EDUCATIONAL DEVELOPMENT CORP
Form 10-Q
October 15, 2012

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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2012

OR

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

For the transition period from ___________ to ____________.

Commission file number: 0-4957

EDUCATIONAL DEVELOPMENT CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of October 11, 2012, there were 3,943,339 shares of Educational Development Corporation Common Stock, $0.20 par value outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED BALANCE SHEETS (UNAUDITED)

| | August 31, 2012 | February 29, 2012 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $433,000 | $760,100 |
| Accounts receivable, less allowance for doubtful accounts and sales returns $516,800 (August 31) and $556,300 (February 29) | 3,768,200 | 3,575,000 |
| Inventories—Net | 10,981,100 | 9,854,000 |
| Prepaid expenses and other assets | 196,900 | 277,100 |
| Income tax receivable | 21,500 | - |
| Deferred income taxes | 342,000 | 379,800 |
| Total current assets | 15,742,700 | 14,846,000 |
| INVENTORIES—Net | 515,900 | 548,000 |
| PROPERTY, PLANT AND EQUIPMENT—Net | 1,958,600 | 2,000,400 |
| INVESTMENT IN NONMARKETABLE EQUITY SECURITIES | 379,400 | 250,000 |
| OTHER ASSETS | 301,100 | 301,100 |
| DEFERRED INCOME TAXES | 69,300 | 65,900 |
| TOTAL ASSETS | $18,967,000 | $18,011,400 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Revolving credit agreement | $775,000 | $250,000 |
| Accounts payable | 3,094,300 | 1,793,900 |
| Accrued salaries and commissions | 386,000 | 436,700 |
| Income taxes payable | - | 64,200 |
| Dividends payable | 471,700 | 469,600 |
| Other current liabilities | 414,000 | 779,400 |
| Total current liabilities | 5,141,000 | 3,793,800 |
| COMMITMENTS | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 6,041,040 (August 31 and February 29) shares; Outstanding 3,931,205 (August 31) and 3,913,183 (February 29) shares | 1,208,200 | 1,208,200 |
| Capital in excess of par value | 8,548,000 | 8,548,000 |
| Retained earnings | 15,671,600 | 16,124,900 |

| | | |
|---|---|---|
| | 25,427,800 | 25,881,100 |
| Less treasury stock, at cost | (11,601,800 ) | (11,663,500 ) |
| | 13,826,000 | 14,217,600 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $18,967,000 | $18,011,400 |

See notes to condensed financial statements.

Table of Contents

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| GROSS SALES | $9,388,100 | $9,390,900 | $18,992,000 | $18,694,800 |
| Less discounts and allowances | (4,097,300) | (4,132,400) | (7,325,800) | (7,397,700) |
| Transportation revenue | 173,600 | 178,600 | 392,800 | 404,400 |
| NET REVENUES | 5,464,400 | 5,437,100 | 12,059,000 | 11,701,500 |
| COST OF SALES | 2,440,200 | 2,400,400 | 4,916,100 | 4,840,800 |
| Gross margin | 3,024,200 | 3,036,700 | 7,142,900 | 6,860,700 |
| | | | | |
| OPERATING EXPENSES: | | | | |
| Operating and selling | 1,504,500 | 1,488,100 | 3,105,700 | 3,133,900 |
| Sales commissions | 810,000 | 841,400 | 2,176,500 | 2,065,900 |
| General and administrative | 489,100 | 511,800 | 1,080,700 | 990,200 |
| | 2,803,600 | 2,841,300 | 6,362,900 | 6,190,000 |
| | | | | |
| OTHER INCOME (EXPENSE) | (1,400) | 4,700 | 1,100 | 10,100 |
| | | | | |
| EARNINGS BEFORE INCOME TAXES | 219,200 | 200,100 | 781,100 | 680,800 |
| | | | | |
| INCOME TAXES | 81,000 | 73,900 | 292,700 | 254,400 |
| | | | | |
| NET EARNINGS | $138,200 | $126,200 | $488,400 | $426,400 |
| | | | | |
| BASIC AND DILUTED EARNINGS PER SHARE: | | | | |
| Basic | $0.04 | $0.03 | $0.12 | $0.11 |
| Diluted | $0.04 | $0.03 | $0.12 | $0.11 |
| | | | | |
| DIVIDENDS PER SHARE | $0.12 | $0.12 | $0.24 | $0.24 |
| | | | | |
| WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING: | | | | |
| Basic | 3,924,514 | 3,893,283 | 3,921,397 | 3,895,206 |
| Diluted | 3,924,514 | 3,893,700 | 3,921,397 | 3,896,363 |

See notes to condensed financial statements.

Table of Contents

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED AUGUST 31, 2012

| | Common Stock (par value $0.20 per share) | | | | Treasury Stock | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares Issued | Amount | Capital in Excess of Par Value | Retained Earnings | Number of Shares | Amount | Shareholders' Equity |
| BALANCE—March 1, 2012 | 6,041,040 | $ 1,208,200 | $ 8,548,000 | $ 16,124,900 | 2,127,857 | $ (11,663,500) | $ 14,217,600 |
| Purchases of treasury stock | - | - | - | - | 10,200 | (49,100) | (49,100) |
| Sales of treasury stock | - | - | - | - | (28,222) | 110,800 | 110,800 |
| Dividends declared ($.12/share) | - | - | - | (471,700) | - | - | (471,700) |
| Dividends declared and paid ($.12/share) | - | - | - | (470,000) | - | - | (470,000) |
| Net earnings | - | - | - | 488,400 | - | - | 488,400 |
| BALANCE—August 31, 2012 | 6,041,040 | $ 1,208,200 | $ 8,548,000 | $ 15,671,600 | 2,109,835 | $ (11,601,800) | $ 13,826,000 |

See notes to condensed financial statements.

Table of Contents

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

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | $171,700 | $46,900 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in nonmarketable equity securites | (129,400) | - |
| Purchases of property, plant and equipment | (16,500) | (61,000) |
| Net cash used in investing activities | (145,900) | (61,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash paid to acquire treasury stock | (49,100) | (214,300) |
| Cash received from sales of treasury stock | 110,800 | 107,600 |
| Borrowings under revolving credit agreement | 725,000 | - |
| Payments under revolving credit agreement | (200,000) | - |
| Dividends paid | (939,600) | (935,400) |
| Net cash used in financing activities | (352,900) | (1,042,100) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (327,100) | (1,056,200) |
| CASH AND CASH EQUIVALENTS—BEGINNING OF PERIOD | 760,100 | 1,988,200 |
| CASH AND CASH EQUIVALENTS—END OF PERIOD | $433,000 | $932,000 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | $7,200 | $- |
| Cash paid for income taxes | $344,100 | $346,000 |

See notes to condensed financial statements.

Table of Contents

EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 – The information shown with respect to the three and six months ended August 31, 2012 and 2011, which is unaudited, includes all adjustments which in the opinion of Management are considered to be necessary for a fair presentation of earnings for such periods. The adjustments reflected in the financial statements represent normal recurring adjustments. The results of operations for the three and six months ended August 31, 2012 and 2011, are not necessarily indicative of the results to be expected at year end due to seasonality of the product sales.

These financial statements and notes are prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and should be read in conjunction with the Financial Statements and accompanying notes contained in our Annual Report to Shareholders for the Fiscal Year ended February 29, 2012.

Note 2 – Effective June 30, 2012, we signed a Fourteenth Amendment to the Credit and Security Agreement with Arvest Bank (the Bank) which provides a $2,500,000 line of credit through June 30, 2013. Interest is payable monthly at the greater of (a) prime-floating rate minus 0.75% or (b) 4.00%. At August 31, 2012, the rate in effect was 4.00%. Borrowings are collateralized by substantially all the assets of the Company.

At August 31, 2012, we had $775,000 debt outstanding under this agreement. Available credit under the revolving credit agreement was $1,725,000 at August 31, 2012. 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, 2013 and that the sum of the line of credit plus the letters of credit would not exceed the borrowing base in effect at the time. The agreement contains provisions that require us to maintain specified financial ratios, restrict transactions with related parties, prohibit mergers or consolidation, disallow additional debt, and limit the amount of compensation, salaries, investments, capital expenditures and leasing transactions. We intend to renew the bank agreement or obtain other financing upon maturity. For the quarter ended August 31, 2012, we had no letters of credit outstanding.

Note 3 – Inventories consist of the following:

| | 2012 | |
|---|---|---|
| | August 31, | February 29, |
| Current: | | |
| Book inventory | $ 11,006,100 | $ 9,879,000 |
| Inventory valuation allowance | (25,000 ) | (25,000 ) |
| Inventories net–current | $ 10,981,100 | $ 9,854,000 |
| Noncurrent: | | |
| Book inventory | $ 865,900 | $ 888,000 |
| Inventory valuation allowance | (350,000 ) | (340,000 ) |
| Inventories net–noncurrent | $ 515,900 | $ 548,000 |

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

Significant portions of our inventory purchases are concentrated with an England-based publishing company.  Purchases from this company were approximately $2.6 million and $2.3 million for the three months ended August 31, 2012 and 2011, respectively.  Total inventory purchases from all suppliers were approximately $3.7 million and $2.7 million for the three months ended August 31, 2012 and 2011, respectively.

For the six months ended August 31, 2012 and 2011, respectively, purchases from this company were approximately $5.1 million and $4.3 million.  Total inventory purchases from all suppliers were approximately $6.4 million and $5.4 million for the same respective periods.

Table of Contents

Note 4 – Basic earnings per share ("EPS") is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is based on the combined weighted average number of common shares outstanding and dilutive potential common shares issuable which include, where appropriate, the assumed exercise of options. In computing diluted EPS we have utilized the treasury stock method.

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

Earnings Per Share:

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings applicable to common shareholders | $138,200 | $126,200 | $488,400 | $426,400 |
| Shares: | | | | |
| Weighted average shares outstanding - basic | 3,924,514 | 3,893,283 | 3,921,397 | 3,895,206 |
| Assumed exercise of options | - | 417 | | 1,157 |
| Weighted average shares outstanding - diluted | 3,924,514 | 3,893,700 | 3,921,397 | 3,896,363 |
| Basic Earnings Per Share | $0.04 | $0.03 | $0.12 | $0.11 |
| Diluted Earnings Per Share | $0.04 | $0.03 | $0.12 | $0.11 |

In April 2008, our Board of Directors authorized us to purchase up to 500,000 additional shares of our common stock under a plan initiated in 1998. This plan has no expiration date. During the second quarter of fiscal year 2013, we did not purchase any shares of common stock. The maximum number of shares that can be repurchased in the future is 349,909.

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

Note 6 – Freight costs and handling costs incurred are included in operating & selling expenses and were $368,400 and $500,100 for the three months ended August 31, 2012 and 2011, respectively.

For the six months ended August 31, 2012 and 2011, respectively, freight and handling costs incurred are included in operating & selling expenses and were $1,069,600 and $1,000,200.

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

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

Table of Contents

Information by industry segment for the three and six months ended August 31, 2012 and 2011 follows:

NET REVENUES

| | Three Months Ended August 31, 2012 | Three Months Ended August 31, 2011 | Six Months Ended August 31, 2012 | Six Months Ended August 31, 2011 |
|---|---|---|---|---|
| Publishing | $ 3,130,100 | $ 2,832,900 | $ 5,436,900 | $ 5,236,100 |
| UBAM | 2,334,300 | 2,604,200 | 6,622,100 | 6,465,400 |
| Other | - | - | - | - |
| Total | $ 5,464,400 | $ 5,437,100 | $ 12,059,000 | $ 11,701,500 |

EARNINGS BEFORE INCOME TAXES

| | Three Months Ended August 31, 2012 | Three Months Ended August 31, 2011 | Six Months Ended August 31, 2012 | Six Months Ended August 31, 2011 |
|---|---|---|---|---|
| Publishing | $ 1,014,400 | $ 910,300 | $ 1,789,400 | $ 1,670,200 |
| UBAM | 182,300 | 291,600 | 1,087,700 | 991,600 |
| Other | (977,500 ) | (1,001,800) | (2,096,000) | (1,981,000) |
| Total | $ 219,200 | $ 200,100 | $ 781,100 | $ 680,800 |

Note 8 - The Financial Accounting Standards Board (“FASB”) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. We have reviewed the recently issued pronouncements and concluded that the recently issued accounting standards are not currently applicable to us.

Note 9 - At February 29, 2012, we had a receivable in the amount of $364,500 due from a customer who has filed for protection from its creditors under Chapter 11 of the Bankruptcy Reform Act of 1978 ("Act"), as it had been unable to secure further financing to satisfy the claims of its creditors.  At August 31, 2012, this receivable remains $364,500, of which, $340,000 is reserved.

Note 10 - On October 13, 2011, we signed a Stock Purchase Agreement to acquire an 11% position with Demibooks, Inc for an initial investment of $250,000.  We have 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 for interactive books.  Their Demibooks® Composer product 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 will utilize the Composer platform to create our proprietary interactive products. The Stock Purchase Agreement allows for an additional $250,000 investment, resulting in a total position of 18%, upon the completion of specified milestones. During the first two quarters of fiscal year 2013, we invested an additional $129,400 in Demibooks, Inc.

Note 11 – On September 21, 2012, we paid the previously declared $0.12 dividend per share to shareholders of record as of September 14, 2012.

Table of Contents

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

Factors Affecting Forward Looking Statements

MD&A contains statements that are forward-looking and include numerous risks which you should carefully consider. Additional risks and uncertainties can 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 29(28).

Overview

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

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

Earnings as a Percent of Net Revenues

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net revenues | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 44.7 % | 44.1 % | 40.8 % | 41.4 % |
| Gross margin | 55.3 % | 55.9 % | 59.2 % | 58.6 % |
| Operating expenses: | | | | |
| Operating and selling | 27.5 % | 27.4 % | 25.7 % | 26.8 % |
| Sales commissions | 14.8 % | 15.5 % | 18.0 % | 17.6 % |
| General and administrative | 9.0 % | 9.4 % | 9.0 % | 8.5 % |
| Total operating expenses | 51.3 % | 52.3 % | 52.7 % | 52.9 % |
| Other income (expense) | 0.0 % | 0.1 % | 0.0 % | 0.1 % |
| Earnings before income taxes | 4.0 % | 3.7 % | 6.5 % | 5.8 % |
| Income taxes | 1.5 % | 1.4 % | 2.4 % | 2.2 % |
| Net earnings | 2.5 % | 2.3 % | 4.1 % | 3.6 % |

Operating Results for the Three Months Ended August 31, 2012

We earned income before income taxes of $219,200 for the three months ended August 31, 2012 compared with $200,100 for the three months ended August 31, 2011.

Revenues

| | For the Three Months Ended August 31, | | | |
|---|---|---|---|---|
| | 2012 | 2011 | $ Change | % Change |
| Gross sales | $ 9,388,100 | $ 9,390,900 | $ (2,800 ) | (0.0 ) |
| Less discounts and allowances | (4,097,300) | (4,132,400) | 35,100 | (0.8 ) |
| Transportation revenue | 173,600 | 178,600 | (5,000 ) | (2.8 ) |
| Net revenues | $ 5,464,400 | $ 5,437,100 | $ 27,300 | 0.5 |

Table of Contents

The UBAM Division's gross sales decreased $620,500 during the three month period ending August 31, 2012 when compared with the same quarterly period a year ago. This decrease resulted from decreases of 11% in internet sales, 7% in home party sales, and 6% in school and library sales, offset by an increase of 37% in direct sales.

The decrease in internet sales is attributed to a 1% decrease in the total number of orders and an 8% decrease in average order size. The decrease in home party sales is attributed to a 9% decrease in the total number of orders, offset by a 2% increase in average order size. The decrease in school and library sales is attributed to a 16% decrease in the total number of orders, offset by a 12% increase in average order size. The increase in direct sales is attributed to a 9% increase in the total number of orders and a 25% increase in average order size.

The Publishing Division's gross sales increased $617,700 during the three month period ending August 31, 2012 when compared with the same quarterly period a year ago. We attribute this to a 29% increase in sales to smaller retail stores and a 20% increase in inside sales, offset by a 7% decrease in sales to major national accounts.

The UBAM Division's discounts and allowances were $715,900 and $1,071,000 for the quarterly periods ended August 31, 2012 and 2011, respectively. The UBAM Division is a multi-level selling organization that markets its products through independent sales representatives ("consultants"). Sales are made to individual purchasers and school and public libraries. Gross sales in the UBAM Division are based on the retail sales prices of the products. As a part of the UBAM Division's varied marketing programs, discounts relevant to the particular program are offered. The discounts and allowances in the UBAM Division will vary from year to year depending on the marketing programs in place during any given period. The UBAM Division's discounts and allowances were 24.8% and 30.5% of UBAM's gross sales for the quarterly periods ended August 31, 2012 and 2011, respectively.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAM Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were $3,381,400 and $3,061,400 for the quarterly periods ended August 31, 2012 and 2011, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail sales prices of the products, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 52.0% of Publishing's gross sales for both the quarterly periods ended August 31, 2012 and August 31, 2011.

Expenses

| | For Three Months Ended August 31, 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|
| Cost of sales | $ 2,440,200 | $ 2,400,400 | $ 39,800 | 1.7 |
| Operating and selling | 1,504,500 | 1,488,100 | 16,400 | 1.1 |
| Sales commissions | 810,000 | 841,400 | (31,400) | (3.7) |
| General and administrative | 489,100 | 511,800 | (22,700) | (4.4) |
| Total | $ 5,243,800 | $ 5,241,700 | $ 2,100 | 0.0 |

Cost of sales increased 1.7% for the three months ended August 31, 2012 when compared with the three months ended August 31, 2011. Cost of sales as a percentage of gross sales was 26.0% and 25.6%, respectively, for each of the three month periods ended August 31, 2012 and August 31, 2011. Cost of sales is the inventory cost of the product sold, which includes the cost of the product itself and inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network are included in operating and selling expenses, not in cost of sales. These costs totaled $236,400 in the quarter ended August 31, 2012 and $239,900 in the quarter ended August 31, 2011.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAM Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 16.0% for the quarter ended August 31, 2012 and 15.8% for the quarter ended August 31, 2011.

Table of Contents

Sales commissions in the Publishing Division increased 23.5% to $82,600 for the three months ended August 31, 2012. Publishing Division sales commissions are paid on net sales and were 2.6% of net sales for the quarter ended August 31, 2012 and 2.4% for the quarter ended August 31, 2011. Sales commissions in the Publishing Division fluctuate depending upon the amount of sales made to our "house accounts," which are the Publishing Division's largest customers and do not have any commission expense associated with them, and sales made by our outside sales representatives.

Sales commissions in the UBAM Division decreased 6.1% to $727,400 for the three months ended August 31, 2012, primarily due to the decrease in net sales for the same period. UBAM Division sales commissions were 25.2% of gross sales for the three months ended August 31, 2012 and 22.1% of gross sales for the three months ended August 31, 2011. 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.

Our effective tax rate was 37.0% and 36.9% for the quarterly periods ended August 31, 2012 and 2011, respectively. These rates are higher than the federal statutory rate due to state income taxes.

Operating Results for the Six Months Ended August 31, 2012

We earned income before income taxes of $781,100 for the six months ended August 31, 2012 compared with $680,800 for the six months ended August 31, 2011.

Revenues

| | For the Six Months Ended August 31, 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|
| Gross sales | $ 18,992,000 | $ 18,694,800 | $ 297,200 | 1.6 |
| Less discounts and allowances | (7,325,800 ) | (7,397,700 ) | 71,900 | (1.0 ) |
| Transportation revenue | 392,800 | 404,400 | (11,600 ) | (2.9 ) |
| Net revenues | $ 12,059,000 | $ 11,701,500 | $ 357,500 | 3.1 |

The UBAM Division's gross sales increased $2,800 during the six months ended August 31, 2012 when compared with the same year-to-date period a year ago. This increase resulted from an increase of 385% in our fund raiser option "Cards For a Cause" - which was introduced during the second quarter last year, an increase of 20% in direct sales and a 4% increase in school and library sales, offset by a 2% decrease in both internet and home party sales.

The increase in fund raiser sales is attributed to a 412% increase in the number of orders, offset by a 6% decrease in average order size. The increase in direct sales is attributed to a 10% increase in the total number of orders and a 9% increase in average order size. The increase in school and library sales is attributed to a 2% increase in the total number of orders and a 2% increase in average order size. The decrease in internet sales is attributed to a 4% increase in the total number of orders, offset by a 5% decrease in average order size. The decrease in home party sales is attributed to a 2% decrease in the total number of orders and a 1% decrease in average order size.

The Publishing Division's gross sales increased $294,400 during the six months ended August 31, 2012 when compared with the same year-to-date period a year ago. We attribute this to a 31% increase in sales to smaller retail stores and a 15% increase in inside sales, offset by a 22% decrease in sales to major national accounts.

The UBAM Division's discounts and allowances were $1,512,100 and $1,678,700 for the year-to-date periods ended August 31, 2012 and 2011, respectively.  The UBAM Division is a multi-level selling organization that markets its products through independent sales representatives ("consultants").  Gross sales in the UBAM Division are based on the retail sales prices of the products.  As a part of the UBAM Division's varied marketing programs, discounts relevant to the particular program are offered.  The discounts and allowances in the UBAM Division will vary from year-to-year depending on the marketing programs in place during any given period.  The UBAM Division's discounts and allowances were 19.5% and 21.6% of UBAM's gross sales for the year-to-date periods ended August 31, 2012 and 2011, respectively.

Table of Contents

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAM Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were $5,813,700 and $5,719,000 for the year-to-date periods ended August 31, 2012 and 2011, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail sales prices of the products, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 51.8% of Publishing's gross sales for the quarterly period ended August 31, 2012 and 52.3% for the year-to-date period ended August 31, 2011.

Expenses

| | For Six Months Ended August 31, 2012 | 2011 | $ Change | % Change |
|---|---|---|---|---|
| Cost of sales | $ 4,916,100 | $ 4,840,800 | $ 75,300 | 1.6 |
| Operating and selling | 3,105,700 | 3,133,900 | (28,200) | (0.9) |
| Sales commissions | 2,176,500 | 2,065,900 | 110,600 | 5.4 |
| General and administrative | 1,080,700 | 990,200 | 90,500 | 9.1 |
| Total | $ 11,279,000 | $ 11,030,800 | $ 248,200 | 2.3 |

Cost of sales increased 1.6% for the six months ended August 31, 2012 when compared with the six months ended August 31, 2011. Cost of sales as a percentage of gross sales was 25.9% for both of the six month periods ended August 31, 2012 and August 31, 2011. Cost of sales is the inventory cost of the product sold, which includes the cost of the product itself and inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network are included in operating and selling expenses, not in cost of sales. These costs totaled $486,500 in the year-to-date period ended August 31, 2012 and $511,900 in the year-to-date period ended August 31, 2011.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAM Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 16.4% for the year-to-date period ended August 31, 2012 and 16.7% for the year-to-date period ended August 31, 2011.

Sales commissions in the Publishing Division increased 26.0% to $149,800 for the year-to-date period ended August 31, 2012. Publishing Division sales commissions are paid on net sales and were 2.8% of net sales for the year-to-date period ended August 31, 2012 and 2.3% for the year-to-date period ended August 31, 2011. Sales commissions in the Publishing Division fluctuate depending upon the amount of sales made to our "house accounts," which are the Publishing Division's largest customers and do not have any commission expense associated with them, and sales made by our outside sales representatives.

Sales commissions in the UBAM Division increased 4.1% to $2,026,700 for the year-to-date period ended August 31, 2012, primarily due to the increase in net sales for the same period. UBAM Division sales commissions were 26.1% of gross sales for the year-to-date period ended August 31, 2012 and 25.1% of gross sales for the year-to-date period ended August 31, 2011. 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.

Our effective tax rate was 37.5% and 37.4% for the year-to-date period ended August 31, 2012 and 2011, respectively. These rates are higher than the federal statutory rate due to state income taxes.

Table of Contents

Liquidity and Capital Resources

Our primary source of cash is typically operating cash flow. Typically, our primary uses of cash are to repurchase outstanding shares of stock, pay dividends and purchase property and equipment. We utilize our bank credit facility to meet our short-term cash needs when necessary.

Our Board of Directors has adopted a stock repurchase plan in which we may purchase up to a total of 3,000,000 shares as market conditions warrant. Management believes the stock is undervalued and when stock becomes available at an attractive price, we will 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. We repurchased 10,200 shares at a cost of $49,100 during the year-to-date period ended August 31, 2012.

We have a history of profitability and positive cash flow. We can sustain planned operating levels with minimal capital requirements. Consequently, cash generated from operations is used to liquidate any existing debt and then to repurchase shares outstanding or capital distributions through dividends.
For the year-to-date period ended August 31, 2012, we experienced a positive cash flow from operating activities of $171,700. Cash flow from operating activities resulted primarily from net income after taxes of $488,400, an increase in certain current liabilities of $884,300, a decrease in prepaid expenses and other current assets, a decrease in deferred income taxes, offset by a change in net taxes receivable/payable of $85,700, an increase in inventory received by the end of the second quarter in preparation for the fall selling season of $1,095,000, and an increase in accounts receivable of $193,200.

We believe that in fiscal year 2013 we will experience a positive cash flow and that this positive cash flow along with the bank credit facility will be adequate to meet our liquidity requirements for the foreseeable future.

Cash used in investing activities was $145,900 for the year-to-date period ended August 31, 2012. Of this, $129,400 was an additional investment in Demibooks and $16,500 was for capital expenditures to upgrade our technological infrastructure. We estimate that total cash used in investing activities for fiscal year 2013 will be less than $250,000. This would consist of software and hardware enhancements to our existing data processing equipment, property improvements and additional warehouse equipment and additional investment in Demibooks.

For the year-to-date period ended August 31, 2012, cash used in financing activities was $352,900, resulting from dividend payments of $939,600, payments under our revolving credit agreement of $200,000, and the purchase of $49,100 of treasury stock, offset by borrowings under our revolving credit agreement of $725,000 and the sale of $110,800 of treasury stock.

As of August 31, 2012 we did not have any commitments in excess of one year.

Bank Credit Agreement

Effective June 30, 2012 we signed a Fourteenth Amendment to the Credit and Security Agreement with Arvest Bank (the Bank) which provides a $2,500,000 line of credit through June 30, 2013. Interest is payable monthly at the greater of (a) prime-floating rate minus 0.75% or (b) 4.00%. At August 31, 2012, the rate in effect was 4.00%. Borrowings are collateralized by substantially all the assets of the Company.

We had $775,000 in borrowings outstanding on the above revolving credit agreement at August 31, 2012 and $250,000 in borrowings outstanding at February 29, 2012. Available credit under the revolving credit agreement was $1,725,000 at August 31, 2012.

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, 2013 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.

Table of Contents

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 uncollectible 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.

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 54.9% of net revenues for the year-to-date period ended August 31, 2012 and 55.3% for the year-to-date period ended August 31, 2011. The provisions of the Accounting Standards Codification 605 "Revenue Recognition" (ASC 605) have been applied, and as a result, a reserve is provided for estimated future sales returns.

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, the amount billed to the customer for shipping the product, is recorded when products are shipped. Management has estimated and included a reserve for sales returns of $100,000 as of August 31, 2012 and February 29, 2012.

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 uncollectable amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, the customer's financial condition and current economic trends. If the actual uncollected amounts significantly exceed the estimated allowance, then our operating results would be significantly adversely affected. Management has estimated and included an allowance for doubtful accounts of $416,800 and $456,300 as of August 31, 2012 and February 29, 2012, respectively.

Inventory

Management continually estimates and calculates the amount of non-current inventory. Non-current inventory arises due to occasionally purchasing 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. Non-current 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, before valuation allowance, were $865,900 at

August 31, 2012 and $888,000 at February 29, 2012.

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 $375,000 and $365,000 as of August 31, 2012 and February 29, 2012, respectively.

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 over the vesting period.

Table of Contents

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

## Item 4. 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 August 31, 2012. 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 pursuant to Exchange Act Rule 13a-15(e).

Table of Contents

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not Applicable.

Item 1A. RISK FACTORS

Not required by smaller reporting company.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table shows repurchases of our Common Stock during the quarter ended August 31, 2012:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total # of Shares Purchased | Average Price Paid per Share | Total # of Shares Purchased as Part of Publicly Announced Plan (1) | Maximum # of Shares that May be Repurchased under the Plan(2)(3) |
|---|---|---|---|---|
| June 1 - 30, 2012 | - | N/A | - | 349,909 |
| July 1 - 31, 2012 | - | N/A | - | 349,909 |
| August 1 - 31, 2012 | - | N/A | - | 349,909 |
| Total | - | N/A | - | |

(1) All of the shares of common stock set forth in this column were purchased pursuant to a publicly announced plan as described in footnote 2 below.

(2) In April 2008 the Board of Directors authorized us to purchase up to an additional 500,000 shares of our common stock under a repurchase plan. Pursuant to the plan, we may purchase a total of 349,909 additional shares of our common stock until 3,000,000 shares have been repurchased.

(3) There is no expiration date for the repurchase plan.

Table of Contents

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

Item 4. MINE SAFETY DISCLOSURES

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

| | |
|---|---|
| 31.1 | Certification of the Chief Executive Officer of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 furnished herewith. |
| 31.2 | Certification of Controller and Corporate Secretary (Principal Financial and Accounting Officer) of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 furnished herewith. |
| 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 |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| | EDUCATIONAL DEVELOPMENT CORPORATION<br>(Registrant) | |
| Date: October 15, 2012 | By: | /s/ Randall W. White<br>Randall W. White<br>President |

Table of Contents

EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of the Chief Executive Officer of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 furnished herewith. |
| 31.2 | Certification of Controller and Corporate Secretary (Principal Financial and Accounting Officer) of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 furnished herewith. |
| 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 |

Table of Contents