EDUCATIONAL DEVELOPMENT CORP
Form 10-Q
January 14, 2014

UNITED STATES
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 November 30, 2013

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 x 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 January 10, 2014, there were 3,974,302 shares of Educational Development Corporation Common Stock, $0.20 par value outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED BALANCE SHEETS

ASSETS	November 30, 2013 (Unaudited)	February 28, 2013
CURRENT ASSETS:		
Cash and cash equivalents	$461,300	$469,100
Accounts receivable, less allowance for doubtful accounts and sales returns of $574,100 (November 30) and $571,900 (February 28)	4,657,100	3,419,100
Inventories—Net	9,585,100	9,724,700
Prepaid expenses and other assets	253,200	438,800
Income tax receivable	-	229,300
Deferred income taxes	344,400	381,400
Total current assets	15,301,100	14,662,400
INVENTORIES—Net	400,200	559,000
PROPERTY, PLANT AND EQUIPMENT—Net	1,887,800	1,915,500
INVESTMENT IN NONMARKETABLE EQUITY SECURITIES	430,300	430,300
OTHER ASSETS	256,700	256,700
DEFERRED INCOME TAXES	61,200	76,900
TOTAL ASSETS	$18,337,300	$17,900,800
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$2,574,400	$1,862,100
Line of credit, current portion	500,000	1,250,000
Accrued salaries and commissions	792,600	439,300
Income taxes payable	143,000	-
Dividends payable	316,900	317,900
Other current liabilities	839,700	579,700
Total current liabilities	5,166,600	4,449,000
COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 6,041,040 (November 30 and February 28) shares; Outstanding 3,961,412 (November 30) and 3,960,812 (February 28) shares	1,208,200	1,208,200

Capital in excess of par value	8,548,000	8,548,000
Retained earnings	14,911,900	15,194,700
	24,668,100	24,950,900
Less treasury stock, at cost	(11,497,400)	(11,499,100)
Total shareholders' equity	13,170,700	13,451,800
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$18,337,300	$17,900,800

See notes to condensed financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2013	2012	2013	2012
GROSS SALES	$12,360,600	$11,710,800	$30,802,800	$30,702,800
Less discounts and allowances	(4,195,000)	(4,129,800)	(11,317,500)	(11,455,600)
Transportation revenue	336,400	283,400	722,300	676,200
NET REVENUES	8,502,000	7,864,400	20,207,600	19,923,400
COST OF SALES	3,294,500	3,051,200	8,431,700	7,967,300
Gross margin	5,207,500	4,813,200	11,775,900	11,956,100
OPERATING EXPENSES:				
Operating and selling	2,048,800	1,899,100	5,386,300	5,004,800
Sales commissions	1,741,900	1,582,700	3,767,700	3,759,200
General and administrative	495,500	480,100	1,516,000	1,560,800
Total operating expenses	4,286,200	3,961,900	10,670,000	10,324,800
OTHER INCOME (EXPENSE)	6,100	(6,900)	12,500	(5,800)
EARNINGS BEFORE INCOME TAXES	927,400	844,400	1,118,400	1,625,500
INCOME TAXES	379,600	318,700	447,600	611,400
NET EARNINGS	$547,800	$525,700	$670,800	$1,014,100
BASIC AND DILUTED EARNINGS PER SHARE:				
Basic	$0.14	$0.13	$0.17	$0.26
Diluted	$0.14	$0.13	$0.17	$0.26
DIVIDENDS PER SHARE	$0.08	$0.12	$0.24	$0.36
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:				
Basic	3,964,830	3,939,592	3,967,092	3,927,462
Diluted	3,964,830	3,939,592	3,967,092	3,927,462

See notes to condensed financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED NOVEMBER 30, 2013

	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, 2013	6,041,040	$ 1,208,200	$ 8,548,000	$ 15,194,700	2,080,228	$ (11,499,100)	$ 13,451,800
Purchases of treasury stock	-	-	-	-	43,349	(129,200)	(129,200)
Sales of treasury stock	-	-	-	-	(43,949)	130,900	130,900
Dividends declared ($.08/share)	-	-	-	(316,900)	-	-	(316,900)
Dividends paid ($.16/share)	-	-	-	(636,700)	-	-	(636,700)
Net earnings	-	-	-	670,800	-	-	670,800
BALANCE—November 30, 2013	6,041,040	$ 1,208,200	$ 8,548,000	$ 14,911,900	2,079,628	$ (11,497,400)	$ 13,170,700

See notes to condensed financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED NOVEMBER 30,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:	$1,752,900	$884,700
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in nonmarketable equity securities	-	(155,300)
Purchases of property, plant and equipment	(57,800)	(24,800)
Net cash used in investing activities	(57,800)	(180,100)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash paid to acquire treasury stock	(129,200)	(54,200)
Cash received from sales of treasury stock	130,900	165,100
Borrowings under revolving credit agreement	1,250,000	1,435,000
Payments under revolving credit agreement	(2,000,000)	(1,185,000)
Dividends paid	(954,600)	(1,411,300)
Net cash used in financing activities	(1,702,900)	(1,050,400)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,800)	(345,800)
CASH AND CASH EQUIVALENTS—BEGINNING OF PERIOD	469,100	760,100
CASH AND CASH EQUIVALENTS—END OF PERIOD	$461,300	$414,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$33,600	$18,100
Cash paid for income taxes	$16,700	$366,400

See notes to condensed financial statements.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 – The information shown with respect to the three and nine months ended November 30, 2013 and 2012, 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 nine months ended November 30, 2013 and 2012 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 Ex-change 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, 2013.

Note 2 – Effective June 30, 2013, we signed a Fifteenth Amendment to the Credit and Security Agreement with Arvest Bank (the Bank) which provides a $2,500,000 line of credit through June 30, 2014. Interest is payable monthly at the greater of (a) prime-floating rate minus 0.75% or (b) 4.00%. At November 30, 2013, the rate in effect was 4.00%. Borrowings are collateralized by substantially all the assets of the Company.

We had $500,000 in borrowings outstanding on the above revolving credit agreement at November 30, 2013 and $1,250,000 at February 28, 2013. Available credit under the revolving credit agreement was $2,000,000 at November 30, 2013. 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 stand-by letters of credit provided that no letters of credit will have an expiry date later than June 30, 2014 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. The agreement contains provisions that require us to maintain specified financial ratios, restrict transactions with related parties, prohibit mergers or consolidation, disallow additional debt, and limit the amount of compensation, salaries, investments, capital expenditures and leasing transactions. We intend to renew the bank agreement or obtain other financing upon maturity. For the quarter ended November 30, 2013, we had no letters of credit outstanding.

Note 3 – Inventories consist of the following:

	2013	
	November 30,	February 28,
Current:		
Book inventory	$ 9,610,100	$ 9,749,700
Inventory valuation allowance	(25,000)	(25,000)
Inventories net–current	$ 9,585,100	$ 9,724,700
Non-current:		
Book inventory	$ 727,000	$ 934,000
Inventory valuation allowance	(326,800)	(375,000)
Inventories net–non-current	$ 400,200	$ 559,000

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 $2.6 million and $1.9 million for the three months ended November 30, 2013 and 2012, respectively. Total inventory purchases from all suppliers were approximately $3.2 million and $2.5 million for the three months ended November 30, 2013 and 2012, respectively.

For the nine-month period ended November 30, 2013 and 2012, respectively, purchases from this company were approximately $6.7 million and $7.0 million. Total inventory purchases from all suppliers were approximately $8.7 million and $8.9 million for the nine-month period ended November 30, 2013 and 2012, respectively.

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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 November 30,		Nine Months Ended November 30,	
	2013	2012	2013	2012
Net earnings applicable to common shareholders	$547,800	$525,700	$670,800	$1,014,100
Shares:				
Weighted average shares outstanding - basic	3,964,830	3,939,592	3,967,092	3,927,462
Assumed exercise of options	-	-	-	-
Weighted average shares outstanding - diluted	3,964,830	3,939,592	3,967,092	3,927,462
Basic Earnings Per Share	$0.14	$0.13	$0.17	$0.26
Diluted Earnings Per Share	$0.14	$0.13	$0.17	$0.26
Stock options not considered above because they were antidilutive	11,000	16,000	11,000	16,000

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 current quarter of fiscal year 2014, we purchased 26,451 shares of common stock. The maximum number of shares that can be repurchased in the future is 304,654.

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. No such transactions occurred in the nine-month periods ended November 30, 2013 and 2012.

Note 6 – Freight costs and handling costs incurred are included in operating and selling expenses and were $802,800 and $748,400 for the three months ended November 30, 2013 and 2012, respectively. These costs were $1,949,300 and $1,818,000 for the nine-month period ended November 30, 2013 and 2012, 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 before income taxes of the segments, which is defined as segment net sales reduced by 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” row. 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 nine-month periods ended November 30, 2013 and 2012 follows:

	NET REVENUES			
	Three Months Ended November 30,		Nine Months Ended November 30,	
	2013	2012	2013	2012
Publishing	$ 3,180,100			