

EDUCATIONAL DEVELOPMENT CORP
Form 10-Q
October 15, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended Aug 31, 2008

OR

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

73-0750007
(I.R.S. Employer
Identification No.)

10302 East 55th Place, Tulsa, Oklahoma
(Address of principal executive offices)

74146-6515
(Zip Code)

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

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

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

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

Yes

No

As of October 10, 2008 there were 3,821,636 shares of Educational Development Corporation Common Stock, \$0.20 par value outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED BALANCE SHEETS (UNAUDITED)

| | August 31, 2008 | February 29, 2008 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,102,100 | \$ 2,440,300 |
| Accounts receivable, less allowance for doubtful accounts and sales returns \$159,000 (August 31) and \$158,400 (February 29) | 2,707,600 | 2,611,800 |
| Inventories Net | 10,661,800 | 11,818,700 |
| Prepaid expenses and other assets | 138,900 | 112,000 |
| Deferred income taxes | 224,800 | 197,100 |
| Total current assets | 16,835,200 | 17,179,900 |
| INVENTORIES Net | 547,000 | 459,000 |
| PROPERTY, PLANT AND EQUIPMENT Net | 2,343,000 | 2,382,800 |
| DEFERRED INCOME TAXES | 44,400 | 43,300 |
| TOTAL ASSETS | \$ 19,769,600 | \$ 20,065,000 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,616,400 | \$ 2,456,900 |
| Accrued salaries and commissions | 599,700 | 559,000 |
| Income taxes payable | 130,800 | 56,200 |
| Other current liabilities | 172,000 | 195,800 |
| Total current liabilities | 3,518,900 | 3,267,900 |
| COMMITMENTS | | |
| SHAREHOLDERS EQUITY: | | |
| Common stock, \$0.20 par value; Authorized 8,000,000 shares; Issued 6,039,040 (August 31) and 5,806,840 (February 29) shares; Outstanding 3,821,666 (August 31) and 3,706,745 (February 29) shares | 1,207,800 | 1,161,400 |
| Capital in excess of par value | 8,508,400 | 7,706,100 |
| Retained earnings | 18,482,300 | 19,206,100 |
| | 28,198,500 | 28,073,600 |
| Less treasury stock, at cost | (11,947,800) | (11,276,500) |
| | 16,250,700 | 16,797,100 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 19,769,600 | \$ 20,065,000 |

See notes to condensed financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|-------------------------------|--------------|-----------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| GROSS SALES | \$ 9,327,100 | \$ 8,768,000 | \$ 19,143,300 | \$ 18,904,100 |
| Less discounts and allowances | (3,317,100) | (2,913,500) | (6,109,400) | (5,819,100) |
| Transportation revenue | 357,500 | 364,000 | 708,400 | 740,000 |
| NET REVENUES | 6,367,500 | 6,218,500 | 13,742,300 | 13,825,000 |
| COST OF SALES | 2,486,500 | 2,302,000 | 5,157,600 | 5,008,500 |
| Gross margin | 3,881,000 | 3,916,500 | 8,584,700 | 8,816,500 |
| OPERATING EXPENSES: | | | | |
| Operating and selling | 1,648,700 | 1,593,200 | 3,490,900 | 3,429,100 |
| Sales commissions | 1,258,500 | 1,317,200 | 2,925,600 | 3,047,700 |
| General and administrative | 461,100 | 408,500 | 901,900 | 817,300 |
| | 3,368,300 | 3,318,900 | 7,318,400 | 7,294,100 |
| OTHER INCOME | 7,900 | 9,200 | 22,300 | 22,400 |
| EARNINGS BEFORE INCOME TAXES | 520,600 | 606,800 | 1,288,600 | 1,544,800 |
| INCOME TAXES | 197,600 | 227,000 | 485,900 | 579,500 |
| NET EARNINGS | \$ 323,000 | \$ 379,800 | \$ 802,700 | \$ 965,300 |
| BASIC AND DILUTED EARNINGS PER SHARE: | | | | |
| Basic | \$ 0.08 | \$ 0.10 | \$ 0.21 | \$ 0.26 |
| Diluted | \$ 0.08 | \$ 0.10 | \$ 0.21 | \$ 0.25 |
| WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING: | | | | |
| Basic | 3,826,869 | 3,766,413 | 3,765,812 | 3,763,257 |
| Diluted | 3,828,075 | 3,877,557 | 3,767,045 | 3,878,266 |

See notes to condensed financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED AUGUST 31, 2008

| | Common Stock (par value \$ 0.20 per share) | | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | | Shareholders Equity |
|------------------------------|---|--------------|--------------------------------------|----------------------|---------------------|-----------------|------------------------|
| | Number of Shares Issued | Amount | | | Number of Shares | Amount | |
| BALANCE March 1, 2008 | 5,806,840 | \$ 1,161,400 | \$ 7,706,100 | \$ 19,206,100 | 2,100,095 | \$ (11,276,500) | \$ 16,797,100 |
| Purchases of treasury stock | | | | | 136,224 | (766,700) | (766,700) |
| Sales of treasury stock | | | | | (18,945) | 95,400 | 95,400 |
| Exercise of options | 232,200 | 46,400 | 802,300 | | | | 848,700 |
| Dividends paid (\$.40/share) | | | | (1,526,500) | | | (1,526,500) |
| Net earnings | | | | 802,700 | | | 802,700 |
| BALANCE-August 31, 2008 | 6,039,040 | \$ 1,207,800 | \$ 8,508,400 | \$ 18,482,300 | 2,217,374 | \$ (11,947,800) | \$ 16,250,700 |

See notes to condensed financial statements.

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

| | 2008 | 2007 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | \$ 2,040,800 | \$ 1,105,300 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (29,900) | (105,400) |
| Net cash used in investing activities | (29,900) | (105,400) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash received from exercise of stock options | 848,700 | |
| Cash paid to acquire treasury stock | (766,700) | (65,800) |
| Cash received from sale of treasury stock | 95,400 | 68,600 |
| Dividends paid | (1,526,500) | (826,000) |
| Net cash used in financing activities | (1,349,100) | (823,200) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 661,800 | 176,700 |
| CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD | 2,440,300 | 1,254,300 |
| CASH AND CASH EQUIVALENTS END OF PERIOD | \$ 3,102,100 | \$ 1,431,000 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for income taxes | \$ 440,100 | \$ 76,500 |

See notes to condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1 - The information shown with respect to the three and six months ended August 31, 2008 and 2007, 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, 2008 and 2007, respectively, are not necessarily indicative of the results to be expected at year end due to seasonality of the product sales.

These financial statements and notes are prepared pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and should be read in conjunction with the Financial Statements and accompanying notes contained in our Annual Report to Shareholders for the Fiscal Year ended February 29, 2008.

Note 2 Effective June 30, 2008 we signed a Tenth Amendment to the Credit and Security Agreement with Arvest Bank which provided a \$5,000,000 line of credit through June 30, 2009. Interest is payable monthly at the Wall Street Journal prime-floating rate minus 0.75% (4.25% at August 31, 2008) and borrowings are collateralized by substantially all the assets of the Company. At August 31, 2008 the Company had no debt outstanding under this agreement. Available credit under the revolving credit agreement was \$5,000,000 at August 31, 2008. No borrowings were outstanding under the agreement during the quarter ended August 31, 2008.

This agreement also contains a provision for our use of the Bank's letters of credit. The Bank agrees to issue, or obtain issuance of commercial or standby letters of credit provided that no letters of credit will have an expiry date later than June 30, 2009 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. As of August 31, 2008, we had no letters of credit outstanding.

Note 3 - Inventories consist of the following:

| | 2008 | |
|-----------------------------------|----------------------|----------------------|
| | August 31, | February 29, |
| Current: | | |
| Book inventory | \$ 10,688,000 | \$ 11,844,900 |
| Inventory valuation allowance | (26,200) | (26,200) |
| Inventories net current | \$ 10,661,800 | \$ 11,818,700 |
| Noncurrent: | | |
| Book inventory | \$ 882,000 | \$ 764,000 |
| Inventory valuation allowance | (335,000) | (305,000) |
| Inventories net noncurrent | \$ 547,000 | \$ 459,000 |

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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 \$2.0 million and \$2.6 million for the three months ended August 31, 2008 and 2007, respectively. Total inventory purchases from all suppliers were approximately \$2.7 million and \$3.5 million for the three months ended August 31, 2008 and 2007, respectively.

For the six months ended August 31, 2008 and 2007, respectively, purchases from this company were approximately \$3.8 million and \$4.3 million. Total inventory purchases from all suppliers were approximately \$4.7 million and \$5.8 million for the same respective periods.

Note 4 - Basic earnings per share (EPS) is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted EPS is based on the combined weighted average number of common shares outstanding and dilutive potential common shares issuable which include, where appropriate, the assumed exercise of options.

In computing diluted EPS we have utilized the treasury stock method.

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.

| | Three Months Ended August 31 | | Six Months Ended August 31, | |
|--|------------------------------|------------|-----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Earnings Per Share: | | | | |
| Net earnings applicable to common shareholders | \$ 323,000 | \$ 379,800 | \$ 802,700 | \$ 965,300 |
| Shares: | | | | |
| Weighted average shares outstanding - basic | 3,826,869 | 3,766,413 | 3,765,812 | 3,763,257 |
| Assumed exercise of options | 1,206 | 111,144 | 1,233 | 115,009 |
| Weighted average shares outstanding - diluted | 3,828,075 | 3,877,557 | 3,767,045 | 3,878,266 |
| Basic Earnings Per Share | \$ 0.08 | \$ 0.10 | \$ 0.21 | \$ 0.26 |
| Diluted Earnings Per Share | \$ 0.08 | \$ 0.10 | \$ 0.21 | \$ 0.25 |

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 2009, we repurchased 11,062 shares of common stock. The maximum number of shares that may be repurchased in the future is 440,287.

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 \$537,400 and \$523,800 for the three months ended August 31, 2008 and 2007, respectively.

For the six months ended August 31, 2007 and 2006, respectively, freight and handling costs incurred are included in operating & selling expenses and were \$1,106,900 and \$1,117,200.

Note 7 We have two reportable segments: Publishing and Usborne Books at Home (UBAH). These reportable segments are business units that offer different methods of distribution to different types of customers. They are managed separately based on the fundamental differences in their operations. The Publishing Division markets its products to retail accounts, which include book, school supply, toy and gift stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group. The UBAH

In computing diluted EPS we have utilized the treasury stock method.

Division markets its product line through a network of independent sales consultants through a combination of direct sales, home shows, book fairs and the Internet.

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

Information by industry segment for the three and six months ended August 31, 2008 and 2007 follows:

NET REVENUES

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|-------------------|-------------------------------|--------------|-----------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Publishing | \$ 2,322,400 | \$ 2,131,800 | \$ 4,236,600 | \$ 4,163,100 |
| UBAH | \$ 4,045,100 | \$ 4,086,700 | \$ 9,505,700 | \$ 9,661,900 |
| Other | \$ | \$ | \$ | \$ |
| Total | \$ 6,367,500 | \$ 6,218,500 | \$ 13,742,300 | \$ 13,825,000 |

EARNINGS (LOSS) BEFORE INCOME TAXES

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|-------------------|-------------------------------|--------------|-----------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Publishing | \$ 767,100 | \$ 669,500 | \$ 1,339,200 | \$ 1,284,600 |
| UBAH | \$ 704,600 | \$ 868,900 | \$ 1,859,000 | \$ 2,072,900 |
| Other | \$ (951,100) | \$ (931,600) | \$ (1,909,600) | \$ (1,812,700) |
| Total | \$ 520,600 | \$ 606,800 | \$ 1,288,600 | \$ 1,544,800 |

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 following new accounting standards are applicable to us.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007. The adoption of this standard did not have a material effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have a material effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements. This statement amends Accounting Research Bulletin No. 51 Consolidated Financial Statements to establish accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years beginning after December 15, 2008. The adoption of this standard did not have a material effect on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(revised 2007) Business Combinations. The statement requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This statement is effective for acquisition dates on or after the beginning of the first annual reporting period beginning after December 15, 2008. The adoption of this standard is not expected to have a material effect on our financial position or results of operations.

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

Factors Affecting Forward Looking Statements

MD&A contains statements that are forward-looking and include numerous risks which you should carefully consider. Additional risks and uncertainties may also materially and adversely affect our business. You should read the following discussion in connection with our financial statements, including the notes to those statements, included in this document. Our fiscal years end on February 28.

MD&A contains statements that are forward-looking and include numerous risks which you should carefully consider.

Overview

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

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

Earnings as a Percent of Total Revenues

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|------------------------------|-------------------------------|--------|-----------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Net revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 39.0% | 37.0% | 37.5% | 36.2% |
| Gross margin | 61.0% | 63.0% | 62.5% | 63.8% |
| Operating expenses: | | | | |
| Operating & selling | 25.9% | 25.5% | 25.4% | 24.8% |
| Sales commissions | 19.8% | 21.2% | 21.3% | 22.1% |
| General & administrative | 7.2% | 6.7% | 6.6% | 5.9% |
| Interest | 0.0% | 0.0% | 0.0% | 0.0% |
| Total operating expenses | 52.9% | 53.4% | 53.3% | 52.8% |
| Income from operations | 8.1% | 9.6% | 9.2% | 11.0% |
| Other income | 0.1% | 0.2% | 0.2% | 0.2% |
| Earnings before income taxes | 8.2% | 9.8% | 9.4% | 11.2% |
| Income taxes | 3.1% | 3.7% | 3.5% | 4.2% |
| Net earnings | 5.1% | 6.1% | 5.9% | 7.0% |

Operating Results for the Three Months Ended August 31, 2008

We earned income before income taxes of \$520,600 for the three months ended August 31, 2008 compared with \$606,800 for the three months ended August 31, 2007.

Revenues

| | For the Three Months Ended August 31 | | | | |
|-----------------------------|--------------------------------------|--------------|----|----------------------------|---------------------------|
| | 2008 | 2007 | | \$ Increase/ (decrease) | % Increase/ (decrease) |
| Gross sales | \$ 9,327,100 | \$ 8,768,000 | \$ | 559,100 | 6.4% |
| Less discounts & allowances | (3,317,100) | (2,913,500) | | (403,600) | 13.9% |
| Transportation revenue | 357,500 | 364,000 | | (6,500) | -1.8% |
| Net revenues | \$ 6,367,500 | \$ 6,218,500 | \$ | 149,000 | 2.4% |

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The UBAH Division's gross sales increased 4.0% or \$173,800 during the three month period ending August 31, 2008 when compared with the same quarterly period a year ago. This increase consists of an 11% increase in school and library sales and a 32% increase in Internet sales, offset by a 15% decrease in home party sales and 24% decrease in direct sales. The decline in home party sales is attributed to a 10% decline in the total number of home shows held and a 5%

decrease in the average order size. The decline in home party sales and direct sales occurred as more consultants replaced these with Internet orders.

The Publishing Division's gross sales increased 8.7% or \$385,300 during the three month period ending August 31, 2008 when compared with the same quarterly period a year ago. We attribute this to a 19.8% increase in sales to the national chains and a 2.5% increase in inside sales accounts.

The UBAH Division's discounts and allowances were \$831,300 and \$623,800 for the quarterly periods ended August 31, 2008 and 2007, respectively. The UBAH 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. Most sales in the UBAH Division are at retail. As a part of the UBAH Division'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 UBAH Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAH Division's discounts and allowances were 18.3% of UBAH's gross sales for the quarterly period ended August 31, 2008 and 14.3% for the quarterly period ended August 31, 2007.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAH Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were \$2,485,800 and \$2,289,700 for the quarterly periods ended August 31, 2008 and 2007, 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 price, 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, 2008 and 51.9% for the quarterly period ended August 31, 2007.

Expenses

| | For Three Months Ended August 31, | | \$ Increase/ (decrease) | % Increase/ (decrease) |
|--------------------------|-----------------------------------|--------------|----------------------------|---------------------------|
| | 2008 | 2007 | | |
| Cost of sales | 2,486,500 | \$ 2,302,000 | \$ 184,500 | 8.0% |
| Operating & selling | 1,648,700 | 1,593,200 | 55,500 | 3.5% |
| Sales commissions | 1,258,500 | 1,317,200 | (58,700) | -4.5% |
| General & administrative | 461,100 | 408,500 | 52,600 | 12.9% |
| Total | \$ 5,854,800 | \$ 5,620,900 | \$ 233,900 | 4.2% |

Cost of sales increased 8.0% for the three months ended August 31, 2008 when compared with the three months ended August 31, 2007. Cost of sales as a percentage of gross sales was 26.7% for the three months ended August 31, 2008 and for the three months ended August 31, 2007 was 26.3%. 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. These costs totaled \$265,900 in the quarter ended August 31, 2008 and \$242,900 in the quarter ended August 31, 2007. 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 Division, the UBAH Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 17.7% for the quarter ended August 31, 2008 and 18.2% for the quarter ended August 31, 2007.

Sales commissions in the Publishing Division increased 8.0% to \$37,800 for the three months ended August 31, 2008. Publishing Division sales commissions are paid on net sales and were 1.6% of net sales for the three months ended August 31, 2008 and 1.9% of net sales for the three months ended August 31, 2007. Sales commissions in the Publishing Division will 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 UBAH Division decreased 4.3% to \$1,220,700 for the three months ended August 31, 2008 as a result of decreased sales from home shows and direct sales, offset by increased internet sales. UBAH Division sales commissions are paid on retail sales and were 35.3% of retail sales for the three months ended August 31, 2008 and 37.4% of retail sales for the three months ended August 31, 2007. 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 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 38.0% and 37.4% for the quarterly periods ended August 31, 2008 and 2007, respectively. These rates are higher than the federal statutory rate due to state income taxes.

Operating Results for the Six Months Ended August 31, 2008

We earned income before income taxes of \$1,288,600 for the six months ended August 31, 2008 compared with \$1,544,800 for the six months ended August 31, 2007.

Revenues

| | For the Six Months Ended August 31, | | | \$ Increase/ (decrease) | % Increase/ (decrease) |
|-----------------------------|-------------------------------------|---------------|----|----------------------------|---------------------------|
| | 2008 | 2007 | | | |
| Gross sales | \$ 19,143,300 | \$ 18,904,100 | \$ | 239,200 | 1.3% |
| Less discounts & allowances | (6,109,400) | (5,819,100) | | (290,300) | 5.0% |
| Transportation revenue | 708,400 | 740,000 | | (31,600) | -4.3% |
| Net revenues | \$ 13,742,300 | \$ 13,825,000 | \$ | (82,700) | -0.6% |

The UBAH Division's gross sales increased 1.1% or \$115,000 during the six month period ending August 31, 2008 when compared with the same six month period a year ago. This increase consists of a 29% increase in Internet sales, offset by a 12% decrease in home party sales and a 24% decrease in direct sales. The decline in home party sales is attributed primarily to a 9.6% decline in the total number of home shows held and a 2.7% decrease in average per order sales. The decline in home party sales and direct sales occurred as more consultants replaced these with Internet orders.

The Publishing Division's gross sales increased by \$124,200 during the six month period ending August 31, 2008 when compared with the same six month period a year ago. We attribute this to a 10.0% increase in sales to the national chains, offset by a 4.7% decrease in sales to smaller retail stores and a 2.7% decrease in inside sales accounts.

The UBAH Division's discounts and allowances were \$1,568,800 and \$1,329,900 for the six month periods ended August 31, 2008 and 2007, respectively. The UBAH 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. Most sales in the UBAH Division are at retail. As a part of the UBAH Division'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 UBAH Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAH Division's discounts and allowances were 15.1% of UBAH's gross sales for the six month period ended August 31, 2008 and 12.9% for the six month period ended August 31, 2007.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAH Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were \$4,540,600 and \$4,489,200 for the six month periods ended August 31, 2008 and 2007, 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 price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 51.9% of Publishing's gross sales for the six month period ended August 31, 2008 and 52.0% for the six month period ended August 31, 2007.

Expenses

| | For Six Months Ended August 31, | | \$ Increase/ (decrease) | % Increase/ (decrease) |
|--------------------------|---------------------------------|---------------|----------------------------|---------------------------|
| | 2008 | 2007 | | |
| Cost of sales | 5,157,600 | 5,008,500 | \$ 149,100 | 3.0% |
| Operating & selling | 3,490,900 | 3,429,100 | 61,800 | 1.8% |
| Sales commissions | 2,925,600 | 3,047,700 | (122,100) | -4.0% |
| General & administrative | 901,900 | 817,300 | 84,600 | 10.4% |
| Total | \$ 12,476,000 | \$ 12,302,600 | \$ 173,400 | 1.4% |

Cost of sales increased 3.0% for the six months ended August 31, 2008 when compared with the six months ended August 31, 2007, consistent with the increase in sales for the period. Cost of sales as a percentage of gross sales was 26.9% for the six months ended August 31, 2008 and for the six months ended August 31, 2007 was 26.5%. 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. These costs totaled \$557,800 in the six months ended August 31, 2008 and \$543,800 in the six months ended August 31, 2007. 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 Division, the UBAH Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 18.2% for the six months ended August 31, 2008 and 18.1% for the six months ended August 31, 2007.

Sales commissions in the Publishing Division decreased 3.7% to \$73,300 for the six months ended August 31, 2008. Publishing Division sales commissions are paid on net sales and were 1.7% of net sales for the six months ended August 31, 2008 and 1.8% of net sales for the six months ended August 31, 2007. Sales commissions in the Publishing Division will 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 UBAH Division decreased 4.0% to \$2,852,300 for the six months ended August 31, 2008, the direct result of decreased sales from home shows and school and library sales in this division. UBAH Division sales commissions are paid on retail sales and were 34.2% of retail sales for the six months ended August 31, 2008 and 35.2% of retail sales for the six months ended August 31, 2007. 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 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 37.7% and 37.5% for the six month periods ended August 31, 2008 and 2007, respectively. These rates are higher than the federal statutory rate due to state income taxes.

Revenues

Liquidity and Capital Resources

Our primary sources of cash are operating cash flow and proceeds from the exercise of stock options. Our primary uses of cash are to repurchase outstanding shares of stock, purchase property and equipment and pay dividends. 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 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 136,224 shares at a cost of \$766,700 during the six month period ended August 31, 2008.

We have a history of profitability and positive cash flow. We can sustain planned growth 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.

Our primary source of liquidity is cash generated from operations. During the second three month period of fiscal year 2009, we experienced a positive cash flow from operating activities of \$1,180,800. Cash flow from operating activities was increased primarily by net income after taxes of \$323,000, increases in current liabilities of \$306,100 and income taxes payable of \$130,800 and a decrease in inventories of \$148,800. Fluctuations in accounts payable and accrued expenses involve timing of shipments received from our principal supplier and the payments associated with these shipments. They tend to be highest in the second quarter when holiday season shipments have arrived and prior to payments being made.

For the six months ended August 31, 2008, we experienced a positive cash flow from operating activities of \$2,040,800. Cash flow from operating activities was increased primarily by net income after taxes of \$802,700, a decrease in inventory of \$1,068,900 and increases in current liabilities of \$176,400 and income taxes payable of \$74,600.

We believe that in fiscal year 2009 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.

We estimate that total cash used in investing activities for fiscal year 2009 will be less than \$200,000. This would consist of software and hardware enhancements to our existing data processing equipment, property improvements and additional warehouse equipment.

Cash used in financing activities was \$51,000 from the purchase of \$64,300 of treasury stock, offset by the sale of \$13,300 in treasury stock.

As of August 31, 2008 we did not have any commitments in excess of one year.

Bank Credit Agreement

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Effective June 30, 2008 we signed a Tenth Amendment to the Credit and Security Agreement with Arvest Bank which provided a \$5,000,000 line of credit through June 30, 2009. Interest is payable monthly at the Wall Street Journal prime-floating rate minus 0.75% (4.25% at August 31, 2008) and borrowings are collateralized by substantially all of our assets. At August 31, 2008 we had no debt outstanding under this agreement. Available credit under the revolving credit agreement was \$5,000,000 at August 31, 2008. No borrowings were outstanding under the agreement during the quarter ended August 31, 2008.

This agreement also contains a provision for our use of the Bank's letters of credit. The Bank agrees to issue, or obtain issuance of commercial or standby letters of credit provided that no letters of credit will have an expiry date later than June 30, 2009 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. As of August 31, 2008, we had no letters of credit outstanding.

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 UBAH Division's sales are paid before the product is shipped. These sales accounted for 63.5% of net revenues for the quarter ended August 31, 2008 and 63.8% for the quarter ended August 31, 2007. The provisions of the SEC Staff Accounting Bulletin No.104, Revenue Recognition in Financial Statements, have been applied, and as a result, a reserve is provided for estimated future sales returns.

Our sales return policy allows the customer to return all purchases for an exchange or refund for up to 30 days after the customer receives the item. 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 \$84,000 as of August 31, 2008 and February 29, 2008.

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 \$75,000 and \$74,400 as of August 31, 2008 and February 29, 2008, 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 \$882,000 at August 31, 2008 and \$764,000 at February 29, 2008.

Inventories are presented net of a valuation allowance. Management has estimated and included a valuation allowance for both current and noncurrent inventory. This reserve is based on management's identification of slow moving inventory on hand at August 31, 2008 and February 29, 2008. Management has estimated a valuation allowance for both current and noncurrent inventory of \$361,200 and \$331,200 as of August 31, 2008 and February 29, 2008, 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.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any material market risk.

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, 2008. 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 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, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II OTHER INFORMATION

Item 1A. RISK FACTORS

No material changes occurred in the risk factors discussed in our Fiscal Year 2008 Form 10-K.

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, 2008.

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 |
|---------------------|------------------------------------|-------------------------------------|---|---|
| June 1 - 30, 2008 | 2,888 | \$ 5.92 | 2,888 | 448,461 |
| July 1 - 31, 2008 | 1,095 | \$ 6.01 | 1,095 | 447,366 |
| August 1 - 31, 2008 | 7,079 | \$ 5.74 | 7,079 | 440,287 |
| Total | 11,062 | \$ 5.81 | 11,062 | |

(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.

(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 440,287 additional shares of our common stock until 3,000,000 shares have been repurchased.

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

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.

SIGNATURES

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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

(Registrant)

Date: October 15, 2008

By/s/ Randall W. White
Randall W. White
President

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
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