EDUCATIONAL DEVELOPMENT CORP
Form 10-Q
July 15, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2010

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 0-4957

EDUCATIONAL DEVELOPMENT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**73-0750007** (I.R.S. Employer Identification No.)
10302 East 55th Place, Tulsa, Oklahoma (Address of principal executive offices)	**74146-6515** (Zip Code)

Registrant s telephone number, including area code **(918) 622-4522**

Indicate by check mark whether the registrant (1) has filed all reports 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 o

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 (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of July 13, 2010 there were 3,884,020 shares of Educational Development Corporation Common Stock, $0.20 par value outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED BALANCE SHEETS (UNAUDITED)

	May 31, 2010		February 28, 2010	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	1,182,900	$	1,196,900
Accounts receivable, less allowance for doubtful accounts and sales returns $216,400 (May 31) and $231,300 (February 28)		3,155,800		3,305,500
Inventories Net		10,300,600		11,285,300
Prepaid expenses and other assets		276,100		268,400
Income tax receivable				8,000
Deferred income taxes		256,900		256,900
Total current assets		15,172,300		16,321,000
INVENTORIES Net		621,000		659,000
PROPERTY, PLANT AND EQUIPMENT Net		2,115,700		2,147,500
OTHER ASSETS		172,500		172,500
DEFERRED INCOME TAXES		61,900		60,400
TOTAL ASSETS	$	18,143,400	$	19,360,400
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	1,540,900	$	2,259,100
Accrued salaries and commissions		400,900		531,600
Current maturities of long-term debt		75,000		75,000
Income taxes payable		105,600		
Dividends payable		465,300		466,400
Other current liabilities		444,000		531,200
Total current liabilities		3,031,700		3,863,300
LONG-TERM NOTES PAYABLE, net of current maturities		75,000		75,000
COMMITMENTS				
SHAREHOLDERS EQUITY:				
Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 6,039,040 (May 31 and February 28) shares; Outstanding 3,874,804 (May 31) and 3,887,030 (February 28) shares		1,207,800		1,207,800
Capital in excess of par value		8,544,000		8,544,000
Retained earnings		17,114,600		17,391,700
		26,866,400		27,143,500

Less treasury stock, at cost		(11,829,700)		(11,721,400)
		15,036,700		15,422,100
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	18,143,400	$	19,360,400

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended May 31, 2010	Three Months Ended May 31, 2009
GROSS SALES	$ 8,776,000	$ 8,753,100
Less discounts and allowances	(2,744,400)	(2,640,400)
Transportation revenue	263,800	277,900
NET REVENUES	6,295,400	6,390,600
COST OF SALES	2,321,200	2,300,200
Gross margin	3,974,200	4,090,400
OPERATING EXPENSES:		
Operating and selling	1,707,500	1,583,500
Sales commissions	1,304,500	1,362,000
General and administrative	477,600	505,900
Casualty loss	188,500	
	3,678,100	3,451,400
OTHER INCOME	4,200	27,000
EARNINGS BEFORE INCOME TAXES	300,300	666,000
INCOME TAXES	112,100	250,600
NET EARNINGS	$ 188,200	$ 415,400
BASIC AND DILUTED EARNINGS PER SHARE:		
Basic	$ 0.05	$ 0.11
Diluted	$ 0.05	$ 0.11
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:		
Basic	3,876,603	3,843,847
Diluted	3,880,131	3,844,859

See notes to condensed financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

FOR THE THREE MONTHS ENDED MAY 31, 2010

	Common Stock (par value $0.20 per share)					Treasury Stock		
	Number of Shares Issued	Amount	Capital in Excess of Par Value	Retained Earnings	Number of Shares	Amount	Shareholders Equity
BALANCE March 1, 2010	6,039,040	$ 1,207,800	$ 8,544,000	$ 17,391,700	2,152,010	$ (11,721,400)	$ 15,422,100
Purchases of treasury stock					25,000	(165,200)	(165,200)
Sales of treasury stock					(12,774)	56,900	56,900
Dividends declared ($.12/share)				(465,300)			(465,300)
Net earnings				188,200			188,200
BALANCE May 31, 2010	6,039,040	$ 1,207,800	$ 8,544,000	$ 17,114,600	2,164,236	$ (11,829,700)	$ 15,036,700

See notes to condensed financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTHS ENDED MAY 31,

		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES:	$	560,700	$	(254,300)
CASH FLOWS FROM INVESTING ACTIVITIES:				
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash paid to acquire treasury stock		(165,200)		(3,100)
Cash received from sales of treasury stock		56,900		102,100
Dividends paid		(466,400)		(1,536,600)
Net cash used in financing activities		(574,700)		(1,437,600)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(14,000)		(1,691,900)
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD		1,196,900		2,896,200
CASH AND CASH EQUIVALENTS END OF PERIOD	$	1,182,900	$	1,204,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	$		$	410,000

See notes to condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 The information shown with respect to the three months ended May 31, 2010 and 2009, respectively, which is unaudited, includes all adjustments which in the opinion of Management are considered to be necessary for a fair presentation of earnings for such periods. The adjustments reflected in the financial statements represent normal recurring adjustments. The results of operations for the three months ended May 31, 2010 and 2009, respectively, are not necessarily indicative of the results to be expected at year end due to seasonality of the product sales.

These financial statements and notes are prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and should be read in conjunction with the Financial Statements and accompanying notes contained in our Annual Report to Shareholders for the Fiscal Year ended February 28, 2010.

Note 2 Effective June 30, 2010 we signed a Twelfth Amendment to the Credit and Security Agreement with Arvest Bank which provided a reduced $2,500,000 line of credit through June 30, 2011. Interest is payable monthly at the greater of (a) prime-floating rate minus 0.75% or (b) 5.00%. At May 31, 2010, the rate in effect was 5.00%. Borrowings are collateralized by substantially all the assets of the Company. At May 31, 2010, we had no debt outstanding under this agreement. Available credit under the revolving credit agreement was $2,500,000 at May 31, 2010.

This agreement also contains a provision for our use of the Bank s letters of credit. The Bank agrees to issue commercial or standby letters of credit provided that none will have an expiry date later than June 30, 2011 and that the sum of the line of credit plus the letters of credit would not exceed the borrowing base in effect at the time. For the quarter ended May 31, 2010, we had no letters of credit outstanding.

Note 3 Inventories consist of the following:

		2010 May 31,		February 28,
Current:				
Book inventory	$	10,327,100	$	11,310,300
Inventory valuation allowance		(26,500)		(25,000)
Inventories net current	$	10,300,600	$	11,285,300
Noncurrent:				
Book inventory	$	946,000	$	989,000
Inventory valuation allowance		(325,000)		(330,000)
Inventories net noncurrent	$	621,000	$	659,000

We occasionally purchase book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of our primary supplier. These amounts are included in non-current inventory.

Significant portions of our inventory purchases are concentrated with an England-based publishing company. Purchases from this company were approximately $1.2 million and $3.4 million for the three months ended May 31, 2010 and 2009, respectively. Total inventory purchases from all suppliers were approximately $1.6 million and $4.2 million for the three months ended May 31, 2010 and 2009, respectively.

Note 4   Basic earnings per share (EPS) is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is based on the combined weighted average number of common shares outstanding and dilutive potential common shares issuable which include, where appropriate, the assumed exercise of options.

In computing diluted EPS we have utilized the treasury stock method.

The computation of weighted average common and common equivalent shares used in the calculation of basic and diluted earnings per share (EPS) is shown below.

Earnings Per Share:

	Three Months Ended May 31, 2010	2009
Net earnings applicable to common shareholders	$ 188,200	$ 415,400
Shares:		
Weighted average shares outstanding - basic	3,876,603	3,843,847
Assumed exercise of options	3,528	1,012
Weighted average shares outstanding - diluted	3,880,131	3,844,859
Basic Earnings Per Share	$ 0.05	$ 0.11
Diluted Earnings Per Share	$ 0.05	$ 0.11

In April 2008, our Board of Directors authorized us to purchase up to 500,000 additional shares of our common stock under a plan initiated in 1998. This plan has no expiration date. During the first quarter of fiscal year 2010, we repurchased 25,000 shares of common stock. The maximum number of shares that may be repurchased in the future is 401,233.

Note 5 We account for stock-based compensation whereby share-based payment transactions with employees, such as stock options and restricted stock, are measured at estimated fair value at date of grant and recognized as compensation expense over the vesting period.

Note 6 Freight costs and handling costs incurred are included in operating & selling expenses and were $505,700 and $478,600 for the three months ended May 31, 2010 and 2009, respectively.

Note 7 We have two reportable segments: Publishing and Usborne Books and More (UBAM). These reportable segments are business units that offer different methods of distribution to different types of customers. They are managed separately based on the fundamental differences in their operations. The Publishing Division markets its products to retail accounts, which include book, school supply, toy and gift stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group. The UBAM Division markets its product line through a network of independent sales consultants through a combination of direct sales, home shows, book fairs and the Internet.

The accounting policies of the segments are the same as those of the rest of the Company. We evaluate segment performance based on earnings (loss) before income taxes of the segments, which is defined as segment net sales reduced by direct cost of sales and direct expenses. Corporate expenses, depreciation, interest expense and income taxes are not allocated to the segments, but are listed in the other rowCorporate expenses include the executive department, accounting department, information services department, general office management and building facilities management. Our assets and liabilities are not allocated on a segment basis.

Information by industry segment for the three months ended May 31, 2010 and 2009 follows:

NET REVENUES

	Three Months Ended May 31, 2010			
		2010		2009
Publishing	$	2,099,600	$	1,981,800
UBAM	$	4,195,800	$	4,408,800
Other	$		$	
Total	$	6,295,400	$	6,390,600

EARNINGS (LOSS) BEFORE INCOME TAXES

	Three Months Ended May 31, 2010			
		2010		2009
Publishing	$	603,600	$	661,700
UBAM	$	884,000	$	1,014,100
Other	$	(1,187,300)	$	(1,009,800)
Total	$	300,300	$	666,000

Note 8 The Financial Accounting Standards Board (FASB) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. We have reviewed the recently issued pronouncements and concluded that the following new accounting standards are applicable to us.

In January 2010, the FASB issued a new standard related to fair value measurements and disclosures, which amends the earlier FASB standard to add new requirements for disclosures about transfers into and out of Levels 1 and 2 fair value measurements and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements. The new standard also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure the fair value. The Company adopted the new accounting standard which became effective for the interim reporting period ended May 31, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the new standard did not have a material impact on the financial statements.

Note 9 During the quarter ended May 31, 2010, we determined that amounts paid to a third party for travel deposits had not been used to reserve travel for the Company. As a result of this, we had to pay and/or will have to pay approximately $188,500 in additional travel expenses, which is reported in operating expenses as a casualty loss.

Note 10 On June 18, 2010, we paid the previously declared $0.12 dividend per share to shareholders of record as of June 11, 2010.

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Factors Affecting Forward Looking Statements

MD&A contains statements that are forward-looking and include numerous risks which you should carefully consider. Additional risks and uncertainties may also materially and adversely affect our business.   You should read the following discussion in connection with our financial statements, including the notes to those statements, included in this document. Our fiscal years end on February 28.

Overview

We operate two separate divisions, Publishing and Usborne Books and More (UBAM), to sell the Usborne and Kane/Miller lines of children s books. These two divisions each have their own customer base. The Publishing Division markets its products on a wholesale basis to various retail accounts. The UBAM Division markets its products to individual consumers as well as school and public libraries.

The following table shows consolidated statements of income data as a percentage of net revenues.

Earnings as a Percent of Net Revenues

	Three Months Ended May 31,	
	2010	**2009**
Net revenues	100.0%	100.0%
Cost of sales	36.9%	36.0%
Gross margin	63.1%	64.0%
Operating expenses:		
Operating & selling	27.1%	24.8%
Sales commissions	20.7%	21.3%
General & administrative	7.6%	7.9%
Casualty loss	3.0%	0.0%
Total operating expenses	58.4%	54.0%
Income from operations	4.7%	10.0%
Other income	0.1%	0.4%
Earnings before income taxes	4.8%	10.4%
Income taxes	1.8%	3.9%
Net earnings	3.0%	6.5%

Operating Results for the Three Months Ended May 31, 2010

We earned income before income taxes of $300,300 for the three months ended May 31, 2010 compared with $666,000 for the three months ended May 31, 2009.

Revenues

	For the Three Months Ended May 31,		$ Increase/	% Increase/
	2010	**2009**	**(decrease)**	**(decrease)**
Gross sales	$ 8,776,000	$ 8,753,100	$ 22,900	0.3
Less discounts & allowances	(2,744,400)	(2,640,400)	(104,000)	3.9
Transportation revenue	263,800	277,900	(14,100)	(5.1)
Net revenues	$ 6,295,400	$ 6,390,600	$ (95,200)	(1.5)

The UBAM Division s gross sales decreased $325,300 during the three month period ending May 31, 2010 when compared with the same quarterly period a year ago. This decrease consists primarily of decreases of 16% in home parties and 8% in direct sales, offset by an increase in internet sales of 6% and a 3% increase in school and library sales. The decline in home party sales is attributed to a 27% decline in the total number of orders offset by a 15% increase in the average order size.

The Publishing Division s gross sales increased $348,200 during the three month period ending May 31, 2010 when compared with the same quarterly period a year ago. We attribute this to an 18.3% increase in inside sales and a 12.8% increase in sales to smaller retail stores, offset by a 12.6% decrease in sales to major national accounts.

The UBAM Division s discounts and allowances were $470,200 and $597,800 for the quarterly periods ended May 31, 2010 and 2009, respectively. The UBAM Division is a multi-level selling organization that markets its products through independent sales representatives (consultants). Sales are made to individual purchasers and school and public libraries. Most sales in the UBAM Division are at retail. As a part of the UBAM Division s marketing programs, discounts between 40% and 50% of retail are offered on selected items at various times throughout the year. The discounts and allowances in the UBAM Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAM Division s discounts and allowances were 10.7% and 12.6% of UBAM s gross sales for the quarterly periods ended May 31, 2010 and 2009, respectively.

The Publishing Division s discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAM Division due to the different customer markets that each division targets. The Publishing Division s discounts and allowances were $2,274,200 and $2,042,600 for the quarterly periods ended May 31, 2010 and 2009, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division s discounts and allowances were 52.1% of Publishing s gross sales for the quarterly period ended May 31, 2010 and 50.9% for the quarterly period ended May 31, 2009.

Expenses

	For Three Months Ended May 31,	$ Increase/	% Increase/