments at | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------|--------------|------------------------------|-------------------------------|---------------|
| April 30, 2017 | | | | |
| Municipal bonds | \$6,045,000 | \$90,000 | \$(97,000) | \$6,038,000 |
| Corporate bonds | \$129,000 | \$1,000 | \$— | \$130,000 |
| REITs | \$64,000 | \$13,000 | \$(1,000) | \$76,000 |
| Equity securities | \$15,259,000 | \$2,441,000 | \$(319,000) | \$17,381,000 |
| Money markets and CDs | \$2,757,000 | \$— | \$— | \$2,757,000 |
| Total | \$24,254,000 | \$2,545,000 | \$(417,000) | \$26,382,000 |

The Company evaluates all marketable securities for other-than temporary declines in fair value, which are defined as when the cost basis exceeds the fair value for approximately one year. The Company also evaluates the nature of the investment, cause of impairment and number of investments that are in an unrealized position. When an “other-than-temporary” decline is identified, the Company will decrease the cost of the marketable security to the new fair value and recognize a real loss. The investments are periodically evaluated to determine if impairment changes are required. As a result of this standard, management recorded an impairment loss of \$23,000 for both the quarter and six-months ended October 31, 2017. As for the corresponding periods last year, management did not record a loss for the quarter, but did record a \$13,000 impairment loss for the six months ended October 31, 2016.

The following table shows the investments with unrealized losses that are not deemed to be “other-than-temporarily impaired”, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at October 31, 2017 and April 30, 2017, respectively.

Unrealized Loss Breakdown by Investment Type at October 31, 2017

| Description | Less than 12 months | | 12 months or greater | | Total | |
|-------------------|---------------------|-----------------|----------------------|-----------------|-------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Municipal bonds | \$780,000 | \$(149,000) | \$1,168,000 | \$(69,000) | \$1,948,000 | \$(218,000) |
| REITs | \$22,000 | \$(1,000) | \$25,000 | \$(4,000) | \$47,000 | \$(5,000) |
| Equity securities | \$562,000 | \$(75,000) | \$943,000 | \$(168,000) | \$1,505,000 | \$(243,000) |
| Total | \$1,364,000 | \$(225,000) | \$2,136,000 | \$(241,000) | \$3,500,000 | \$(466,000) |

Unrealized Loss Breakdown by Investment Type at April 30, 2017

| Description | Less than 12 months | | 12 months or greater | | Total | |
|-------------------|---------------------|-----------------|----------------------|-----------------|-------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Municipal bonds | \$1,420,000 | \$(19,000) | \$1,292,000 | \$(78,000) | \$2,712,000 | \$(97,000) |
| REITs | \$— | \$— | \$27,000 | \$(1,000) | \$27,000 | \$(1,000) |
| Equity securities | \$983,000 | \$(92,000) | \$1,689,000 | \$(227,000) | \$2,672,000 | \$(319,000) |
| Total | \$2,403,000 | \$(111,000) | \$3,008,000 | \$(306,000) | \$5,411,000 | \$(417,000) |

Municipal Bonds

The unrealized losses on the Company’s investments in municipal bonds were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at October 31, 2017.

Marketable Equity Securities and REITs

The Company's investments in marketable equity securities and REITs consist of a wide variety of companies. Investments in these companies include growth, growth income, and foreign investment objectives. The individual holdings have been evaluated, and due to management's plan to hold on to these investments for an extended period, the Company does not consider these investments to be other-than-temporarily impaired at October 31, 2017

Note 3 Inventories

Inventories at October 31, 2017 and April 30, 2017 consisted of the following:

| | October 31, 2017 | April 30, 2017 |
|--|---------------------|-------------------|
| Raw materials | \$2,804,000 | \$1,579,000 |
| Work in process | 569,000 | 442,000 |
| Finished goods | 293,000 | 356,000 |
| | 3,666,000 | 2,377,000 |
| Less: allowance for obsolete inventory | (73,000) | (73,000) |
| Totals | \$3,593,000 | \$2,304,000 |

Note 4 Asset Purchase

In October 2017, George Risk Industries, Inc. (the “Company”) purchased assets from Labor Saving Devices, Inc. (“LSDI”). The purchase price for the assets consisted of \$3,000,000 in cash and 24,097 shares of the Company’s Class A common stock (valued at \$200,000, or approximately \$8.30 per share). An initial payment of \$1,000,000 in cash was made at closing, with the remaining \$2,000,000 in cash paid in November 2017.

The value of the assets purchased as described above at October 31, 2017 consisted of the following:

| Type of Assets | Beginning Balance | Amortization | Total Assets, Net |
|-----------------------|----------------------|--------------|----------------------|
| Inventory | \$1,366,000 | — | \$1,366,000 |
| Fixed Assets | \$10,000 | — | \$10,000 |
| Non-compete agreement | \$10,000 | — | \$10,000 |
| Intangible assets | \$1,814,000 | — | \$1,814,000 |
| Total | \$3,200,000 | — | \$3,200,000 |

Since the asset purchase took place in October 2017, there was no value to these assets at April 30, 2017.

Note 5 Business Segments

The following is financial information relating to industry segments:

| | Three months ended Oct 31, 2017 | Six months ended Oct 31, 2017 | Three months ended Oct 31, 2016 | Six months ended Oct 31, 2016 |
|-------------------------------------|---|--|---|--|
| Net revenue: | | | | |
| Security alarm products | \$2,170,000 | \$3,967,000 | \$2,473,000 | \$4,746,000 |
| Other products | 919,000 | 1,370,000 | 410,000 | 803,000 |
| Total net revenue | \$3,089,000 | \$5,337,000 | \$2,883,000 | \$5,549,000 |
| Income from operations: | | | | |
| Security alarm products | 670,000 | 1,034,000 | 732,000 | 1,211,000 |
| Other products | 231,000 | 357,000 | 122,000 | 205,000 |
| Total income from operations | \$901,000 | \$1,391,000 | \$854,000 | \$1,416,000 |
| Depreciation and amortization: | | | | |
| Security alarm products | 10,000 | 17,000 | 7,000 | 21,000 |
| Other products | 21,000 | 43,000 | 28,000 | 53,000 |
| Corporate general | 14,000 | 26,000 | 12,000 | 17,000 |
| Total depreciation and amortization | \$45,000 | \$86,000 | \$47,000 | \$91,000 |
| Capital expenditures: | | | | |
| Security alarm products | 50,000 | 260,000 | — | — |
| Other products | 10,000 | 10,000 | 17,000 | 64,000 |
| Corporate general | 44,000 | 44,000 | 2,000 | 6,000 |
| Total capital expenditures | \$104,000 | \$314,000 | \$19,000 | \$70,000 |
| | October 31, 2017 | April 30, 2017 | | |
| Identifiable assets: | | | | |
| Security alarm products | 4,256,000 | 3,180,000 | | |
| Other products | 2,254,000 | 1,517,000 | | |
| Corporate general | 35,051,000 | 33,767,000 | | |
| Total assets | \$41,561,000 | \$38,464,000 | | |

Note 6 Earnings per Share

Basic and diluted earnings per share, assuming convertible preferred stock was converted for each period presented, are:

| | For the three months ended October 31, 2017 | | |
|---|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net Income | \$722,000 | | |
| Basic EPS | \$722,000 | 4,953,070 | \$.1458 |
| Effect of dilutive securities: Convertible preferred stock | 0 | 20,500 | (.0006) |
| Diluted EPS | \$722,000 | 4,973,570 | \$.1452 |

| | For the six months ended October 31, 2017 | | |
|---|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net Income | \$1,240,000 | | |
| Basic EPS | \$1,240,000 | 4,949,081 | \$.2506 |
| Effect of dilutive securities: Convertible preferred stock | 0 | 20,500 | (.0011) |
| Diluted EPS | \$1,240,000 | 4,969,581 | \$.2595 |

| | For the three months ended October 31, 2016 | | |
|---|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net Income | \$692,000 | | |
| Basic EPS | \$692,000 | 5,021,660 | \$.1378 |
| Effect of dilutive securities: Convertible preferred stock | 0 | 20,500 | (.0006) |

| | | | |
|-------------|-----------|-----------|---------|
| Diluted EPS | \$692,000 | 5,042,160 | \$.1372 |
|-------------|-----------|-----------|---------|

| | For the six months ended October 31, 2016 | | |
|---|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net Income | \$1,259,000 | | |
| Basic EPS | \$1,259,000 | 5,021,701 | \$.2507 |
| Effect of dilutive securities: Convertible preferred stock | 0 | 20,500 | (.0010) |
| Diluted EPS | \$1,259,000 | 5,042,201 | \$.2497 |

Note 7 Retirement Benefit Plan

On January 1, 1998, the Company adopted the George Risk Industries, Inc. Retirement Savings Plan (the "Plan"). The Plan is a defined contribution savings plan designed to provide retirement income to eligible employees of the corporation. The Plan is intended to be qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. Matching contributions by the Company of approximately \$3,000 were paid during both the quarters ending October 31, 2017 and 2016, respectively. Likewise, the Company paid matching contributions of approximately \$5,000 during both the six-month periods ending October 31, 2017 and 2016, respectively.

Note 8 Fair Value Measurements

Generally accepted accounting principles in the United States of America (US GAAP) defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The levels of the fair value hierarchy under US GAAP are described below:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Investments and Marketable Securities

As of October 31, 2017, our investments consisted of money markets, publicly traded equity securities, real estate investment trusts (REITs) as well as certain state and municipal debt securities and corporate bonds. Our marketable securities are valued using third-party broker statements. The value of the investments is derived from quoted market information. The inputs to the valuation are generally classified as Level 1 given the active market for these securities, however, if an active market does not exist, which is the case for municipal bonds and REITs, the inputs are recorded as Level 2.

Fair Value Hierarchy

The following table sets forth our assets and liabilities measured at fair value on a recurring basis and a non-recurring basis by level within the fair value hierarchy. As required by US GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets Measured at Fair Value on a Recurring
Basis as of
October 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|-------------|------------|--------------|
| Assets: | | | | |
| Municipal Bonds | \$- | \$5,953,000 | \$ - | \$5,953,000 |
| Corporate Bonds | \$131,000 | \$- | \$ - | \$131,000 |
| REITs | \$- | \$107,000 | \$ - | \$107,000 |
| Equity Securities | \$18,931,000 | \$- | \$ - | \$18,931,000 |
| Money Markets and CDs | \$775,000 | \$- | \$ - | \$775,000 |
| Total fair value of assets measured on a recurring basis | \$19,837,000 | \$6,060,000 | \$ - | \$25,897,000 |

Assets Measured at Fair Value on a Recurring
Basis as of
April 30, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|-------------|------------|--------------|
| Assets: | | | | |
| Municipal Bonds | \$— | \$6,038,000 | \$ — | \$6,038,000 |
| Corporate Bonds | \$130,000 | \$— | \$ — | \$130,000 |
| REITs | \$— | \$76,000 | \$ — | \$76,000 |
| Equity Securities | \$17,381,000 | \$— | \$ — | \$17,381,000 |
| Money Markets and CDs | \$2,757,000 | \$— | \$ — | \$2,757,000 |
| Total fair value of assets measured on a recurring basis | \$20,268,000 | \$6,114,000 | \$ — | \$26,382,000 |

Note 9 Subsequent Events

None

GEORGE RISK INDUSTRIES, INC.

PART I. FINANCIAL INFORMATION

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

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MANAGEMENT DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the “safe harbor” created by those sections. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as “may,” “will,” “could,” “would,” “should,” “anticipate,” “expect,” “intend,” “believe,” “estimate,” “project” or “continue,” and the negatives of such terms are intended to identify forward-looking statements. The information included herein represents our estimates and assumptions as of the date of this filing. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

The following discussion should be read in conjunction with the attached condensed financial statements, and with the Company’s audited financial statements and discussion for the fiscal year ended April 30, 2017.

Executive Summary

The Company’s performance has remained consistent through the first half of the fiscal year and even seeing a bit of growth during the second quarter. This is due to the continuation of our quality USA made products with the ability for customization, our notable customer service, and the purchase of the assets of Labor Saving Devices, Inc. Additionally, impressive performance in the stock market has generated adequate returns on the marketable securities. Challenges in the coming months include continuing to learn about and train employees on the new computer software, with the hopes of getting our facilities running more lean and profitable than ever before and growing the business.

Results of Operations

Net sales were \$3,089,000 for the quarter ended October 31, 2017, which is a 7.15% increase from the corresponding quarter last year. Year-to-date net sales were \$5,337,000 at October 31, 2017, which is a 3.82% decrease from the same period last year. The slight variations in sales shows the stability of the Company and loyalty of its customer base. Our ongoing commitment to outstanding customer service and customization of

products are a few of the many reasons sales remained relatively constant. Also, new sales are emerging since GRI acquired the assets of the Labor Saving Devices. Direct competition and the inability to bring new products to market in a timelier manner are a few of the reasons why management believes sales haven't grown more.

Cost of goods sold was 45.84% of net sales for the quarter ended October 31, 2017 and was 44.54% for the same quarter last year. Year-to-date cost of goods sold percentages were 47.05% for the current six months and 48.12% for the corresponding six months last year, keeping within the target of less than 50% for both the quarter and year-to-date results.

Operating expenses were up \$27,000 for the quarter and were down \$28,000 for the six-months ended October 31, 2017 as compared to the corresponding periods last year. These increased costs for the quarter are primarily due to new product development, increased commissions, and training on our new computer software. The Company has been able to keep the operating expenses at less than 30% of net sales for many years; however, the effects of paying for training of the new computer software and currently paying maintenance and support fees on two software platforms has added to these expenses. Management is hopefully that the increased sales of the new product lines will help keep operating expenses down.

Income from operations for the quarter ended October 31, 2017 was at \$901,000 which is a 5.5% increase from the corresponding quarter last year, which had income from operations of \$854,000. Income from operations for the six months ended October 31, 2017 was at \$1,391,000, which is a 1.77% decrease from the corresponding six months last year, which had income from operations of \$1,416,000.

Other income and expenses are down slightly and remained steady when comparing to the current quarter and six-month periods in the prior year, with a decrease of \$6,000 in the current quarter and no change for the current year-to-date. The majority of activity in these accounts consists of investment interest, dividends, and gain or loss on sale of investments. With the recent uptick in the performance of the stock market, decisions were made to sell holdings that were not strong performers, so losses were realized. This has been offset by increased dividends and interest.

Overall, net income for the quarter ended October 31, 2017 was up \$41,000, or 4.0%, from the same quarter last year. Conversely, net income for the six-month period ended October 31, 2017 was down \$19,000, or 1.51%, from the same period in the prior year.

Earnings per common share for quarter ended October 31, 2017 were \$0.15 per share and \$0.25 per share for the year-to-date period. EPS for the quarter and six months ended October 31, 2016 were \$0.14 per share and \$0.25 per share, respectively.

Liquidity and capital resources

Operating

Net cash decreased \$132,000 during the six months ended October 31, 2017 as compared to a decrease of \$339,000 during the corresponding period last year.

Accounts receivable increased \$364,000 for the six months ended October 31, 2017 compared with a \$53,000 decrease for the same period last year. The current year increase is a result of improved sales during the second quarter and collections on accounts receivable taking a bit longer than normal.

Inventories increased \$1,290,000 during the current six-month period as compared to a \$286,000 decrease last year, primarily due to the inventory purchased from Labor Saving Devices.

Prepaid expenses saw a \$139,000 increase for the current six months, primarily due to a large amount of inventory that has been paid for but not delivered yet. The prior six months showed a \$12,000 decrease in prepaid expenses.

Income tax overpayment for the period ended October 31, 2017 decreased \$127,000, while there was an increase of \$2,000 for the same period the prior year. Management usually pays income tax estimates in the same amounts that were actually taxed on for the prior year when we don't expect a huge fluctuation in income and since net income up to this point is close to the same as last year, the estimates are a close match to the actual expense.

Accounts payable shows increases for both six-month periods at \$98,000 and \$97,000, respectively. The company strives to pay all invoices within terms, and the slight variance in the increases is primarily due to the timing of receipt of products and payment of invoices.

Accrued expenses decreased \$33,000 for the current six-month period as compared to a \$16,000 decrease for the six-month period ended October 31, 2016.

Asset acquisition payable increased by \$2,000,000 for the current six-month period in comparison to not having this payable on the books for the corresponding period last year. This line item corresponds with the asset acquisition of Labor Saving Devices. A down payment was made at the close of the agreement, which occurred in October 2017, and the rest of the funds were due to Labor Saving Devices upon the completion of the delivery of the assets to GRI.

Investing

As for our investment activities, the Company spent approximately \$314,000 on acquisitions of property and equipment for the current six-month period, in comparison to the corresponding six months last year, where there was activity of \$70,000.

As a result of the asset acquisition of Labor Saving Devices, Inc. (“LSDI”), there were \$1,824,000 worth of intangible assets that were bought, along with inventory and fixed assets. Since the acquisition took place in the current quarter, there was no cash towards this item for the same reporting period last year.

Additionally, the Company continues to purchase marketable securities, which include municipal bonds and quality stocks. During the six-month period ended October 31, 2017 there was quite a bit of buy/sell activity in the investment accounts. Net cash spent on purchases of marketable securities for the six-month period ended October 31, 2017 was \$324,000 compared to \$373,000 spent in the prior six-month period. We continue to use “money manager” accounts for most stock transactions. By doing this, the Company gives an independent third-party firm, who are experts in this field, permission to buy and sell stocks at will. The Company pays a quarterly service fee based on the value of the investments.

Financing

The Company continues to purchase back common stock when the opportunity arises. For the six-month period ended October 31, 2017, the Company purchased \$3,000 worth of treasury stock, in comparison to \$1,000 repurchased in the corresponding six-month period last year.

The company declared a dividend of \$0.36 per share of common stock on September 30, 2017, which was paid out during the second quarter. This is a slight increase to the dividend of \$0.35, which was declared and paid during the second fiscal quarter last year.

The following is a list of ratios to help analyze George Risk Industries’ performance:

| | For the quarter ended | |
|--|-----------------------|---------------------|
| | October 31, 2017 | October 31, 2016 |
| Working capital | \$34,386,000 | \$33,469,000 |
| (current assets – current liabilities) | | |
| Current ratio | 9.552 | 17.760 |
| (current assets / current liabilities) | | |
| Quick ratio | 8.563 | 16.297 |

((cash + investments + AR) / current liabilities)

New Product Development

The Company and its engineering department continue to develop enhancements to product lines, develop new products which complement existing products, and look for products that are well suited to our distribution network and manufacturing capabilities. Items currently in the development process include:

A new face plate for our pool alarms is nearing completion. The innovative design is slim in style and will also allow the homeowner to change the plate to match their décor.

An updated version of the pool access alarm is currently going through ETL testing. This next-generation model combines our battery operated DPA series with our hard wired 289 series. A variety of installation options will be available through jumper pin settings.

The case for our CC-15 is complete and has been submitted to U.L. for approval for the US and Canada. This will allow us to manufacture several different versions. One is a 15-amp version that would automatically turn on a whole room of lights. Another is a 220-volt version to be used in international markets.

We have completed two new low voltage switching devices and they have been introduced into the marketplace. The LVSD is a 2-amp, 12/24-VDC switching device that will power devices such as small motors, fans, sirens, strobes and LED lights. The LEDSD is a 2amp, 12/24-VDC controller with 2.1mm x 5.5mm connectors for use with LED lighting (puck, rope, strip, track and more). It can be used to turn on LED lighting in cabinets, display cases, closets, pantries, etc.

Mold work has been completed on connectors for our EZ-Duct line and these connectors are currently out for ETL testing. This will allow the raceway line to be ETL Listed for fire rating and high voltage. A new mold design for the cover of our 29-Series terminal switch is also being worked on.

We continue to work on high security switches. We have a triple biased high security switch design nearly complete and an adjustable magnet design was completed for recessed mounting applications.

We continue to research the possibilities of fuel level sensing and how that may also serve other agricultural based needs. Several companies from around the world have been looking for ways to secure fuel tanks and trucks. Our emphasis would be in ways to safely monitor fuel levels and report tampering.

A new float water sensor is being developed that will monitor water levels in livestock tanks and sump pumps.

Wireless technology is a main area of focus for product development. We are considering adding wireless technology to some of our current products. A wireless contact switch is in the final stages of development. Also, we are working on wireless versions of our Pool Alarm and environmental sensors that will be easy to install in current construction. We are also concentrating on making products compatible with Wi-Fi, smartphone technology and the increasing popular Z-Wave standard for wireless home automation.

An updated version of our 200-36 & 4532 overhead door switch line up is nearing completion with the new aluminum cases presently on order. The modified versions, the 200-36UF and 4532UP, are being made as a universal

fit switch. This will allow an installer to replace an existing switch without drilling new holes into the cement or adjusting the location. The modified case has an additional mounting hole along with reshaped mounting holes.

Two sizes of our custom power transfer device (PTDC) have been introduced. The PTDC series offers a secure way to channel electrical wiring from the door frame to the door and are used for powering exit bars, locks, electric strikes etc. GRI offers two different end pieces; 0.218" inside diameter and 0.313" inside diameter, which will allow different sizes of wire to be looped through the custom length armored cable.

Other Information

In addition to researching developing new products, management is always open to the possibility of acquiring a business or product line that would complement our existing operations. Due to the Company's strong cash position, management believes this could be achieved without the need for outside financing. The intent is to utilize the equipment, marketing techniques and established customers to deliver new products and increase sales and profits.

There are no known seasonal trends with any of GRI's products, since we sell to distributors and OEM manufacturers. Our products are tied to the housing industry and will fluctuate with building trends.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The objective of this update is to provide a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This update is effective in annual reporting periods beginning after December 15, 2017 and the interim periods within that year. The Company is evaluating the impact of this update on the Company's financial statements.

In February of 2016, the FASB issued ASU 2016-02 *Leases*. Under the new guidance, lessees will be required to recognize so-called right-of-use assets and liabilities for most leases having lease terms of 12 months or more. This update is effective in annual reporting periods beginning after December 31, 2019 and the interim periods starting thereafter. The Company is evaluating the impact of this update on the Company's financial statements.

GEORGE RISK INDUSTRIES, INC.

PART I. FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our chief executive officer (also working as our chief financial officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of October 31, 2017. Based on that evaluation, our chief executive officer (also working as our chief financial officer) concluded that the disclosure controls and procedures employed at the Company were not effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

We have taken measures to improve our disclosure controls and procedures. A new accounting professional was hired in October 2017 to fill the Controller position. Regarding this filing, more training will be required to fulfill disclosure control and procedure responsibilities, including review procedures for key accounting schedules and timely and proper documentation of material transactions and agreements. Until sufficient training has taken place of this new Controller, we believe this control deficiency represents material weaknesses in internal control over financial reporting.

Despite the material weaknesses in financial reporting noted above, we believe that our consolidated financial statements included in this report fairly present our financial position, results of operations and cash flows as of and for the periods presented in all material respects.

We are committed to the establishment of effective internal controls over financial reporting and will place emphasis on quarterly and year-end closing procedures, timely documentation and internal review of accounting and financial reporting consequences of material contracts and agreements, and enhanced review of all schedules and account

analyses by experienced accounting department personnel or independent consultants.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the fiscal quarter ended October 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GEORGE RISK INDUSTRIES, INC.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information relating to the Company's repurchase and issuance of common stock for the second quarter of fiscal year 2018. The issuance of the common stock was part of the asset acquisition of Labor Saving Devices that took place during the quarter.

| Period | Number of shares repurchased/(issued) |
|--|--|
| August 1, 2017 – August 31, 2017 | -0- |
| September 1, 2017 – September 30, 2017 | -0- |
| October 1, 2017 – October 31, 2017 | (24,097) |

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|---|
| 31.1 | <u>Certification of the Chief Executive Officer (Principal Financial and Accounting Officer), as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.1 | <u>Certification of the Chief Executive Officer (Principal Financial and Accounting Officer), as required by Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

George Risk Industries, Inc.
(Registrant)

Date December 19, 2017 By: */s/ Stephanie M. Risk-McElroy*
Stephanie M. Risk-McElroy
President, Chief Executive Officer, Chief Financial Officer and Chairman of the Board

