

EDUCATIONAL DEVELOPMENT CORP
Form 10-K
May 28, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2010

OR

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

For the transition period from _____ to _____.

Commission file number: 0-4957

EDUCATIONAL DEVELOPMENT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization

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

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

74146-6515
(Zip Code)

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

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

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

Common Stock, \$.20 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

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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 Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting shares held by non-affiliates of the registrant at the price at which the common stock was last sold on August 31, 2009, on the NASDAQ Stock Market, LLC was \$20,328,700.

As of May 25, 2010, 3,869,550 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for fiscal year 2010 relating to our Annual Meeting of Shareholders to be held on July 29, 2010 are incorporated by reference into Part III of this Report on Form 10-K.

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Part I

FORWARD LOOKING STATEMENTS

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

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

Item 1. BUSINESS

(a) General Development of Business

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

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

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

(b) Financial Information about Industry Segments

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

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

Percent Net Revenues by Division

	2010	2009
Publishing	33%	28%
UBAM	67%	72%
Total revenues	100%	100%

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(c) Narrative Description of Business

Products

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

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

We also produce and distribute Usborne Kid Kits, which combine an Usborne book with specialty items/toys that complement the information contained in the book.

We continually introduce new titles across all lines of our products.

UBAM markets the books through commissioned consultants using a combination of direct sales, home parties, book fairs and the Internet. The division had approximately 8,000 consultants in 50 states at February 28, 2010.

Publishing markets through commissioned trade representatives who call on book, toy, specialty stores and other retail outlets, as well as through in-house marketing by telephone to the trade. This division markets to approximately 5,000 book, toy and specialty stores. Significant orders totaling 39% of the Publishing Division's sales have been received from major book chains.

Seasonality

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

Competition

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

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

Employees

As of April 1, 2010, 76 full-time and 2 part-time employees worked at our Tulsa and San Diego facilities; about half of those are in the assembly/distribution warehouse. We believe our relations with our employees are good.

Company Reports

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

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Item 1A. RISK FACTORS

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

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

We are located at 10302 E. 55th Pl., Tulsa, Oklahoma. These facilities are owned by us and contain approximately 105,000 square feet of office and warehouse space. All product distributions are made from this warehouse. We believe that our operating facility meets both present and future capacity needs.

We lease 11,400 square feet of additional warehouse space two blocks from our main facilities. This space is located at 5432 S. 103rd E. Ave., Tulsa, Oklahoma, and is used to store longer-term inventory requirements.

We also lease a small office in San Diego, California which houses Kane/Miller Book Publishers.

Item 3. LEGAL PROCEEDINGS

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

Item 4. REMOVED AND RESERVED

PART II

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

The common stock of EDC is traded on the NASDAQ Stock Market, LLC (symbol EDUC). The high and low closing quarterly common stock quotations for fiscal years 2010 and 2009, as reported by the National Association of Securities Dealers, Inc., were as follows:

Period	2010		2009	
	High	Low	High	Low
1st Qtr	6.05	3.10	6.80	5.26
2nd Qtr	5.87	4.40	6.36	4.85
3rd Qtr	5.66	4.76	5.68	3.13
4th Qtr	6.19	5.25	4.47	3.11

The number of shareholders of record of EDC's common stock at March 12, 2010 was 707.

During fiscal year 2010, we paid a \$0.40 per share dividend on May 15, 2009 and a \$0.15 per share dividend on December 18, 2009. An additional \$0.12 per share dividend was declared on February 26, 2010, but was paid during fiscal year 2011 to shareholders of record on March 12, 2010. Two \$0.40 per share dividends were paid during fiscal year 2009.

The following table shows repurchases of our common stock which we made during the fourth quarter of fiscal year 2010.

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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
December 1 - 31, 2009	0		0	433,194
January 1 - 31, 2010	6,946	\$ 6.04	6,946	426,248
February 1 - 28, 2010	15	\$ 6.15	15	426,233
Total	6,961	\$ 6.04	6,961	

(1) In April 2008 the Board of Directors authorized us to purchase up to 500,000 additional shares of our common stock under a plan initiated in 1998. This plan has no expiration date.

PERFORMANCE GRAPH COMPARISON OF THE FIVE-YEAR CUMULATIVE RETURN

Among the Company, NASDAQ Stock Market Total Return Index

and NASDAQ Non-Financial Stock Index

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	CUMULATIVE TOTAL RETURN					
	February 2005	February 2006	February 2007	February 2008	February 2009	February 2010
EDC Stock	100.00	77.40	73.65	54.81	34.42	58.65
NASDAQ Stock Market Total Return Index	100.00	112.01	118.88	110.33	54.24	88.04
NASDAQ Non-Financial Stock Index	100.00	112.1	119.39	114.86	55.27	91.77

Item 6. SELECTED FINANCIAL DATA

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

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

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

Management Summary

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

These two divisions each have their own customer base. 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 to school and public libraries through direct-selling consultants.

Publishing Division

The Publishing Division operates in a market that is highly competitive, with a large number of companies engaged in the selling of books. Sales in the book industry were approximately \$23.9 billion for calendar year 2009. Sales in the trade industry, defined as wholesale sales to retailers, were approximately \$8.1 billion for calendar year 2009.

The Publishing Division's customer base includes national book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To reach these markets, the Publishing Division utilizes a combination of commissioned sales representatives located throughout the country and a commissioned telesales group located in our headquarters. The Vice President of the Publishing Division manages sales to the national chains.

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Publishing Division Sales by Market Type

	FY 2010	FY 2009
National chain stores	39%	34%
All other	61%	66%
Total net sales	100%	100%

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

We may also acquire, for a fee, an end cap position in a bookstore (our products are placed on the end of a shelf), which in the publishing industry is considered an advantageous location in the bookstore. The costs of these promotions have been classified as reductions in revenue in the statements of earnings.

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

Net Revenues for Publishing Division

	FY 2010	FY 2009
Net Revenues	\$ 9,502,700	\$ 8,126,000

Publishing Division's net revenues increased \$1,376,700 in fiscal year 2010 from fiscal year 2009, or 16.9%. Net revenues were up 36% for national chain stores, 23% for smaller retail stores and 9% for inside sales.

Usborne Books and More (UBAM) Division

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

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An important factor in the continued growth of the UBAM Division is the addition of new sales consultants and the retention of existing consultants. Current active consultants recruit new sales consultants. UBAM makes it easy to recruit by providing low-cost signing kits. For one month, kits containing sample products and supplies were free to new recruits when a minimum dollar home show was submitted by the new recruit. UBAM provides an extensive handbook that is a valuable tool in explaining the various programs to the new recruit.

Consultants During Year

	FY 2010	FY 2009
New Sales Representatives	6,200	6,000
Active Sales Representatives End of Fiscal Year	8,000	8,400

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The UBAM Division presently has six levels of sales representatives:

- Consultants
- Supervisors
- Senior Supervisors
- Executive Supervisors
- Senior Executive Supervisors
- Directors

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

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

Percent of Net Revenues by UBAM Marketing Program

	FY 2010	FY 2009
Home Shows	37%	37%
Direct Sales	2%	2%
School & Library, including Book Fairs	38%	38%
Internet	13%	13%
Transportation Revenue	10%	10%
Totals	100%	100%

Number of Orders by UBAM Marketing Program

	FY 2010	FY 2009
Home Shows	29,000	31,000
Direct Sales	5,100	5,600
School & Library	12,400	12,800
Internet	46,000	51,500
Totals	92,500	100,900

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Net revenues from home shows declined 8% or \$456,700 during fiscal year 2010. This was a combination of 6% fewer orders placed during the period and per-order averages which were down 2%. Consultants contact individuals (hostesses) to hold book shows in their homes. The consultant assists the hostess in setting up the details for the show and makes a presentation at the show and takes orders for the books. The hostess earns free books based upon the total sales at the show. Customer specials are available for customers when they order a selected amount. Additionally, home shows provide an excellent opportunity for recruiting new consultants.

Net revenues from direct sales declined 7% or \$24,000 during fiscal year 2010. This resulted from a 10% decrease in the number of orders placed during the year offset by a 3% increase in the per-order

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average. Direct sales are sales without a hostess being involved. This program makes it possible for consultants to work directly out of their homes by selling to friends, neighbors and other customers. It is especially convenient for those individuals who wish to order books from a consultant but are unable to attend a home show.

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

The school and library marketing program, including book fairs, decreased 9% or \$529,500 during fiscal year 2010. The number of orders placed during the year were down 4% while the per-order average decreased 6%.

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

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

Internet sales slowed for UBAM, decreasing 9% or \$181,700 during fiscal year 2010. Consultants utilize in-house-developed and hosted web sites in their businesses for a nominal monthly fee. They can customize the web sites to their own particular needs or they can maintain the generic site. Orders are transmitted to us through a shopping cart arrangement and the consultant receives sales credit and commission on the sales. Web-only specials are changed frequently and have proved successful, contributing to the growth in this market.

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

We believe that the UBAM Division has the greatest growth potential for us. While there are many multi-level companies in the United States, UBAM is the only one exclusively selling books. We believe this is a fertile market with excellent opportunities for continued growth. The keys to future growth in the UBAM Division are recruiting and retaining consultants.

(1-2) Liquidity and Capital Resources

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EDC has a history of profitability and positive cash flow. We can continue to grow with minimal additional capital requirements. Our primary source of cash is generated from operations. Our primary uses of cash are to pay dividends, acquire treasury stock, purchase property and equipment, and repay borrowings on our line of credit. We utilize our bank credit facility to meet our short-term cash requirements, when needed.

We expect our ongoing cash flow to continue to exceed cash required to operate the business. Consequently, we expect short-term borrowings to continue to remain at a minimum.

During fiscal year 2010 we experienced a positive cash flow from operations of \$412,300. Cash flow from operations was decreased by an increase in inventories of \$1,073,700 and a decrease in current

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liabilities of \$322,000, a decrease in net income tax payable/receivable and an increase in prepaid expenses and other assets.

Cash used in investing activities was \$5,600 for capital expenditures. We estimate that cash used in investing activities for fiscal year 2011 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 \$2,106,000 which was primarily due to dividend payments of \$2,118,300, \$150,000 notes payable paid, and \$46,400 paid to acquire treasury stock. These were offset by cash received of \$208,700 from the sale of treasury stock. In September 2002, the Board of Directors authorized paying a minimum annual cash dividend of 20% of net earnings. In fiscal years 2010 and 2009, we paid 111% and 160%, respectively, of net earnings as a cash dividend.

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

(3) Results of Operations

Earnings as a Percent of Net Revenues

	FY 2010	FY 2009
Net revenues	100.0%	100.0%
Cost of sales	36.8%	36.0%
Gross margin	63.2%	64.0%
Operating expenses:		
Operating and selling	24.5%	25.0%
Sales commissions	21.4%	22.6%
General and administrative	7.1%	6.3%
Total operating expenses	53.0%	53.9%
Income from operations	10.2%	10.1%
Other income	0.5%	0.6%
Earnings before income taxes	10.7%	10.7%
Income taxes	4.0%	4.2%
Net earnings	6.7%	6.5%

Fiscal Year 2010 Compared with Fiscal Year 2009

The following presents an overview of our results of operations for the years ended February 28, 2010 and 2009. We had earnings before income taxes of \$3,052,400 for fiscal year 2010 compared with \$3,138,900 for fiscal year 2009.

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Revenues

	FY 2010		FY 2009		\$ Increase/ (decrease)
Gross sales	\$	40,451,300	\$	40,283,500	\$ 167,800
Less discounts & allowances		(13,209,700)		(12,462,200)	(747,500)