

EDUCATIONAL DEVELOPMENT CORP  
Form 10-K  
May 28, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

\_\_\_\_\_  
FORM 10-K  
\_\_\_\_\_

(Mark One)

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

For the fiscal year ended February 28, 2014

OR

TRANSITION REPORT PURSUANT TO 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

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, \$.20 par value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

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 (§ 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

No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes

No

The aggregate market value of the voting shares held by non-affiliates of the registrant at the price at which the common stock was last sold on August 31, 2013, on the NASDAQ Stock Market, LLC was \$12,188,600.

As of May 23, 2014, 3,989,126 shares of common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for fiscal year 2014 relating to our Annual Meeting of Shareholders to be held on July 17, 2014 are incorporated by reference into Part III of this Report on Form 10-K.

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PART I

FORWARD LOOKING STATEMENTS

This report contains statements that are forward-looking. You should read the following discussion in connection with our financial statements, including the notes to those statements, included in this document. These forward-looking statements are not historical facts but are expectations or projections based on certain assumptions and analyses made by our senior management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors. Actual events and results may be materially different from anticipated results described in such statements. As used in this Annual Report on Form 10-K, the terms “EDC,” “we,” “our” or “us” mean Educational Development Corporation, a Delaware corporation, unless the context indicates otherwise.

Our ability to achieve such results is subject to certain risks and uncertainties which are not currently known to us. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

Item 1. BUSINESS

(a) General Development of Business

Educational Development Corporation (“EDC”) is the exclusive United States trade publisher of the line of educational children’s books produced in the United Kingdom by Usborne Publishing Limited (“Usborne”). We were incorporated on August 23, 1965. Our fiscal years end on February 28.

We also own Kane Miller Book Publishers; award-winning publishers of International children’s books.

Our company motto is “The future of our world depends on the education of our children. EDC delivers educational excellence one book at a time. We provide economic opportunity while fostering strong family values. We touch the lives of children for a lifetime.”

(b) Financial Information about Industry Segments

While selling children’s books is our only line of business, we sell them through two divisions:

- Home Business Division (“Usborne Books & More” or “UBAM”) - This division distributes books nationwide through independent consultants, who hold book showings in individual homes, and through social media, book fairs, direct sales and Internet sales. The UBAM consultants also distribute these titles to school and public libraries.
- Publishing Division (“EDC Publishing”) – This division markets books to bookstores (including major national chains), toy stores, specialty stores, museums and other retail outlets throughout the country.

Percent Net Revenues by Division

|                | 2014 |   | 2013 |   |
|----------------|------|---|------|---|
| UBAM           | 58   | % | 58   | % |
| Publishing     | 42   | % | 42   | % |
| Total revenues | 100  | % | 100  | % |



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### (c) Narrative Description of Business

#### Products

As the sole United States trade publisher of the Usborne line of books, we offer over 1,500 different titles. Many are interactive in nature, including our Touchy-Feely board books, activity and flashcards, adventure and search books, art books, sticker books and foreign language books. The majority of the titles published by Kane Miller Book Publishers originally were published in other countries in their native languages.

We have a broad line of 'internet-linked' books which allow readers to expand their educational experience by referring them to relevant non-Usborne websites. Our books include science and math titles, as well as chapter books and novels. We continually introduce new titles across all lines of our products.

UBAM markets the books through commissioned consultants using a combination of direct sales, home parties, book fairs and the Internet. The division had approximately 5,900 consultants in 50 states at February 28, 2014.

EDC Publishing markets through commissioned trade representatives who call on book, toy, and specialty stores along with other retail outlets. We also do in-house marketing by telephone to these potential customers. This division markets to approximately 5,000 book, toy and specialty stores. Significant orders, totaling 26% of the Publishing division's net sales, have been received from major book chains.

#### Key Customers

No customer represents more than 10% of our net sales.

#### Seasonality

Sales for both divisions are greatest during the fall due to the holiday season.

#### Competition

We face competition on two fronts for our UBAM division from several other larger direct selling companies - for sales and consultants. However, no other direct selling company exclusively sells children's books. Our school and library market faces competition from Scholastic Books for the book fair market.

Publishing faces strong competition from large U.S. and international companies. Historically, this division's sales represent less than 1.0% of industry sales of juvenile paperbacks.

#### Employees

As of April 1, 2014, 74 full-time employees worked at our Tulsa and San Diego facilities; about 40% of those are in the distribution warehouse. We believe our relations with our employees are good.

#### Company Reports

Our annual and quarterly reports (Forms 10-K and 10-Q), current Form 8-K reports and amendments to those reports filed with the SEC are available for download from the Investor Relations portion of our Internet website at [www.edcpub.com](http://www.edcpub.com).

### Item 1A. RISK FACTORS

We are a smaller reporting company and are not required to provide this information.





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Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

We are located at 10302 E. 55th Pl., Tulsa, Oklahoma. These facilities are owned by us and contain approximately 105,000 square feet of office and warehouse space. All product distributions are made from this warehouse. We believe that our operating facility meets both present and future capacity needs. We also lease a small office in San Diego, California which houses Kane Miller Book Publishers.

Item 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

None

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## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of EDC is traded on the NASDAQ Stock Market, LLC (symbol--EDUC). The high and low quarterly common stock quotations for fiscal years 2014 and 2013, as reported by the National Association of Securities Dealers, Inc., were as follows:

| Period  | 2014 |      | 2013 |      |
|---------|------|------|------|------|
|         | High | Low  | High | Low  |
| 1st Qtr | 3.95 | 3.45 | 5.00 | 4.25 |
| 2nd Qtr | 3.58 | 3.04 | 4.64 | 3.85 |
| 3rd Qtr | 3.11 | 2.49 | 4.13 | 3.79 |
| 4th Qtr | 3.89 | 2.89 | 4.12 | 3.80 |

The number of shareholders of record of EDC's common stock at February 28, 2014 was 620.

During fiscal year 2014, we paid quarterly dividends totaling \$0.32 per share as follows: \$0.08 per share dividend on March 22, 2013, \$0.08 per share dividend on June 21, 2013, \$0.08 per share dividend on September 20, 2013, and \$0.08 per share dividend on December 20, 2013. An additional \$0.08 per share dividend was declared on February 28, 2014 and was paid during fiscal year 2015 to shareholders of record on March 14, 2014.

The following table shows repurchases of our common stock which we made during the fourth quarter of fiscal year 2014.

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period                   | Total # of<br>Shares<br>Purchased | Average Price<br>Paid per Share | Total # of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plan (1) | Maximum # of<br>Shares that<br>May<br>be<br>Repurchased<br>under the Plan |
|--------------------------|-----------------------------------|---------------------------------|--|---|
| December 1 -<br>31, 2013 | -                                 | \$ -                            | -  | 304,654   |
| January 1 - 31,<br>2014  | -                                 | \$ -                            | -  | 304,654   |
| February 1 - 28,<br>2014 | -                                 | \$ -                            | -  | 304,654   |
| Total                    | -                                 | \$ -                            | -  |   |

(1) In April 2008 the 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.

## Item 6. SELECTED FINANCIAL DATA

We are a smaller reporting company and are not required to provide this information.

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## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

## Management Summary

Educational Development Corporation is the sole distributor in the United States of the Usborne line of children's books and is the owner of Kane Miller Book Publishers. We operate two separate divisions, EDC Publishing and Usborne Books & More ("UBAM"), to sell these books. Our Corporate headquarters, including the distribution facility for both divisions, is located in Tulsa, Oklahoma.

These two divisions each have their own customer base. EDC Publishing markets its products on a wholesale basis to various retail accounts. UBAM markets its products to individual consumers as well as to school and public libraries through direct-selling consultants.

## Publishing Division

EDC Publishing operates in a market that is highly competitive, with a large number of companies engaged in the selling of books. The Publishing division's customer base includes national book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To reach these markets, the Publishing division utilizes a combination of commissioned sales representatives located throughout the country and a commissioned inside sales group located in our headquarters. The Vice President of the Publishing division manages sales to the national chain customers.

## Publishing Division Sales by Market Type

|                       | FY 2014 |   | FY 2013 |   |
|-----------------------|---------|---|---------|---|
| National chain stores | 26      | % | 28      | % |
| All other             | 74      | % | 72      | % |
| Total net sales       | 100     | % | 100     | % |

EDC Publishing uses a variety of methods to attract potential new customers and maintain current customers. Company personnel attend many of the national trade shows held by the book selling industry each year, allowing us to make contact with potential buyers who may be unfamiliar with our books. We actively target the national chains through joint promotional efforts and institutional advertising in trade publications. The Publishing division also participates with certain customers in a cooperative advertising allowance program, under which we pay back up to 2% of the net sales to that customer. Our products are then featured in promotions, such as catalogs, offered by the vendor. We may also acquire, for a fee, an end cap position in a bookstore (our products are placed on the end of a shelf), which in the publishing industry is considered an advantageous location in the bookstore.

EDC Publishing's in-house telesales group targets the smaller independent book and gift store market. Our semi-annual, full-color, 160-page catalogs, are mailed to over 5,000 customers and potential customers. We also offer two display racks to assist stores in displaying our products.

FY 2014

FY 2013

|              |    |            |    |            |
|--------------|----|------------|----|------------|
| Net Revenues | \$ | 10,968,400 | \$ | 10,811,600 |
|--------------|----|------------|----|------------|

Publishing division's net revenues increased \$156,800 in fiscal year 2014 from fiscal year 2013, or 1.5%. Net revenues were up 10.2% for smaller retail stores and 3.0% for inside sales, offset by a decrease of 5.3% for national chain stores.

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## Usborne Books &amp; More (“UBAM”) Division

UBAM is a multi-level direct selling organization that markets its products through independent sales representatives (“consultants”) located throughout the United States. The customer base of UBAM consists of individual purchasers, as well as school and public libraries. Revenues are generated through home shows, direct sales, Internet sales, book fairs and contracts with school and public libraries.

An important factor in the continued growth of the UBAM division is the addition of new sales consultants and the retention of existing consultants. Current active consultants recruit new sales consultants. UBAM makes it easy to recruit by providing low-cost signing kits. UBAM provides an extensive handbook that is a valuable tool in explaining the various programs to the new recruit.

## Consultants During Year

|   | FY 2014 | FY 2013 |
|---|---------|---------|
| New Sales Representatives                       | 4,000   | 2,700   |
| Active Sales Representatives End of Fiscal Year | 5,900   | 4,700   |

The UBAM division presently has six levels of sales representatives:

- Consultants
- Team Leaders
- Senior Team Leaders
- Executive Team Leaders
- Senior Executive Team Leaders
- Directors

Upon signing up, each individual is considered a consultant. Consultants receive commissions from each sale they make; the commission rate being determined by the marketing program under which the sale is made. In addition, consultants receive a monthly sales bonus once their sales reach an established monthly goal. Consultants who recruit other consultants and meet certain established criteria are eligible to become team leaders. Upon reaching this level, they receive monthly override payments based upon the sales of their downline groups.

Once team leaders reach certain established criteria, they become senior team leaders and are eligible to earn promotion bonuses on their consultants. Once senior team leaders reach certain established criteria, they become executive team leaders, senior executive team leaders or directors. Executive team leaders and higher may receive an additional monthly override payment based upon the sales of their downline groups.

## Percent of Net Revenues by UBAM Marketing Program

|                         | FY 2014 |   | FY 2013 |   |
|-------------------------|---------|---|---------|---|
| Home Shows              | 28      | % | 27      | % |
| Direct Sales            | 2       | % | 2       | % |
| School & Library        | 43      | % | 46      | % |
| Internet                | 15      | % | 12      | % |
| Fund Raisers            | 3       | % | 5       | % |
| Transportation Revenues | 9       | % | 8       | % |
| Totals                  | 100     | % | 100     | % |

|                  | FY 2014 | FY 2013 |
|------------------|---------|---------|
| Home Shows       | 18,300  | 17,100  |
| Direct Sales     | 2,800   | 3,100   |
| School & Library | 11,000  | 11,000  |
| Internet         | 43,200  | 33,800  |
| Fund Raisers     | 1,000   | 1,400   |
|                  | 76,300  | 66,400  |

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Net revenues, after commissions, from home shows increased 3% or \$76,400 during fiscal year 2014. This was primarily due to 8% more orders placed during the period offset by a 4% decrease in average order size. Consultants contact individuals (“hostesses”) to hold book shows in their homes or via social media. The consultant assists the hostess in setting up the details for the show and makes a presentation at the show and takes orders for the books. The hostess earns free books based upon the total sales at the show. Customer specials are available for customers when they order a selected amount. Additionally, home shows provide an excellent opportunity for recruiting new consultants.

Net revenues, after commissions, from direct sales decreased 22% or \$47,700 during fiscal year 2014. This resulted from a 12% decrease in both the number of orders placed during the year and in the average order size. Direct sales are sales without a hostess being involved.

The UBAM division offers many promotions (customer specials) throughout the year. These promotions offer the customer the opportunity to purchase selected items at a discount if the customer meets the defined criteria. The discounts under these promotions are recorded in discounts and allowances.

The school and library marketing program, after commissions, including book fairs, decreased 1% or \$57,800 during fiscal year 2014, primarily due to a per-order average decrease of 2%.

School and library sales are restricted to consultants who have received additional, specialized training which allows them to sell to schools and libraries. The UBAM consultant is the only source that a library or school has for most of our titles. They are not available through school supply distribution companies.

This program includes our book fairs. Book fairs can be held with almost any organization as the sponsor. The consultant provides promotional materials to acquaint parents with the books. Parents turn in their orders at a designated time. The book fair program generates free books for the sponsoring organization. UBAM also has a Reach for the Stars fundraiser program. This is a pledge-based reading incentive program that provides cash and books to the sponsoring organization and books for the children.

Internet sales, after commissions, were up 34% or \$406,200 during fiscal year 2014. This resulted from a 28% increase in the number of orders placed during the year and a 3% increase in average order size. Consultants utilize in-house-developed and hosted web sites in their businesses for a nominal annual fee. They can customize the web sites to their own particular needs or they can maintain the generic site. Orders are transmitted to us through a shopping cart arrangement and the consultant receives sales credit and commission on the sales.

Our fund-raising program, after commissions, Cards for a Cause, decreased 34% or \$167,500 in sales over the prior year. This resulted from a 29% decrease in the number of orders placed during the year and an 8% decrease in average order size. Organizations sell variety boxes of greeting-type cards and keep a portion of the proceeds to help support themselves and their related causes.

Transportation revenues increased 12% or \$95,400 during fiscal year 2014. Transportation revenues are based on order sales, with minimums per order depending on order type.

The cost of free books provided under the various UBAM marketing programs is recorded as operating and selling expense in the statements of earnings.

While there are many direct sales companies, UBAM continues to be the only such company in the United States exclusively selling books. We believe this is a fertile market with opportunities for growth. The keys to future growth in the UBAM division are recruiting and retaining consultants.



(1-2) Liquidity and Capital Resources

EDC has a history of profitability and positive cash flow. We can continue to grow with minimal additional capital requirements. Our primary source of cash is generated from our operations. Outside of cash used in operating activities, generally our primary uses of cash are to pay dividends and acquire treasury stock. During fiscal year 2014, we utilized our bank credit facility to meet some short-term cash requirements. At fiscal year end, our bank credit facility loan balance was \$0.

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We expect our ongoing cash flow to continue to exceed cash required to operate the business. As such, we expect our short-term borrowings to be limited during fiscal year 2015.

During fiscal year 2014, we experienced a positive cash flow from our operations of \$2,765,100. Cash flow from net earnings of \$357,600 was increased due to the provision for doubtful accounts and sales returns of \$978,000, an increase in current liabilities of \$835,700, the impairment of our investment in nonmarketable equity securities of \$430,300, a \$370,200 increase in net income tax payable, a \$165,900 decrease in prepaid expenses and other assets, a decrease in deferred income taxes of \$127,600, and depreciation expense of \$115,400, offset by an increase in accounts receivable of \$559,700, and an increase in inventories of \$55,900.

Cash used in investing activities was \$77,500 for capital expenditures. We estimate that cash used in investing activities for fiscal year 2015 will be less than \$250,000. This would consist of property improvements, software and hardware enhancements to our existing data processing equipment, and additional warehouse equipment.

Cash used in financing activities was \$2,476,700 which was primarily due to \$2,500,000 in payments under our revolving credit agreement, dividend payments of \$1,271,500, and \$129,200 paid to acquire treasury stock. These were offset by cash received of \$1,250,000 from borrowings under our revolving credit agreement and \$174,000 from the sale of treasury stock. In September 2002, the Board of Directors authorized a minimum annual cash dividend of 20% of net earnings. In fiscal years 2014 and 2013, we declared dividends equal to 356% and 216%, respectively, of net income after taxes.

Our Board of Directors adopted a stock repurchase plan in which we may purchase up to an additional 500,000 shares as market conditions warrant. Management believes the stock is undervalued and when stock becomes available at an attractive price, we can utilize free cash flow to repurchase shares. Management believes this enhances the value to the remaining stockholders and that these repurchases will have no adverse effect on our short-term and long-term liquidity.

**(3) Results of Operations**

| Earnings as a Percent of Net Revenues |         |    |         |   |
|---------------------------------------|---------|----|---------|---|
|                                       | FY 2014 |    | FY 2013 |   |
| Net revenues                          | 100.0   | %  | 100.0   | % |
| Cost of sales                         | 40.3    | %  | 41.2    | % |
| Gross margin                          | 59.7    | %  | 58.8    | % |
| Operating expenses:                   |         |    |         |   |
| Operating and selling                 | 27.8    | %  | 26.3    | % |
| Sales commissions                     | 18.9    | %  | 18.7    | % |
| General and administrative            | 8.1     | %  | 9.0     | % |
| Total operating expenses              | 54.8    | %  | 54.0    | % |
| Other income (expense)                | (1.5    | %) | 0.2     | % |
| Earnings before income taxes          | 3.4     | %  | 5.0     | % |
| Income taxes                          | 2.0     | %  | 1.9     | % |
| Net earnings                          | 1.4     | %  | 3.1     | % |

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## Fiscal Year 2014 Compared with Fiscal Year 2013

The following presents an overview of our results of operations for years ended February 28, 2014 and 2013. We had earnings before income taxes of \$873,500 for fiscal year 2014 compared with \$1,282,000 for fiscal year 2013.

## Revenues

|                             | FY 2014       | FY 2013       | \$ Change    |
|-----------------------------|---------------|---------------|--------------|
| Gross sales                 | \$ 40,558,000 | \$ 39,215,300 | \$ 1,342,700 |
| Less discounts & allowances | (15,414,200)  | (14,585,800)  | (828,400 )   |
| Transportation revenue      | 953,200       | 858,000       | 95,200       |
| Net revenues                | \$ 26,097,000 | \$ 25,487,500 | \$ 609,500   |

UBAM's gross sales increased 5.2% or \$865,200 during fiscal year 2014 when compared with fiscal year 2013. This increase is attributable to an increase in home party and internet markets, offset by lower sales in fund raisers, school and library/book fair and direct sales. The overall number of orders was up 15% due to increases in internet and home show orders, offset by decreases in the number of fund raisers and direct sales. Average sales per order for this division were down 10%.

EDC Publishing's gross sales increased 2.1% or \$477,500 during fiscal year 2014 when compared with fiscal year 2013. Sales increased by 38% to smaller retail stores and 17% by inside sales, offset by a decrease in sales to national chain stores of 35%.

UBAM's discounts and allowances were \$3,414,200 in fiscal year 2014 and \$2,906,300 in fiscal year 2013. Most sales by UBAM are at retail. As a part of UBAM'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. UBAM's discounts and allowances were 19.4% of UBAM's gross sales in fiscal year 2014 and 17.3% in fiscal year 2013.

EDC Publishing'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 \$12,000,000 in fiscal year 2014 and \$11,679,500 in fiscal year 2013. To be competitive with other wholesale book distributors, EDC Publishing 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. EDC Publishing's discounts and allowances were 52.3% of their gross sales in fiscal year 2014 and 52.0% in fiscal year 2013.

Transportation revenues increased \$95,200 in fiscal year 2014, primarily due to the increase in UBAM gross sales during the year.

## Expenses

|                            | FY 2014       | FY 2013       | \$ Change  |
|----------------------------|---------------|---------------|------------|
| Cost of sales              | \$ 10,523,500 | \$ 10,494,200 | \$ 29,300  |
| Operating and selling      | 7,258,500     | 6,714,600     | 543,900    |
| Sales commissions          | 4,939,800     | 4,764,900     | 174,900    |
| General and administrative | 2,123,500     | 2,285,700     | (162,200 ) |
| Total                      | \$ 24,845,300 | \$ 24,259,400 | \$ 585,900 |

Cost of sales increased 0.3% in fiscal year 2014 when compared with fiscal year 2013. Our cost of products is 25% to 28% of the gross sales price, depending upon the product. In comparing the percentage change in gross sales with the percentage change in cost of goods, consideration must be given to the mix of products sold. Approximately 79% of our products come from one vendor, where the cost of the products is a fixed percentage of the retail price.

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Cost of sales is the inventory cost of product sold (including the cost of the product itself and inbound freight charges). Operating and selling expenses include purchasing and receiving, inspection, warehousing, and other costs of our distribution network. These costs totaled \$1,133,100 in fiscal year 2014 and \$1,019,200 in fiscal year 2013. When comparing our gross margins with the gross margins of other companies, note that we do not include the costs of our distribution network in our cost of sales.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing and UBAM divisions, along with the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 17.9% for fiscal year 2014 and 17.1% for fiscal year 2013.

Sales commissions for EDC Publishing increased \$27,200 for the fiscal year ended 2014. Sales commissions for this division fluctuate depending upon the amount of sales made to our "house accounts," which are our largest customers and do not have any commission expense associated with them, and sales made by our outside sales representatives. Publishing division sales commissions are paid on net sales and were 2.9% for fiscal year 2014 and 2.7% for fiscal year 2013.

Sales commissions for UBAM increased \$147,700. UBAM division sales commissions are paid based on the retail price of non-promotional products sold and were 26.2% of gross sales for fiscal year 2014 and 26.7% for fiscal year 2013. The fluctuation in the percentages of commission expense to gross sales is the result of the type of sale. Home shows, book fairs, school and library sales and direct sales have different commission rates. Also contributing to the fluctuations in the percentages is the payment of overrides and bonuses, both dependent on consultants' monthly sales and downline sales. The increase in sales commissions is the result of higher gross sales in the UBAM division.

General and administrative expenses include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses as a percentage of gross sales were 5.2% for fiscal year 2014 and 5.8% for fiscal year 2013.

The tax provision for fiscal year 2014 was \$515,900. The effective rate for fiscal year 2014 was 59.1% and for fiscal year 2013 was 37.4%. Our effective tax rate is higher than the Federal statutory rate due to state income and franchise taxes and a fully-reserved capital loss carry forward, which we do not reasonably expect to deduct for income tax purposes.

## Contractual Obligations

We are a smaller reporting company and are not required to provide this information.

## Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to our valuation of inventory, allowance for uncollectable accounts receivable, allowance for sales returns, long-lived assets and deferred income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may materially differ from these estimates under different assumptions or conditions. Historically, however, actual results have not differed materially from those determined using required estimates. Our significant accounting policies are described in the notes accompanying the financial statements included elsewhere in this report. However, we consider the following accounting policies to be more significantly dependent on the use of estimates and assumptions.

#### Stock-Based Compensation

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.

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### Revenue Recognition

Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. UBAM's sales are paid at the time the product is shipped. These sales accounted for 58% of net revenues in both fiscal years 2014 and 2013.

Estimated allowances for sales returns are recorded as sales are recognized and recorded. Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores. The damages occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers. Transportation revenue represents the amount billed to the customer for shipping the product and is recorded when the product is shipped. Management has estimated and included a reserve for sales returns of \$100,000 for the years ended February 28, 2014 and 2013.

### Allowance for Doubtful Accounts

We maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. An estimate of uncollectible amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, customers' financial conditions and current economic trends. Management has estimated an allowance for doubtful accounts of \$233,900 and \$471,900 as of February 28, 2014 and 2013, respectively.

### Inventory

Management continually estimates and calculates the amount of noncurrent inventory. The inventory arises due to occasional purchases of 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. Noncurrent inventory was estimated by management using the current year turnover ratio by title. All inventory in excess of 2 ½ years of anticipated sales was classified as noncurrent inventory. Noncurrent inventory balances were \$824,000 and \$934,000 at February 28, 2014 and 2013, respectively.

Inventories are presented net of a valuation allowance. Management has estimated and included a valuation allowance for both current and noncurrent inventory. This allowance is based on management's identification of slow moving inventory on hand. Management has estimated a valuation allowance for both current and noncurrent inventory of \$378,800 and \$400,000 as of February 28, 2014 and 2013, respectively.

Our product line contains approximately 1,500 titles, each with different rates of sale, depending upon the nature and popularity of the title. Almost all of our product line is saleable as the books are not topical in nature and remain current in content today as well as in the future. Most of our products are printed in Europe, China, Singapore, India, Malaysia and Dubai resulting in a three to four-month lead-time to have a title reprinted and delivered to us.

Our principal supplier, based in England, generally requires a minimum reorder of 6,500 or more of a title in order to get a solo print run. Smaller orders would require a shared print run with the supplier's other customers, which can result in more lengthy delays to receive the ordered title. Anticipating customer preferences and purchasing habits requires historical analysis of similar titles in the same series. We then place the initial order or re-order based upon this analysis.

These factors and historical analysis have led Management to determine that 2 ½ years represents a reasonable estimate of the normal operating cycle for our products.

New Accounting Pronouncements

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 recently issued accounting standards are not applicable to us.



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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company and are not required to provide this information.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 begins at page 22.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

An evaluation was performed of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of February 28, 2014. This evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and our Controller/Corporate Secretary (Principal Financial and Accounting Officer).

Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to them, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported in accordance within the time periods specified in Securities and Exchange Commission rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events.

During the fourth fiscal quarter of the fiscal year covered by this report on Form 10-K, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934 (the "Exchange Act"). Under the supervision and with the participation of our management, including our President and our Controller, we evaluated the effectiveness of our internal control over financial reporting based on the framework in INTERNAL CONTROL-INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under that framework and applicable SEC rules, our management concluded that our internal control over financial reporting was effective as of February 28, 2014.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B.OTHER INFORMATION

None

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors

The information required by this Item 10 is furnished by incorporation by reference to the information under the caption "Election of Directors" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 17, 2014.

(b) Identification of Executive Officers

Information regarding our executive officers required by Item 401 of Regulation S-K is presented in Item 1 hereof under the subcaption "Executive Officers" as permitted by General Instruction G (3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

(c) Compliance with Section 16 (a) of the Exchange Act

The information required by this Item 10 is furnished by incorporation by reference to the information under the caption "Section 16 (a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 17, 2014.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is furnished by incorporation by reference to the information under the caption "Executive Compensation" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 17, 2014.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is furnished by incorporation by reference to the information under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Compensation Plans" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 17, 2014.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

Item 14. PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

The information required by this Item 14 is furnished by incorporation by reference to the information under the caption "Independent Registered Public Accountants" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 17, 2014.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements

|   | Page  |
|---|-------|
| <u>Report of Independent Registered Public Accounting Firm</u>                                  | 20    |
| <u>Balance Sheets - February 28, 2014 and 2013</u>  | 21    |
| <u>Statements of Earnings - Years ended February 28, 2014 and 2013</u>                          | 22    |
| <u>Statements of Shareholders' Equity - Years ended February 28, 2014 and February 28, 2013</u> | 23    |
| <u>Statements of Cash Flows - Years ended February 28, 2014 and 2013</u>                        | 24    |
| <u>Notes to Financial Statements</u>  | 25-32 |

Schedules have been omitted as such information is either not required or is included in the financial statements.

2. Exhibits

- 3.1 Restated Certificate of Incorporation dated April 26, 1968 and Certificate of Amendment thereto dated June 21, 1968 are incorporated herein by reference to Exhibit 1 to Registration Statement on Form 10-K (File No. 0-4957).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation dated August 27, 1977 is incorporated herein by reference to Exhibit 20.1 to Form 10-K for fiscal year ended February 28, 1981 (File No. 0-4957).
- 3.3 By-Laws, as amended, are incorporated herein by reference to Exhibit 20.2. to Form 10-K for fiscal year ended February 28, 1981 (File No. 0-4957).
- 3.4 Certificate of Amendment of Restated Certificate of Incorporation dated November 17, 1986 is incorporated herein by reference to exhibit 3.3 to Form 10-K for fiscal year ended February 28, 1987 (File No. 0-4957).
- 3.5 Certificate of Amendment of Restated Certificate of Incorporation dated March 22, 1996 is incorporated herein by reference to Exhibit 3.4 to Form 10-K for fiscal year ended February 28, 1997 (File No. 0-4957).
- 3.6 Certificate of Amendment of Restated Certificate of Incorporation dated July 15, 2002 is incorporated herein by reference to Exhibit 10.30 to Form 10-K dated February 28, 2003 (File No. 0-4957).

- 4.1 Specimens of Common Stock Certificates are incorporated herein by reference to Exhibits 3.1 and 3.2 to Registration Statement on Form 10-K (File No. 0-4957) filed June 29, 1970.
- 10.1 Usborne Agreement-Contractual agreement by and between the Company and Usborne Publishing Limited dated November 25, 1988 is incorporated herein by reference to Exhibit 10.12 to Form 10-K dated February 28, 1989 (File No. 0-4957).
- 10.2 Party Plan-Contractual agreement by and between the Company and Usborne Publishing Limited dated March 14, 1989 is incorporated herein by reference to Exhibit 10.13 to Form 10-K dated February 28, 1989 (File No. 0-4957).
- 10.3 Amendment dated January 1, 1992 to Usborne Agreement - Contractual agreement by and between the Company and Usborne Publishing Limited is incorporated herein by reference to Exhibit 10.13 to Form 10-K dated February 29, 1992 (File No. 0-4957).

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- 10.4 Educational Development Corporation 1992 Incentive Stock Option Plan is incorporated herein by reference to Exhibit 4(c) to Registration Statement on Form S-8 (File No. 33-60188).
- 10.5 Restated Loan Agreement dated June 30, 1999 between the Company and State Bank & Trust, N.A., Tulsa, OK, is incorporated herein by reference to Exhibit 10.24 to Form 10-K dated February 29, 2000 (File No. 0-4957).
- 10.6 Educational Development Corporation 2002 Incentive Stock Option Plan is incorporated herein by reference to Exhibit A to definitive proxy statement on Schedule 14A dated May 23, 2002 (File No. 0-4957).
- 10.7 Amendment dated November 12, 2002 to Usborne Agreement – Contractual agreement by and between we and Usborne Publishing Limited is incorporated herein by reference to Exhibit 10.24 to Form 10-K dated February 28, 2003 (File No. 0-4957).
- 10.8 Employment Agreement between Randall W. White and the Company dated February 28, 2004.
- 10.9 Eleventh Amendment dated June 30, 2009 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.10 Twelfth Amendment dated June 30, 2010 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.11 Thirteenth Amendment dated June 30, 2011 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.12 Fourteenth Amendment dated June 30, 2012 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.13 Fifteenth Amendment dated June 30, 2013 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- \*23.1 Consent of Independent Registered Public Accounting Firm.
- \*31.1 Certification of the Chief Executive Officer of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 Certification of the Controller and Corporate Secretary (Principal Financial and Accounting Officer) of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32.1

Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

|         |  |
|---------|--|
| 101.INS | XBRL Instance Document                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

\*Filed Herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(b) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EDUCATIONAL DEVELOPMENT CORPORATION

Date: May 28, 2014 By /s/ Marilyn Pinney  
Marilyn Pinney  
Controller and Corporate Secretary  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: May 28, 2014 /s/ Randall W. White  
Randall W. White  
Chairman of the Board  
President, Treasurer and  
Director

May 28, 2014 /s/ John A. Clerico  
John A. Clerico, Director

May 28, 2014 /s/ Ronald McDaniel  
Ronald McDaniel, Director

May 28, 2014 /s/ Kara Gae Neal  
Kara Gae Neal, Director

May 28, 2014 /s/ Betsy Rickert  
Betsy Rickert, Director

May 28, 2014 /s/ Marilyn Pinney  
Marilyn Pinney  
Controller and Corporate Secretary  
(Principal Financial and Accounting Officer)



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
Educational Development Corporation

We have audited the accompanying balance sheets of Educational Development Corporation as of February 28, 2014 and 2013, and the related statements of earnings, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educational Development Corporation as of February 28, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ HOGANTAYLOR LLP  
Tulsa, Oklahoma  
May 28, 2014

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EDUCATIONAL DEVELOPMENT CORPORATION  
 BALANCE SHEETS  
 AS OF FEBRUARY 28,

|   | 2014          | 2013          |
|---|---------------|---------------|
| ASSETS  |               |               |
| CURRENT ASSETS:   |               |               |
| Cash and cash equivalents   | \$ 680,000    | \$ 469,100    |
| Accounts receivable, less allowance for doubtful accounts and sales returns \$333,900 (2014) and \$571,900 (2013) | 3,000,800     | 3,419,100     |
| Inventories—Net   | 9,869,400     | 9,724,700     |
| Prepaid expenses and other assets   | 262,200       | 438,800       |
| Income tax receivable   | -             | 229,300       |
| Deferred income taxes   | 259,300       | 381,400       |
| Total current assets  | 14,071,700    | 14,662,400    |
| INVENTORIES—Net   | 470,200       | 559,000       |
| PROPERTY, PLANT AND EQUIPMENT—Net   | 1,877,600     | 1,915,500     |
| INVESTMENT IN NONMARKETABLE EQUITY SECURITIES   | -             | 430,300       |
| OTHER ASSETS  | 267,400       | 256,700       |
| DEFERRED INCOME TAXES   | 71,400        | 76,900        |
| TOTAL ASSETS  | \$ 16,758,300 | \$ 17,900,800 |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |               |               |
| CURRENT LIABILITIES:  |               |               |
| Accounts payable  | \$ 2,543,700  | \$ 1,862,100  |
| Line of credit  | -             | 1,250,000     |
| Accrued salaries and commissions  | 514,900       | 439,300       |
| Income taxes payable  | 140,900       | -             |
| Dividends payable   | 318,200       | 317,900       |
| Other current liabilities   | 658,200       | 579,700       |
| Total current liabilities   | 4,175,900     | 4,449,000     |
| COMMITMENTS (Note 7)  |               |               |
| SHAREHOLDERS' EQUITY:   |               |               |
| Common stock, \$0.20 par value; Authorized 8,000,000 shares;<br>Issued 6,041,040                                  |               |               |
| Outstanding 3,977,943 (2014) and 3,960,812 (2013) shares  | 1,208,200     | 1,208,200     |
| Capital in excess of par value  | 8,548,000     | 8,548,000     |
| Retained earnings   | 14,280,500    | 15,194,700    |

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|   |                     |                     |
|---|---------------------|---------------------|
|   | 24,036,700          | 24,950,900          |
| Less treasury stock, at cost                      | (11,454,300 )       | (11,499,100 )       |
| Total shareholders' equity                        | 12,582,400          | 13,451,800          |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$16,758,300</b> | <b>\$17,900,800</b> |

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION  
 STATEMENTS OF EARNINGS  
 FOR THE YEARS ENDED FEBRUARY 28,

|   | 2014          | 2013          |
|---|---------------|---------------|
| <b>GROSS SALES</b>  | \$40,558,000  | \$39,215,300  |
| Less discounts and allowances   | (15,414,200 ) | (14,585,800 ) |
| Transportation revenue  | 953,200       | 858,000       |
| <b>NET REVENUES</b>   | 26,097,000    | 25,487,500    |
| <b>COST OF SALES</b>  | 10,523,500    | 10,494,200    |
| Gross margin  | 15,573,500    | 14,993,300    |
| <b>OPERATING EXPENSES:</b>  |               |               |
| Operating and selling   | 7,258,500     | 6,714,600     |
| Sales commissions   | 4,939,800     | 4,764,900     |
| General and administrative  | 2,123,500     | 2,285,700     |
| Total operating expenses  | 14,321,800    | 13,765,200    |
| <b>OTHER INCOME (EXPENSE)</b>   | (378,200 )    | 53,900        |
| <b>EARNINGS BEFORE INCOME TAXES</b>   | 873,500       | 1,282,000     |
| <b>INCOME TAXES</b>   | 515,900       | 479,100       |
| <b>NET EARNINGS</b>   | \$357,600     | \$802,900     |
| <b>BASIC AND DILUTED EARNINGS PER SHARE:</b>                                |               |               |
| Basic   | \$0.09        | \$0.20        |
| Diluted   | \$0.09        | \$0.20        |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:</b> |               |               |
| Basic   | 3,968,214     | 3,934,352     |
| Diluted   | 3,968,214     | 3,934,352     |
| Dividends per share   | \$0.32        | \$0.44        |

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION  
 STATEMENTS OF SHAREHOLDERS' EQUITY  
 FOR THE YEARS ENDED FEBRUARY 28,

|                                      | Common Stock<br>(par value \$0.20 per<br>share) |              | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Treasury Stock      |                | Shareholders'<br>Equity |
|--------------------------------------|---|--------------|--------------------------------------|----------------------|---------------------|----------------|-------------------------|
|                                      | Number of<br>Shares<br>Issued                   | Amount       |                                      |                      | Number of<br>Shares | Amount         |                         |
| BALANCE—March 1,<br>2012             | 6,041,040                                       | \$ 1,208,200 | \$ 8,548,000                         | \$ 16,124,900        | 2,127,857           | \$(11,663,500) | \$ 14,217,600           |
| Purchases of<br>treasury stock       | -   | -            | -                                    | -                    | 12,106              | (56,700 )      | (56,700 )               |
| Sales of treasury<br>stock           | -   | -            | -                                    | -                    | (59,735 )           | 221,100        | 221,100                 |
| Dividends declared<br>(\$0.08/share) | -   | -            | -                                    | (317,900 )           | -                   | -              | (317,900 )              |
| Dividends paid<br>(\$0.36/share)     | -   | -            | -                                    | (1,415,200 )         | -                   | -              | (1,415,200 )            |
| Net earnings                         | -   | -            | -                                    | 802,900              | -                   | -              | 802,900                 |
| BALANCE—February<br>28, 2013         | 6,041,040                                       | \$ 1,208,200 | \$ 8,548,000                         | \$ 15,194,700        | 2,080,228           | \$(11,499,100) | \$ 13,451,800           |
| Purchases of<br>treasury stock       | -   | -            | -                                    | -                    | 43,349              | (129,200 )     | (129,200 )              |
| Sales of treasury<br>stock           | -   | -            | -                                    | -                    | (60,480 )           | 174,000        | 174,000                 |
| Dividends declared<br>(\$0.08/share) | -   | -            | -                                    | (318,200 )           | -                   | -              | (318,200 )              |
| Dividends paid<br>(\$0.24/share)     | -   | -            | -                                    | (953,600 )           | -                   | -              | (953,600 )              |
| Net earnings                         | -   | -            | -                                    | 357,600              | -                   | -              | 357,600                 |
| BALANCE—February<br>28, 2014         | 6,041,040                                       | \$ 1,208,200 | \$ 8,548,000                         | \$ 14,280,500        | 2,063,097           | \$(11,454,300) | \$ 12,582,400           |

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED FEBRUARY 28,

|   | 2014             | 2013              |
|---|------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                  |                   |
| Net earnings  | \$357,600        | \$802,900         |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                  |                   |
| Impairment of investment in nonmarketable equity securities                         | 430,300          | -                 |
| Depreciation  | 115,400          | 114,200           |
| Deferred income taxes   | 127,600          | (12,600 )         |
| Provision for doubtful accounts and sales returns                                   | 978,000          | 1,508,700         |
| Changes in assets and liabilities:  |                  |                   |
| Accounts receivable   | (559,700 )       | (1,352,800 )      |
| Inventories, net  | (55,900 )        | 118,300           |
| Prepaid expenses and other assets   | 165,900          | (117,300 )        |
| Accounts payable, accrued salaries and commissions, and other current liabilities   | 835,700          | (128,900 )        |
| Income tax payable/receivable   | 370,200          | (293,500 )        |
| Total adjustments   | 2,407,500        | (163,900 )        |
| Net cash provided by operating activities   | 2,765,100        | 639,000           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                   |
| Investment in nonmarketable equity securities                                       | -                | (180,300 )        |
| Purchases of property, plant and equipment  | (77,500 )        | (29,300 )         |
| Net cash used in investing activities   | (77,500 )        | (209,600 )        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                  |                   |
| Cash received from sale of treasury stock   | 174,000          | 221,100           |
| Cash paid to acquire treasury stock   | (129,200 )       | (56,700 )         |
| Borrowings under revolving credit agreement   | 1,250,000        | 2,185,000         |
| Payments under revolving credit agreement   | (2,500,000 )     | (1,185,000 )      |
| Dividends paid  | (1,271,500 )     | (1,884,800 )      |
| Net cash used in financing activities   | (2,476,700 )     | (720,400 )        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                         | <b>210,900</b>   | <b>(291,000 )</b> |
| <b>CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR</b>                                  | <b>469,100</b>   | <b>760,100</b>    |
| <b>CASH AND CASH EQUIVALENTS—END OF YEAR</b>  | <b>\$680,000</b> | <b>\$469,100</b>  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                            |                  |                   |
| Cash paid for interest  | \$34,500         | \$24,300          |
| Cash paid for income taxes  | \$11,000         | \$785,100         |

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED FEBRUARY 28, 2014 AND 2013

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Business**—Educational Development Corporation (“we”, “our”, or “the Company”) distributes books and publications through our EDC Publishing and Usborne Books & More (“UBAM”) divisions to book, toy and gift stores, libraries and home educators located throughout the United States (“U.S.”). We are the sole U.S. distributor of books and related items, which are published by an England-based publishing company, Usborne, our primary supplier. We are also in the direct publishing market through our ownership of Kane Miller Book Publishers.

**Estimates**—Our financial statements were prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from these estimates.

**Business Concentration**—A significant portion of our inventory purchases are concentrated with Usborne. Purchases from them were approximately \$9.0 million and \$8.6 million for the years ended February 28, 2014 and 2013, respectively. Total inventory purchases for those same periods were approximately \$11.4 million and \$11.3 million, respectively.

**Cash and Cash Equivalents**—Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. Insurance coverage on our non-interest bearing cash balances was limited to \$250,000 and our non-interest bearing cash balances exceed federally insured limits. The majority of payments due from banks for third party credit card transactions process within two business days. These amounts due are classified as cash and cash equivalents. Cash and cash equivalents includes demand and time deposits, money market funds and other marketable securities with maturities of three months or less when acquired.

**Accounts Receivable**—Accounts receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment within thirty days from the invoice date. Trade accounts are stated at the amount management expects to collect from outstanding balances. Delinquency fees are not assessed. Payments of accounts receivable are allocated to the specific invoices identified on the customers’ remittance advice. Accounts receivable are carried at original invoice amount less an estimated reserve made for returns and discounts based on quarterly review of historical rates of returns and expected discounts to be taken. The carrying amount of accounts receivable is reduced, if needed, by a valuation allowance that reflects management’s best estimate of the amounts that will not be collected.

**Management** periodically reviews accounts receivable balances and, based on an assessment of historical bad debts, current customer receivable balances, age of customer receivable balances, customers’ financial conditions and current economic trends, estimates the portion of the balance that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation account based on its assessment of the current status of the individual accounts. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Recoveries of trade receivables previously written off are recorded as income when received.

**Inventories**—Inventories are stated at the lower of cost or market. Cost is determined using the FIFO method. We present a portion of our inventory as a noncurrent asset. Occasionally we 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 excess quantities are included in noncurrent inventory. We estimate noncurrent inventory using the current year turnover ratio by title. All inventory in excess of 2½ years of anticipated sales is classified as noncurrent inventory.

Inventories are presented net of a valuation allowance. Management has estimated and included an allowance for slow moving inventory for both current and noncurrent inventory. This allowance is based on management's analysis of inventory on hand at February 28, 2014 and 2013.



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Property, Plant and Equipment—Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives, as follows:

|                         |              |
|-------------------------|--------------|
| Building                | 30 years     |
| Machinery and equipment | 3 - 10 years |
| Furniture and fixtures  | 3 years      |

Income Taxes—We account for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and the tax basis of assets and liabilities using the current tax laws and rates. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts that are “more likely than not” to be realized.

Revenue Recognition—Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAM division’s sales are paid at the time the product is shipped. These sales accounted for 58% of net revenues in both fiscal years 2014 and 2013.

Estimated allowances for sales returns are recorded as sales are recognized and recorded. Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores related to damages which occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers. Management has estimated and included a reserve for sales returns of \$100,000 as of February 28, 2014 and 2013.

Transportation revenue represents the amount billed to the customer for shipping the product and is recorded when the product is shipped.

Advertising Costs—Advertising costs are expensed as incurred. Advertising expenses, included in selling and operating expenses in the statements of earnings, were \$348,600 and \$222,600 for the years ending February 28, 2014 and 2013, respectively.

Shipping and Handling Costs— We classify shipping and handling costs as operating and selling expenses in the statements of earnings. Shipping and handling costs were \$2,595,800 and \$2,348,900 for the years ending February 28, 2014 and 2013, respectively.

Earnings per Share—Basic earnings per share (“EPS”) is computed by dividing net income 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.

|  | Year Ended February 28, |            |
|--|-------------------------|------------|
|  | 2014                    | 2013       |
| Earnings Per Share:                            |                         |            |
| Net earnings applicable to common shareholders | \$ 357,600              | \$ 802,900 |
| Shares:  |                         |            |
|  | 3,968,214               | 3,934,352  |

|  |           |           |
|--|-----------|-----------|
| Weighted average<br>shares outstanding—basic                         |           |           |
| Assumed exercise of options  | -         | -         |
| Weighted average<br>shares outstanding—diluted                       |           |           |
|  | 3,968,214 | 3,934,352 |
| Basic Earnings Per Share   | \$ 0.09   | \$ 0.20   |
| Diluted Earnings Per Share   | \$ 0.09   | \$ 0.20   |
| Stock options not considered above<br>because they were antidilutive |           |           |
|  | 11,000    | 16,000    |

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**Long-Lived Asset Impairment**— We review the value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future cash flows. No impairment was noted as a result of such review during the years ended February 28, 2014 and 2013.

**Stock-Based Compensation**—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.

**New accounting pronouncements**—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 recently issued accounting standards are not applicable to us.

## 2. INVENTORIES

Inventories consist of the following:

|                               | February 28, |              |
|-------------------------------|--------------|--------------|
|                               | 2014         | 2013         |
| Current:                      |              |              |
| Book inventory                | \$ 9,894,400 | \$ 9,749,700 |
| Inventory valuation allowance | (25,000 )    | (25,000 )    |
| Inventories net—current       | \$ 9,869,400 | \$ 9,724,700 |
| Noncurrent:                   |              |              |
| Book inventory                | \$ 824,000   | \$ 934,000   |
| Inventory valuation allowance | (353,800 )   | (375,000 )   |
| Inventories net—noncurrent    | \$ 470,200   | \$ 559,000   |

## 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

|                               | February 28, |              |
|-------------------------------|--------------|--------------|
|                               | 2014         | 2013         |
| Land                          | \$ 250,000   | \$ 250,000   |
| Building                      | 2,124,700    | 2,124,700    |
| Machinery and equipment       | 2,363,800    | 2,287,900    |
| Furniture and fixtures        | 75,700       | 74,100       |
|                               | 4,814,200    | 4,736,700    |
| Less accumulated depreciation | (2,936,600)  | (2,821,200)  |
|                               | \$ 1,877,600 | \$ 1,915,500 |

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## 4. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising our net deferred tax assets and liabilities as of February 28 are as follows:

|                                   | 2014       | 2013       |
|-----------------------------------|------------|------------|
| Current:                          |            |            |
| Deferred tax assets:              |            |            |
| Allowance for doubtful accounts   | \$ 58,500  | \$ 175,900 |
| Inventory overhead capitalization | 79,000     | 77,800     |
| Inventory valuation allowance     | 9,500      | 9,500      |
| Allowance for sales returns       | 38,000     | 38,000     |
| Accruals                          | 74,300     | 80,200     |
| Deferred tax assets-current       | 259,300    | 381,400    |
| Noncurrent:                       |            |            |
| Deferred tax assets:              |            |            |
| Inventory valuation allowance     | \$ 134,400 | \$ 140,600 |
| Capital loss carryforward         | 163,600    | -          |
| Subtotal deferred tax assets      | 298,000    | 140,600    |
| Less valuation allowance          | (163,600 ) |            |
| Total net deferred tax assets     | 134,400    | 140,600    |
| Deferred tax liabilities:         |            |            |
| Property and equipment            | (63,000 )  | (63,700 )  |
| Deferred tax liabilities          | (63,000 )  | (63,700 )  |
| Net deferred tax asset-noncurrent | \$ 71,400  | \$ 76,900  |

Management has assessed the evidence to estimate whether sufficient future capital gains will be generated to utilize the existing capital loss carryforward. As no current expectation of capital gains exists, Management has objectively determined that a valuation allowance is necessary to reduce the carrying value of deferred tax assets as it is “more likely than not” that such assets are unrealizable.

The amount of the deferred tax asset considered realizable, however, could be adjusted if future capital gains are generated during the carryforward period. Management has determined that no valuation allowance is necessary to reduce the carrying value of other deferred tax assets as it is “more likely than not” that such assets are realizable.

The components of income tax expense are as follows:

|          | February 28, |            |
|----------|--------------|------------|
|          | 2014         | 2013       |
| Current: |              |            |
| Federal  | \$ 299,000   | \$ 411,000 |
| State    | 89,300       | 80,700     |
|          | 388,300      | 491,700    |

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Deferred:

|                          |            |            |
|--------------------------|------------|------------|
| Federal                  | 133,200    | (10,600 )  |
| State                    | (5,600 )   | (2,000 )   |
|                          | 127,600    | (12,600 )  |
| Total income tax expense | \$ 515,900 | \$ 479,100 |

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The following reconciles our expected income tax expense utilizing statutory tax rates to the actual tax expense:

|   | February 28, |            |
|---|--------------|------------|
|   | 2014         | 2013       |
| Tax expense at federal statutory rate       | \$ 297,000   | \$ 435,900 |
| State income tax—net of federal tax benefit | 70,100       | 50,400     |
| Change in capital loss valuation allowance  | 163,600      | -          |
| Other                                       | (14,800 )    | (7,200 )   |
| Total income tax expense                    | \$ 515,900   | \$ 479,100 |

We file our tax returns in the U.S. and certain state jurisdictions. We are no longer subject to income tax examinations by tax authorities for fiscal years before 2011. We are currently the subject of an income tax examination for fiscal year 2012 by the IRS.

Based upon a review of our income tax filing positions, we believe that our positions would be sustained upon an audit and do not anticipate any adjustments that would result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded. We classify interest and penalties associated with income taxes as a component of income tax expense on the statement of earnings.

#### 5. EMPLOYEE BENEFIT PLAN

We have a profit sharing plan that incorporates the provisions of Section 401(k) of the Internal Revenue Code. The 401(k) plan covers substantially all employees meeting specific age and length of service requirements. Matching contributions are discretionary and amounted to \$57,100 and \$67,500 in the fiscal years ended February 28, 2014 and 2013, respectively. The 401(k) plan includes an option for employees to invest in our stock, which is purchased from our Treasury stock shares. Shares purchased for the 401(k) plan from Treasury stock amounted to 60,480 net shares and 57,367 net shares in the fiscal years ended February 28, 2014 and 2013, respectively.

#### 6. DEBT

We have a \$2,500,000 revolving credit agreement, with interest payable monthly at the greater of (a) prime rate minus 0.75% or (b) 4.00%. At February 28, 2014, the rate in effect was 4.00%. The revolving credit agreement is collateralized by substantially all of our assets and matures on June 30, 2014.

We had no borrowings outstanding on the above revolving credit agreement at February 28, 2014 and \$1,250,000 in borrowings outstanding at February 28, 2013. Available credit under the revolving credit agreement was \$2,500,000 at February 28, 2014. 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.

#### 7. COMMITMENTS

At February 28, 2014, we had outstanding purchase commitments for inventory totaling approximately \$5,270,800.

Rent expense for the year ended February 28, 2014 was \$57,200. As of February 28, 2014, we did not have any lease commitments in excess of one year.

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## 8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

The Board of Directors adopted the 2002 Incentive Stock Option Plan (the "2002 Plan") in June of 2002. The 2002 Plan also authorized us to grant up to 1,000,000 stock options.

Options granted under 2002 Incentive Plan vest at date of grant and are exercisable up to ten years from the date of grant. The exercise price on options granted is equal to the market price at the date of grant. Options outstanding at February 28, 2014 expire beginning in March 2014 through December 2019.

A summary of the status of our Incentive Plans as of February 28, 2014 and 2013, and changes during the years then ended is presented below:

|                                  | 2014     |                                 | February 28, 2013 |                                 |
|----------------------------------|----------|---------------------------------|-------------------|---------------------------------|
|                                  | Shares   | Weighted Average Exercise Price | Shares            | Weighted Average Exercise Price |
| Outstanding at Beginning of Year | 16,000   | \$5.55                          | 16,000            | \$5.55                          |
| Exercised/canceled               | (5,000 ) | (5.25 )                         | -                 | -                               |
| Outstanding at End of Year       | 11,000   | \$5.68                          | 16,000            | \$5.55                          |

All options outstanding are exercisable at February 28, 2014.

## 9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 2014 and 2013.

|                | Net Revenues | Gross Margin | Net Earnings | Basic Earnings Per Share | Diluted Earnings Per Share |
|----------------|--------------|--------------|--------------|--------------------------|----------------------------|
| 2014           |              |              |              |                          |                            |
| First quarter  | \$5,990,500  | \$3,514,300  | \$66,600     | \$0.02                   | \$0.02                     |
| Second quarter | 5,715,100    | 3,054,100    | 56,400       | 0.01                     | 0.01                       |
| Third quarter  | 8,502,000    | 5,207,500    | 547,800      | 0.14                     | 0.14                       |
| Fourth quarter | 5,889,400    | 3,797,600    | (313,200 )   | (0.08 )                  | (0.08 )                    |
| Total year     | \$26,097,000 | \$15,573,500 | \$357,600    | \$0.09                   | \$0.09                     |
| 2013           |              |              |              |                          |                            |
| First quarter  | \$6,594,600  | \$4,118,700  | \$350,200    | \$0.09                   | \$0.09                     |
| Second quarter | 5,464,400    | 3,024,200    | 138,200      | 0.04                     | 0.04                       |
| Third quarter  | 7,864,400    | 4,813,200    | 525,700      | 0.13                     | 0.13                       |
| Fourth quarter | 5,564,100    | 3,037,200    | (211,200 )   | (0.06 )                  | (0.06 )                    |
| Total year     | \$25,487,500 | \$14,993,300 | \$802,900    | \$0.20                   | \$0.20                     |





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## 10. BUSINESS SEGMENTS

We have two reportable segments: EDC Publishing and Usborne Books & More (“UBAM”) which 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.

- EDC Publishing markets its products to retail accounts, which include book, toy and gift stores, school supply stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group.
- UBAM markets its product line through a nationwide network of independent sales consultants using a combination of direct sales, home shows and book fairs. The UBAM division also distributes to school and public libraries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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.

Information by industry segment for the years ended February 28, 2014 and 2013 is set forth below:

## NET REVENUES

|            | 2014          | 2013          |
|------------|---------------|---------------|
| Publishing | \$ 10,968,400 | \$ 10,811,600 |
| UBAM       | \$ 15,128,600 | \$ 14,675,900 |
| Other      | \$ -          | \$ -          |
| Total      | \$ 26,097,000 | \$ 25,487,500 |

## EARNINGS (LOSS) BEFORE INCOME TAXES

|            | 2014           | 2013           |
|------------|----------------|----------------|
| Publishing | \$ 3,448,900   | \$ 3,457,900   |
| UBAM       | \$ 2,159,700   | \$ 2,105,800   |
| Other      | \$ (4,735,100) | \$ (4,281,700) |
| Total      | \$ 873,500     | \$ 1,282,000   |

## 11. STOCK REPURCHASE PLAN

In April 2008, the Board of Directors authorized us to purchase up to an additional 500,000 shares of our common stock under the plan initiated in 1998. This plan has no expiration date. During fiscal year 2014, we purchased 43,349 shares of common stock at an average price of \$2.98 per share totaling approximately \$129,200. The maximum number of shares that may be repurchased in the future is 304,654.

## 12. RECEIVABLE FROM CUSTOMER IN BANKRUPTCY

At February 28, 2013, we had a receivable due from a customer who has filed for protection from its creditors under Chapter 11 of the Bankruptcy Reform Act of 1978 in the amount of \$364,300, of which \$340,000 was reserved in the

allowance for doubtful accounts during a prior year. During fiscal year 2014, we received a final bankruptcy payment towards this receivable in the amount of \$44,800 representing 12% of the allowed amount of our general unsecured claim. The remaining balance was written off against the reserve during the year ended February 28, 2014.

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13. STOCK PURCHASE AGREEMENT

As of February 28, 2013, we acquired a 15.6% position with Demibooks, Inc. for an investment of \$430,300 under a Stock Purchase Agreement. We accounted for this investment using the cost method, as reflected on the balance sheet under 'investment in nonmarketable equity securities'. Demibooks provides a publishing platform, Composer, which is a code-free way for publishers and self-published authors and illustrators to create interactive books for the iPad on the device itself. We utilize the Composer platform to create proprietary interactive products. During the year ended 2014, we identified an impairment indicator in the value of our investment in Demibooks, and determined the impairment to be other than temporary. The Company estimated the fair value of the investment to be \$0 based on the estimated future cash flows, and recognized an impairment loss of \$430,300, which is reflected on the statements of earnings under other expenses.

14. FAIR VALUE MEASUREMENTS

The valuation hierarchy included in U.S. GAAP considers the transparency of inputs used to value assets and liabilities as of the measurement date. The less transparent or observable the inputs used to value assets and liabilities, the lower the classification of the assets and liabilities in the valuation hierarchy. A financial instrument's classification within the valuation hierarchy is based on the lowest level of input that is significant to its fair value measurement. The three levels of the valuation hierarchy and the classification of our financial assets and liabilities within the hierarchy are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly. If an asset or liability has a specified term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs for the asset or liability.

We do not report any assets or liabilities at fair value in the financial statements. However, the estimated fair value of our line of credit is estimated by management to approximate the carrying value of \$0 and \$1,250,000 at February 28, 2014 and 2013, respectively. Management's estimates are based on the obligations' characteristics, including floating interest rate, maturity, and collateral. Such valuation inputs are considered a Level 2 measurement in the fair value valuation hierarchy.

15. SUBSEQUENT EVENT

On March 21, 2014, we paid the previously declared \$0.08 dividend per share to shareholders of record as of March 14, 2014.

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