EDUCATIONAL DEVELOPMENT CORP
Form 10-Q
October 12, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2007

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

Yes o No þ

As of October 10, 2007 there were 3,758,024 shares of Educational Development Corporation Common Stock, $0.20 par value outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED BALANCE SHEETS (UNAUDITED)

	August 31, 2007	February 28, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,431,000	$ 1,254,300
Accounts receivable, less allowance for doubtful accounts and sales returns $167,400 (August 31) and $158,900 (February 28)	3,136,200	2,849,300
Inventories Net	12,064,000	12,388,000
Prepaid expenses and other assets	84,400	95,400
Income taxes receivable		3,400
Deferred income taxes	129,500	117,500
Total current assets	16,845,100	16,707,900
INVENTORIES Net	397,000	459,100
PROPERTY, PLANT AND EQUIPMENT Net	2,416,700	2,385,300
DEFERRED INCOME TAXES	131,100	149,600
TOTAL	$ 19,789,900	$ 19,701,900
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,874,800	$ 3,308,300
Accrued salaries and commissions	469,100	560,900
Income taxes payable	493,000	
Other current liabilities	149,600	171,400
Total current liabilities	3,986,500	4,040,600
COMMITMENTS		
SHAREHOLDERS EQUITY:		
Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 5,791,840 shares; Outstanding 3,758,024 (Aug 31) and 3,757,323 (February 28) shares	1,158,400	1,158,400
Capital in excess of par value	7,649,100	7,649,100
Retained earnings	17,847,000	17,707,700

		26,654,500		26,515,200
Less treasury stock, at cost		(10,851,100)		(10,853,900)
		15,803,400		15,661,300
TOTAL	$	19,789,900	$	19,701,900

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2007	**2006**	**2007**	**2006**
GROSS SALES	$ 8,768,000	$ 9,059,900	$ 18,904,100	$ 19,803,300
Less discounts and allowances	(2,913,500)	(2,971,200)	(5,819,100)	(6,012,800)
Transportation revenue	364,000	395,700	740,000	800,800
NET REVENUES	6,218,500	6,484,400	13,825,000	14,591,300
COST OF SALES	2,302,000	2,516,500	5,008,500	5,395,900
Gross margin	3,916,500	3,967,900	8,816,500	9,195,400
OPERATING EXPENSES:				
Operating and selling	1,593,200	1,639,700	3,429,100	3,481,500
Sales commissions	1,317,200	1,403,800	3,047,700	3,276,900
General and administrative	408,500	484,600	817,300	909,600
Interest		4,900		7,600
	3,318,900	3,533,000	7,294,100	7,675,600
OTHER INCOME	9,200	266,000	22,400	271,600
EARNINGS BEFORE INCOME TAXES	606,800	700,900	1,544,800	1,791,400
INCOME TAXES	227,000	276,900	579,500	670,800
NET EARNINGS	$ 379,800	$ 424,000	$ 965,300	$ 1,120,600
BASIC AND DILUTED EARNINGS PER SHARE:				
Basic	$ 0.10	$ 0.11	$ 0.26	$ 0.30
Diluted	$ 0.10	$ 0.11	$ 0.25	$ 0.29
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:				

Basic	3,766,413	3,756,042	3,763,257	3,741,595
Diluted	3,877,557	3,869,908	3,878,266	3,903,439

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)
FOR THE PERIOD ENDED AUGUST 31, 2007

	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, 2007	5,791,840	$ 1,158,400	$ 7,649,100	$ 17,707,700	2,034,517	$ (10,853,900)	$ 15,661,300
Purchases of treasury stock					8,111	(65,800)	(65,800)
Sales of treasury stock					(8,812)	68,600	68,600
Dividends declared ($.22 per share)				(826,000)			(826,000)
Net earnings				965,300			965,300
BALANCE August 31, 2007	5,791,840	$ 1,158,400	$ 7,649,100	$ 17,847,000	2,033,816	$ (10,851,100)	$ 15,803,400

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED AUGUST 31,

	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES:	$ 1,105,300	$ 1,391,800
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(105,400)	(23,200)
Net cash used in investing activities	(105,400)	(23,200)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on revolving credit agreement		3,278,000
Payments on revolving credit agreement		(3,954,000)
Cash received from exercise of stock options		12,500
Tax benefit of stock options exercised		9,100
Cash received from sale of treasury stock	68,600	65,200
Cash paid to acquire treasury stock	(65,800)	(80,700)
Dividends paid	(826,000)	(751,200)
Net cash used in financing activities	(823,200)	(1,421,100)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	176,700	(52,500)
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	1,254,300	321,500
CASH AND CASH EQUIVALENTS END OF PERIOD	$ 1,431,000	$ 269,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$	$ 9,900
Cash paid for income taxes	$ 76,500	$ 948,400

See notes to financial statements.

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NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1 The information shown with respect to the three and six months ended August 31, 2007 and 2006, 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 and six months ended August 31, 2007 and 2006, 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, 2007.

Note 2 Effective June 30, 2007 we signed a Ninth Amendment to the Credit and Security Agreement with Arvest Bank which provided a $5,000,000 line of credit through June 30, 2008. Interest is payable monthly at the Wall Street Journal prime-floating rate minus 0.75% (7.50% at August 31, 2007) and borrowings are collateralized by substantially all the assets of the Company. At August 31, 2007 the Company had no debt outstanding under this agreement. Available credit under the revolving credit agreement was $5,000,000 at August 31, 2007. No borrowings were outstanding under the agreement during the quarter ended August 31, 2007.

This agreement also contains a provision for our use of the Bank s letters of credit. The Bank agrees to issue, or obtain issuance of commercial or standby letters of credit provided that no letters of credit will have an expiry date later than June 30, 2008 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.

Note 3 Inventories consist of the following:

	2007	
	August 31.	**February 28,**
Current:		
Book inventory	$ 12,100,400	$ 12,421,400
Inventory valuation allowance	(36,400)	(33,400)
Inventories net current	$ 12,064,000	$ 12,388,000
Noncurrent:		
Book inventory	$ 697,000	$ 808,000
Inventory valuation allowance	(300,000)	(348,900)
Inventories net noncurrent	$ 397,000	$ 459,100

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 $2.6 million and $2.3 million for the three months ended August 31, 2007 and 2006, respectively. Total inventory purchases from all suppliers were approximately $3.5 million and $3.1 million for the three months ended August 31, 2007 and 2006, respectively.

For the six months ended August 31, 2007 and 2006, respectively, purchases from this company were approximately $4.3 million and $4.1 million. Total inventory purchases from all suppliers were approximately $5.8 million and $5.1 million for the same respective periods.

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.

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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 August 31,		Six Months Ended August 31,	
	2007	**2006**	**2007**	**2006**
Net earnings applicable to common shareholders	$ 379,800	$ 424,000	$ 965,300	$ 1,120,700
Shares:				
Weighted average shares outstanding basic	3,766,413	3,756,042	3,763,257	3,756,251
Assumed exercise of options	111,144	113,866	115,009	122,173
Weighted average shares outstanding diluted	3,877,557	3,869,908	3,878,266	3,878,424
Basic Earnings Per Share	$ 0.10	$ 0.11	$ 0.26	$ 0.30
Diluted Earnings Per Share	$ 0.10	$ 0.11	$ 0.25	$ 0.29

In April 2004, 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 second quarter of fiscal year 2008, we repurchased 500 shares of common stock. The maximum number of shares that may be repurchased in the future is 146,439.

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 $523,800 and $505,000 for the three months ended August 31, 2007 and 2006, respectively.

For the six months ended August 31, 2007 and 2006, respectively, freight and handling costs incurred are included in operating & selling expenses and were $1,117,200 and $1,064,000.

Note 7 We have two reportable segments: Publishing and Usborne Books at Home (UBAH). 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 UBAH 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 column. Corporate 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.

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Information by industry segment for the three and six months ended August 31, 2007 and 2006 follows:

	NET REVENUES			
	Three Months Ended August 31,		Six Months Ended August 31,	
	2007	2006	2007	2006
Publishing	$ 2,131,800	2,097,500	$ 4,163,100	4,168,600
UBAH	$ 4,086,700	4,386,900	$ 9,661,900	10,422,700
Other	$	$	$	$
Total	$ 6,218,500	$ 6,484,400	$ 13,825,000	$ 14,591,300

	EARNINGS (LOSS) BEFORE INCOME TAXES			
	Three Months Ended August 31,		Six Months Ended August 31,	
	2007	2006	2007	2006
Publishing	$ 669,500	585,400	$ 1,284,600	1,243,800
UBAH	$ 868,900	879,900	$ 2,072,900	2,205,000
Other	$ (931,600)	(764,400)	$ (1,812,700)	(1,657,400)
Total	$ 606,800	$ 700,900	$ 1,544,800	$ 1,791,400

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 February 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 155 Accounting for Certain Hybrid Financial Instruments amending SFAS No. 133 and SFAS No. 140. SFAS No. 155 eliminates the exemption from applying SFAS No. 133 to securitized financial assets. The provisions of SFAS No. 155 are to be applied to financial instruments issued or acquired during fiscal periods beginning after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on our financial position or results of operations.

FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) was issued in June 2006. It clarifies recognition and derecognition criteria for tax positions taken in a return that may be subject to challenge upon audit. If it is more likely than not, that the tax position will be sustained upon examination, the benefit is to be recognized in the financial statements. Conversely, if the position is less likely than not to be sustained, the benefit should not be recognized. The recognition/derecognition decision should be reflected in the first interim period when the status changes and not deferred to a future settlement upon audit. General tax reserves to cover aggressive positions taken in filed returns are no longer allowable. Each issue must be judged on its own merits and a recognition/derecognition decision recorded in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this Interpretation in the first quarter of fiscal year 2008 did not have a material effect on our financial position or results of operations in future periods.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements which amends and puts in one place guidance on the use of fair value measurements which had been spread through four APB Opinions and 37 FASB Standards. No extensions of the use of fair value measurements are contained in this new pronouncement, and with some special industry exceptions (e.g., broker-dealers), no significant changes in practice should ensue. The standard is to be applied to financial statements beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 . This standard permits the use of fair value measurement of financial assets and liabilities in the balance sheet with the net change in fair value recognized in periodic net income. The Standard is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have a material effect on our financial position or results of operations.

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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 consolidated 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 at Home (UBAH), to sell the Usborne line 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 UBAH Division markets its products to individual consumers as well as school and public libraries.

The following table shows consolidated statement of income data as a percentage of total revenues.

	Earnings as a Percent of Total Revenues			
	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2007	2006	2007	2006
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	37.0%	38.8%	36.2%	37.0%
Gross margin	63.0%	61.2%	63.8%	63.0%
Operating expenses:				
Operating & selling	25.5%	25.3%	24.8%	23.9%
Sales commissions	21.2%	21.6%	22.1%	22.4%
General & administrative	6.7%	7.5%	5.9%	6.2%
Interest	0.0%	0.1%	0.0%	0.1%
Total operating expenses	53.4%	54.5%	52.8%	52.6%
Income from operations	9.6%	6.7%	11.0%	10.4%