

EDUCATIONAL DEVELOPMENT CORP

Form 10-K/A

March 29, 2005

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Washington, D.C. 20549
FORM 10-K/A
AMENDMENT NO. 1

(Mark One)

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

For the fiscal year ended February 29, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

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 74146-6515

Registrant's telephone number: (918) 622-4522

(Address of principal executive offices) (Zip Code)

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 an accelerated filer (as defined in Rule 12b-2 of the Act)

Yes [] No [x]

As of April 30, 2004, 3,961,932 shares of common stock were outstanding. The aggregate market value of the voting shares held by non-affiliates of the registrant, based on 2,736,862 shares (total outstanding less shares held by all officers, directors and 401(k) Plan) extended at the closing market price on April 30, 2004, of these shares traded on the Nasdaq National Market, was approximately \$28,052,836.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the annual meeting of stockholders to be held on July 27, 2004.

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EXPLANATORY NOTE

Educational Development Corporation is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended February 29, 2004, filed on May 25, 2004 (the "Original 10-K"), to amend the language contained in the certifications (Exhibits 31.1 and 31.2) to read exactly as set forth in Item 601(b)(31) of Regulation S-K and to

amend PART IV, Item 15 to amend the descriptions of Exhibits 23, 31.1 and 31.2. Amendment No. 1 does not reflect any events occurring after the filing date of the Original 10-K, or otherwise modify or update any of the information contained therein.

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EDUCATIONAL DEVELOPMENT CORPORATION

FORM 10-K ANNUAL REPORT

FOR THE YEAR ENDED FEBRUARY 29, 2004

FACTORS AFFECTING FORWARD LOOKING STATEMENTS

This annual Report on Form 10-K contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Certain statements contained in Item 7 Management Discussion and Analysis are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate. Actual events and results may be materially different from anticipated results described in such statements. The Company's ability to achieve such results is subject to certain risks and uncertainties. Such risks and uncertainties include but are not limited to, product prices, continued availability of capital and financing, and other factors affecting the Company's business that may be beyond its control. Although Educational Development Corporation believes that the expectations reflected by such forward looking statements are reasonable based on information currently available to the Company, no assurances can be given that such exceptions will prove to have been correct.

PART 1

Item 1. BUSINESS

(a) General Development of Business

Educational Development Corporation (EDC or the Company), a Delaware corporation with its principal office in Tulsa, Oklahoma, is the exclusive trade publisher of a line of children's books produced in the United Kingdom by Usborne Publishing Limited.

The Company was incorporated on August 23, 1965. The Company's original corporate name was Tutor Tapes International Corporation of Delaware. Its name was changed to International Teaching Tapes, Inc. on November 24, 1965, and changed again to the present name on June 24, 1968.

During Fiscal Year (FY) 2004 the Company operated two divisions: Home Business Division (Usborne Books at Home or UBAH) and Publishing Division. The Home Business Division distributes books through independent consultants who hold book showings in individual homes, and through book fairs, direct sales and Internet sales. The Home Business Division also distributes these titles to school and public libraries. The Publishing Division markets books to bookstores, toy stores, specialty stores and other retail outlets.

The Company makes available free of charge through the Investor Relations portion of its Internet website at www.edcpub.com its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Significant Events During Fiscal Year 2004

There were no significant events during fiscal year 2004.

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(b) Financial Information about Industry Segments

See part II, Item 8 Financial Statements and Supplementary Data

(c) Narrative Description of Business

(i) General

The principal product of both the Home Business Division (Usborne Books at Home or UBAH) and Publishing Division is a line of children's books produced in the United Kingdom by Usborne Publishing Limited. The Company is the sole United States trade publisher of these books. The Company currently offers approximately 1,300 different titles. The Company also distributes a product called Usborne Kid Kits . These Kid Kits take an Usborne book and combine it with specially selected items and/or toys that complement the information contained in the book. The Kid Kits are packaged in a reusable vinyl bag. Alternatively, 14 Kid Kits are also available in an attractive box package. Currently 60 different Kid Kits are available.

The Company considers the political risk of importing books from the United Kingdom to be negligible as the two countries have maintained excellent relations for many years. Likewise there is little direct economic risk to the Company in importing books from the United Kingdom as the Company pays for the books in U.S. dollars and is not directly subject to any currency fluctuations. There is risk of physical loss of the books should an accident occur while the books are in transit, which could cause the Company some economic loss due to lost sales should the supply of some titles be depleted in the event of a lost shipment. The Company considers this to be highly unlikely as this type of loss has yet to occur.

There is some risk involved in having only one source for its products - Usborne Publishing Limited. The Company has an excellent working relationship with its foreign supplier Usborne Publishing Limited and can foresee no reason for this to change. Management believes that the Usborne line of books are the best available books of their type.

(ii) Industry Segments

(a) Home Business Division

The Home Business Division markets the Usborne line of approximately 1,300 titles and 60 Kid Kits through a combination of direct sales, home parties, book fairs and the Internet, sold through a network marketing system. The division also sells to schools and public libraries.

(b) Publishing Division

The Publishing Division distributes the Usborne line to bookstores, toy stores, specialty stores and other retail outlets utilizing an inside telephone sales force as well as independent field sales representatives.

(iii) Research and Development

The Company spent approximately \$14,000 in fiscal year 2001 and \$120,000 in fiscal year 2000 in development of a new product, Make Reading Fun , a fully interactive reading and phonics program. The Company began sales of this product during the last quarter of FY 2001.

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(iv) Marketing

(a) Home Business Division

The Home Business Division markets through commissioned consultants using a combination of direct sales, home parties, book fairs and the Internet. The division had approximately 8,800 consultants in 50 states at February 29, 2004.

(b) Publishing Division

The Publishing Division markets through commissioned trade representatives who call on book, toy, specialty stores and other retail outlets; and through marketing by telephone to the trade. This division markets to approximately 6,000 book, toy and specialty stores. Significant orders totaling 32% of the Publishing Division's sales have been received from major book chains. During fiscal year 2004 the division continued to expand into mass merchandising outlets such as drug, department and discount stores.

(v) Competition

(a) Home Business Division

The Home Business Division faces significant competition from several other direct selling companies that have more financial resources. In addition, federal and state funding cuts will also impact the availability of funds to the school libraries. The Company is unable to estimate the effect of these funding cuts on the division's future sales to school libraries, because the magnitude of funding cuts has yet to be determined by Congress. Management believes its superior product line and consultant network will enable this division to be highly competitive in its market area.

(b) Publishing Division

The Publishing Division faces strong competition from large U.S. and international companies that have more financial resources. Industry sales of juvenile paperbacks approached \$449 million annually, down 5.2% from the previous year. The Publishing Division's sales are approximately 1.7% of industry sales. Competitive factors include product quality, price and deliverability. Management believes its product line will enable this division to compete well in its market area.

(vi) Seasonality

(a) Home Business Division

The level of sales for Home Business Division is greatest during the Fall as individuals prepare for the holiday season.

(b) Publishing Division

The level of sales for the Publishing Division is greatest in the Fall while retailers are stocking up for the holiday season.

(vii) Government Funding

Local, state and federal funds are important to the Home Business Division but not to the Publishing Division. In many cities and states in which the Company does business, school funds have been severely cut, which impacts sales to school libraries.

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(viii) Trademarks, Copyrights and Patents

(none)

(ix) Employees

As of April 1, 2004, the Company had 71 full-time employees and 1 part-time employee. The Company believes its relations with its employees to be good.

Item 2. PROPERTIES

The Company is located at 10302 E. 55th Pl, Tulsa, Oklahoma. In January 2002, the Company purchased for \$1.8 million the warehouse and office facilities it formerly leased. These facilities contain approximately 80,400 square feet of office and warehouse space.

In October 2003 the Company signed a contract to construct a 20,000 square foot addition to its warehouse facility at an estimated cost of \$582,400. This addition is scheduled to be completed in June 2004. As of February 29, 2004, the Company had incurred costs of \$179,800 related to the addition to the warehouse facility.

The Company's operating facility is well maintained, in good condition and is adequately insured. Equipment items are well maintained and in good operating condition consistent with the requirement of the Company's business. The Company believes that its operating facility meets both its present and future capacity needs.

Item 3. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceedings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of the Company.

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 National Market (symbol EDUC). The high and low closing quarterly common stock quotations for fiscal years 2004 and 2003, as reported by the National Association of Securities Dealers, Inc., were as follows:

2004

2003

Period	High	Low	High	Low
1st Qtr	10.63	9.38	7.40	6.65
2nd Qtr	13.58	9.90	7.19	6.34
3rd Qtr	13.05	10.13	7.98	6.00
4th Qtr	11.18	10.35	9.75	7.60

The number of shareholders of record of EDC's common stock at April 22, 2004 was 955.

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The Company paid a \$0.10 per share annual dividend during fiscal year 2004 and a \$0.06 per share annual dividend during fiscal year 2003. In January 2003, the Company announced that the Board of Directors had approved a policy to pay 20% of annual net earnings as a cash dividend. Accordingly, the Company announced that it will pay a \$0.12 per share dividend on June 10, 2004 to shareholders of record as of May 26, 2004.

The following table sets forth certain information concerning the repurchase of the Company's Common Stock made by the Company during the fourth quarter of the fiscal year ended February 29, 2004.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
December 1, 2003 - December 31, 2003				162,392
January 1, 2004 - January 31, 2004	2,634	\$10.87	2,634	159,758
February 1, 2004 - February 29, 2004	1,334	\$10.68	1,334	158,424
Total	3,968	\$10.80	3,968	

(1) All of the shares of common stock set forth in this column (a) were purchased pursuant to a publicly announced plan as described in footnote 2 below and all of such shares were purchased through open-market transactions, except for 1,300 shares purchased during the period of January 1, 2004 - January 31, 2004, which were purchased privately from a former employee.

(2) In July 1998, the Board of Directors authorized the Company to purchase up to 1,000,000 shares of the Company's common stock pursuant to a plan that was announced publicly on October 14, 1998. In May 1999, the Board of Directors authorized the Company to purchase up to an additional 1,000,000 shares of its common stock under this plan, which was announced publicly on May 19, 1999. Pursuant to the plan, the Company may purchase such 2,000,000 shares of the Company's common stock until 2,000,000 shares have been repurchased. There is no expiration date for the repurchase plan.

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Item 6. SELECTED FINANCIAL DATA

YEARS ENDED FEBRUARY 28 (29)

	2004	2003	2002	2001	2000
Total Revenues	\$30,362,415	\$26,257,674	\$21,614,653	\$18,454,351	\$17,590,791
Earnings From Continuing Operations	\$ 2,373,450	\$ 2,038,085	\$ 1,531,274	\$ 1,090,262	\$ 1,079,028
Earnings From Continuing Operations Per Common Share Basic	\$.60	\$.53	\$.40	\$.28	.25
Diluted	\$.55	\$.49	\$.38	\$.27	\$.24
Total Assets	\$19,086,994	\$17,561,733	\$14,156,798	\$12,471,650	\$12,340,022
Cash Dividends Declared Per Common Share	\$.10	\$.06	\$.04	\$.02	\$.02

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

Overview

The Company operates two separate divisions, Publishing and Usborne Books at Home (UBAH) to sell the Usborne line of children's books. These two divisions each have their own customer base. The Publishing Division markets its products on a wholesale basis to various retail accounts. The UBAH Division markets its products to individual consumers as well as school and public libraries.

Publishing Division

The Publishing Division operates in a market that is highly competitive, with a large number of companies engaged in the selling of books. The Publishing Division is in direct competition with all of these other companies. Sales in the book industry were \$23.4 billion for calendar year 2003. Sales in the trade industry, defined as wholesale sales to

retailers, were slightly over \$5 billion for calendar year 2003. Sales in the juvenile paperback market, the Company's market segment, were \$448 million for calendar year 2003. The Company's market share in the juvenile paperback market has remained constant during the last three years.

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The following table sets forth the annual sales in the book industry for the last three calendar years and compares these sales to the Publishing Division's net sales.

Table of Book Industry Sales (1)
(amounts in millions)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Sales Total Industry	\$23,420.6	\$22,398.1	\$21,054.5
Sales Total Trade	\$ 5,063.8	\$ 5,002.3	\$ 4,537.4
Sales Juvenile Paperback	\$ 448.6	\$ 473.2	\$ 476.1
Publishing Division's Sales (2)	\$ 7.5	\$ 7.6	\$ 7.4
Publishing Division's Market Share of Total Book Industry	0.03%	0.03%	0.04%
Publishing Division's Market Share of Total Trade Market	0.15%	0.15%	0.16%
Publishing Division's Market Share of Juvenile Paperback Market	1.7%	1.6%	1.6%

(1) Source: Association of American Publishers

(2) Reported on fiscal year basis

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 telesales group located in the Company's headquarters. The Vice President of the Publishing Division manages sales to the national chains.

The following table sets forth the percentages of net revenues earned by sales to the national chains and sales to other markets for the Publishing Division for the past three fiscal years.

	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>
National chain stores	32%	35%	32%
All other	68%	65%	68%
	—	—	—
Total net sales	100%	100%	100%
	—	—	—

Sales to national chain stores declined in fiscal year 2004 primarily due to the loss of a customer from bankruptcy.

The Publishing Division follows several avenues in order 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. These shows allow the Company to make contact with potential buyers who may be unfamiliar with the Company's

books. The Company actively targets the national chains through cooperative advertising, joint promotional efforts and institutional advertising in trade publications.

The Publishing Division's in-house telesales group targets the smaller independent book and gift store market. They maintain contact with approximately 6,000 customers. During fiscal year 2004 the telesales group opened 371 new accounts. The Company's full color, 130-page catalogs, which are revised twice a year, are mailed to nearly 6,000 customers and potential customers. The Company also offers two display racks to assist stores in displaying the Company's products. One is a six-foot rack with five adjustable shelves that can hold approximately 250 titles. The second rack is a four-sided rack with three levels that will hold between 50 and 60 of the Company's Kid Kits. There were 3,797 of these attractive racks in retail stores throughout the country at the end of fiscal year 2004.

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Publishing Division's revenues have remained constant the last three fiscal years, with net revenues of \$7.4 million \$7.6 million each fiscal year. Management expects that in fiscal year 2005 the Publishing Division will achieve revenues in the \$7.5 million \$8.0 million range.

Usborne Books at Home (UBAH) Division

The UBAH Division is a multi-level selling organization that markets its products through independent sales representatives (consultants) located throughout the United States. The customer base of UBAH consists of individual purchasers and 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 UBAH Division is the addition of new sales consultants and the retention of existing sales consultants. Current active consultants recruit new sales consultants. UBAH makes it easy to recruit by providing low sign-up costs. Kits containing sample products and supplies can be purchased for as little as \$29. UBAH provides an extensive handbook that is a valuable tool in explaining the various programs to the new recruit.

The following table sets forth the number of new consultants added during the last three fiscal years and the number of active sales consultants at the end of the last three fiscal years.

	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>
New Consultants	6,964	5,715	3,890
Active Consultants End of Fiscal Year	8,800	7,000	5,600

The UBAH Division presently has three levels of sales representatives: consultants; supervisors; executive supervisors. Upon signing up, each individual is considered a consultant. A consultant receives commissions from each sale the consultant makes, the commission rate being determined by the marketing program under which the sale is made. In addition, consultants receive a monthly sales bonus once the consultant's sales reach an established monthly goal. Consultants who recruit other consultants and meet certain established criteria are eligible to become supervisors. Upon reaching this level, they receive monthly override payments based upon the sales of their downline groups. The marketing program under which the sales are made determines the rate for the override payments. Once a supervisor reaches certain established criteria, they become executive supervisors. An executive supervisor may receive an additional monthly override payment based upon the sales of their downline groups.

The table below sets forth the different types of marketing programs UBAH offers and the percentage of total revenues that each marketing program has generated for the last three fiscal years, including transportation revenue

	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>
Home Shows	54%	57%	58%
Direct Sales	4%	4%	4%
Book Fair	21%	16%	14%
School & Library	8%	11%	13%
Internet	3%	2%	1%
Transportation Revenue	10%	10%	10%

Totals

100%

100%

100%

—

—

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The table below sets forth a comparison of the percentage increase (decrease) between fiscal years in the net revenue generated by the different types of marketing programs offered by UBAH, along with the percentage increase (decrease) in transportation revenue.

	FY 2004 Compared With FY 2003	FY 2003 Compared With FY 2002
	<hr/>	<hr/>
Home Shows	17%	30%
Direct Sales	19%	24%
Book Fair	64%	50%
School & Library	0%	10%
Internet	94%	86%
Transportation Revenue	17%	30%

Home shows are the largest generator of revenue for the UBAH Division and will continue this for the foreseeable future. The significant increase in home show revenue is attributed to the increase in active consultants, which have increased from 5,600 in fiscal year 2002 to 7,000 in fiscal year 2003 to 8,800 at the end of fiscal year 2004.

The direct sales market continues to increase as a result of increases in the number of active sales consultants.

The book fair marketing program has experienced tremendous growth the last several years. UBAH believes that its program is superior to that of their major competitor in this market. Many schools have begun to hold joint book fairs with UBAH and our competitor and the Company does well at these events. In many cases, UBAH book fairs have been the only allowed participant. The Company looks forward to continued growth in this market as it gains wider acceptance.

The school and library market is affected by the budget constraints of the various state school budgets. Cuts in the school's budget affect the ability of UBAH to be more effective in this market. As a result, sales in the last two fiscal years remained constant.

The Internet market is a relatively new market for UBAH. The revenues from this market, when compared with the other markets, are quite small. However, the Internet sales have increased significantly year to year.

The UBAH Marketing Programs

Homes shows were the original marketing program when UBAH began in 1989 and continues today to generate the greatest percentage of revenue for UBAH. Consultants contact individuals (hostesses) to hold book shows in their homes. The consultant assists the hostess in setting up the details for the show. The consultant 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. Home shows provide an excellent opportunity for recruiting as well. Direct sales are sales without a hostess being involved. This program makes it possible for the consultant to work directly out of her home selling to friends, neighbors and other customers. It is especially convenient for those individuals who wish to order books from a consultant but they are unable to attend a home show. Customer specials are available for customers when they order a selected amount.

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. UBAH also has a *Reach For The Stars* fund raiser program. This is a pledge-based reading incentive program that provides cash and books to the organization and books for the children.

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School and library sales are restricted to consultants who have received additional training in order to allow them to sell to schools and libraries. The UBAH consultant is the only source that a library or school has for library bound Usborne books. They are not available through any of the school supply distribution companies.

The UBAH Division offers individual web sites to the consultants. These sites are hosted by the Company and are available for a nominal price. The consultant can customize the web site to their own particular needs or they can maintain the generic site. These web sites provide access to the Company's 1,300 plus titles. Orders can be processed on line through a shopping cart arrangement. The orders are transmitted to the Company and the consultant receives sales credit and commission on the sales.

The table below sets forth the number of orders for each UBAH marketing program.

	FY 2004	FY 2003	FY 2002
Home Shows	41,763	35,489	27,367
Direct Sales	10,928	9,366	6,989
Book Fair	6,503	4,208	2,724
School & Library	4,842	6,435	4,594
Internet	13,532	7,017	3,598
	77,568	62,515	45,272

The Company monitors the trends displayed in the above table in order to judge how the five marketing programs are performing. This table shows strong growth in four of the five categories. As addressed above, the school and library market is impacted by the budget cuts undertaken by many schools.

UBAH's revenues and profits for fiscal year 2004 increased for the 5th consecutive year. The Company believes that the UBAH Division has the greatest growth potential for the Company. While there are many multi-level companies in the United States, UBAH is the only one selling books exclusively. The Company believes this is a fertile market with excellent opportunities for continued growth. The keys to future growth in the UBAH Division are recruiting of new consultants and retaining existing consultants.

Results of Operations

The following table sets forth consolidated statement of income data as a percentage of total revenues

	FY 2004	FY 2003	FY 2002
Revenues	100.0%	100.0%	100.0%
Cost of sales	34.8%	36.5%	37.6%
Gross margin	65.2%	63.5%	62.4%

Operating expenses:			
Operating & selling	21.6%	21.3%	22.1%
Sales commissions	25.4%	24.1%	22.5%
General & administrative	5.8%	6.0%	6.8%
Interest	0.0%	0.0%	0.1%
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	52.9%	51.3%	51.5%
	<u> </u>	<u> </u>	<u> </u>
Other income	0.3%	0.3%	0.4%
	<u> </u>	<u> </u>	<u> </u>
Earnings before income taxes	12.6%	12.4%	11.3%
Income taxes	4.8%	4.7%	4.2%
	<u> </u>	<u> </u>	<u> </u>
Net earnings	7.8%	7.8%	7.1%
	<u> </u>	<u> </u>	<u> </u>

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Fiscal Year 2004 Compared with Fiscal Year 2003

Operating Results

The Company had income before income taxes of \$3,832,450 for fiscal year 2004 compared with \$3,264,785 for fiscal year 2003.

Revenues

	FY 2004	FY 2003	\$ Increase/ (decrease)
Gross sales	\$ 40,070,070	\$ 36,036,786	\$4,033,284
Less discounts & allowances	(11,318,228)	(11,156,675)	(161,553)
Transportation revenue	1,610,573	1,377,563	233,010
Total revenues	\$ 30,362,415	\$ 26,257,674	\$4,104,741

The UBAH Division's gross sales increased 20% during FY 2004 when compared with FY 2003. Each quarter of FY 2004 recorded a sales increase when compared with the same quarter of FY 2003. A quarterly comparison of FY 2004 versus FY 2003 shows the first quarter up 20%, the second quarter up 27%, the third quarter up 23% and the fourth quarter up 11%. The Company attributes these increases primarily as a result of a 22% increase in the number of new consultants. In addition, the Company continued to offer leadership skills seminars throughout FY 2004. These seminars are designed to help supervisors build their business and the seminars proved to be very popular with these supervisors. The Publishing Division's gross sales declined 1% during FY 2004 when compared with FY 2003. The Company attributes this decline to the loss of a major customer from bankruptcy.

The UBAH Division's discounts and allowances were \$3.4 million and \$3.2 million in fiscal years 2004 and 2003, respectively. The Publishing Division's discounts and allowances were \$7.9 million and \$8.0 million in fiscal years 2004 and 2003, respectively. The UBAH Division's discounts and allowances were 14% and 16% of UBAH's gross sales for the fiscal years 2004 and 2003 respectively. The Publishing Division's discounts and allowances were 52% and 51% of Publishing's gross sales for the fiscal years 2004 and 2003, respectively. The increase in transportation revenues is the result of increased sales in the UBAH Division.

Expenses

	FY 2004	FY 2003	\$ Increase/ (decrease)
Cost of sales	\$ 10,574,800	\$ 9,591,425	\$ 983,375
Operating & selling	6,565,143	5,580,903	984,240
Sales commissions	7,712,408	6,327,058	1,385,350

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General & administrative	1,760,631	1,569,826	190,805
Interest	9,762	884	8,878
Other income	(92,779)	(77,207)	(15,572)
	<u> </u>	<u> </u>	<u> </u>
Total	\$26,529,965	\$22,992,889	\$3,537,076
	<u> </u>	<u> </u>	<u> </u>

Cost of sales increased approximately 10% in fiscal year 2004 when compared with fiscal year 2003. The Company's cost of its products is 25% to 32% of the gross sales price, depending upon the product. In comparing the percentage increase in sales with the percentage increase in cost of goods, consideration must be given to the mix of products sold. The 10% increase in cost of sales is consistent with the percent increase in gross sales of approximately 11% for the same two fiscal years.

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Operating and selling expenses increased because of an increase in freight expense for both divisions combined of \$310,000 and an increase in damaged returns for both divisions combined of \$68,000. The UBAH Division incurred increases of \$452,000 in customer sales incentive costs and an increase in credit card fees in the UBAH Division of \$98,000. These increases are directly attributable to the increase in sales. Also contributing to the increase in operating and selling expenses were other items aggregating \$56,200. Operating and selling expenses as a percentage of gross sales were 16.4% for fiscal year 2004 and 15.5% for fiscal year 2003.

Sales commissions in the Publishing Division remained flat for the fiscal years ended 2004 and 2003. Publishing Division sales commissions are paid on net sales and were 1.4% of net sales in fiscal years 2004 and 2003. Sales commissions in the UBAH Division increased \$1,385,000. UBAH Division sales commissions are paid on retail sales and were 38.9% for fiscal year 2004 and 39.4% for fiscal year 2003. The fluctuation in the percentages of commission expense to retail sales is the result of the type of sale. Home shows, book fairs, school and library sales and direct sales have different commissions 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 increased sales in the UBAH Division.

General and administrative expenses increased because of additions to the reserve for obsolete inventory of \$77,300, additions to the reserve for bad debts of \$12,000, an increase in the accrual for audit and tax fees of \$14,700 and increased payroll costs of \$60,700. Also contributing to the increase in general and administrative expenses were other items aggregating \$26,100. General and administrative expenses as a percentage of gross sales were 4.4% for fiscal year 2004 and 4.4% for fiscal year 2003.

Interest expense increased \$8,900 due to increased borrowings throughout fiscal year 2004. Interest expense as a percentage of gross sales was 0.02% in fiscal year 2004 and was nominal in fiscal year 2003.

Other income increased \$15,600 due to other items.

The tax provision for fiscal year 2004 was \$1,459,000. The effective rate for fiscal year 2004 was 38.0%, which is consistent with fiscal year 2003. The Company's current tax liability was reduced by \$87,900 as a result of the benefit obtained from several Company officers exercising stock options.

Fiscal Year 2003 Compared with Fiscal Year 2002

Operating Results

The Company had income before income taxes of \$3,264,785 for fiscal year 2003 compared with \$2,440,074 for fiscal year 2002.

Revenues

	FY 2003	FY 2002	\$ Increase/ (decrease)
Gross sales	\$ 36,036,786	\$ 30,457,695	\$ 5,579,091
Less discounts & allowances	(11,156,675)	(9,903,244)	(1,253,431)
Transportation revenue	1,377,563	1,060,202	317,361

Total revenues	<u>\$ 26,257,674</u>	<u>\$21,614,653</u>	<u>\$ 4,643,021</u>
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The UBAH Division's gross sales increased 33% during FY 2003 when compared with FY 2002. Each quarter of FY 2003 recorded a sales increase when compared with the same quarter of FY 2002. A quarterly comparison of FY 2003 versus FY 2002 shows the first quarter up 44%, the second quarter up 18%, the third quarter up 39% and the fourth quarter up 30%. The Company attributes these increases to the fact that the number of active sales consultants increased 14% during FY 2003. In addition, the Company continued to offer leadership skills seminars throughout FY 2003. These seminars are designed to help supervisors build their business. The Publishing Division's gross sales increased 3% during FY 2003 when compared with FY 2002. The Company attributes this to an increase in sales to the national chains, the result of increased marketing efforts directed at the national chains.

The UBAH Division's discounts and allowances were \$3.2 million and \$2.2 million in fiscal years 2003 and 2002, respectively. The Publishing Division's discounts and allowances were \$8.0 million and \$7.7 million in fiscal years 2003 and 2002, respectively. The UBAH Division's discounts and allowances were 16% and 14% of UBAH's gross sales for the fiscal years 2003 and 2002 respectively. The Publishing Division's discounts and allowances were 51% and 51% of Publishing's gross sales for the fiscal years 2003 and 2002, respectively.

The increase in transportation revenues is the result of increased sales in both the UBAH Division and the Publishing Division.

Expenses

	FY 2003	FY 2002	\$ Increase/ (decrease)
Cost of Sales	\$9,591,425	\$8,121,522	\$1,469,903
Operating & selling	5,580,903	4,777,667	803,236
Sales commissions	6,327,058	4,867,970	1,459,088
General & administrative	1,569,826	1,463,631	106,195
Interest	884	20,343	