
**UNITED STATES
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 November 30, 2019

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: 000-04957

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.)

5402 South 122nd East Ave, Tulsa, Oklahoma

(Address of principal executive offices)

74146

(Zip Code)

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

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

Common Stock, \$.20 par value

(Title of class)

EDUC

(Trading symbol)

NASDAQ

(Name of each exchange on which registered)

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 has submitted electronically every Interactive Data File required to be submitted 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 such files). 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", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 January 10, 2020, there were 8,460,432 shares of Educational Development Corporation Common Stock, \$0.20 par value outstanding.

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CAUTIONARY REMARKS REGARDING FORWARD-LOOKING STATEMENTS

The information discussed in this Quarterly Report on Form 10-Q includes “forward-looking statements.” These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achievable,” “anticipate,” “continue,” “potential,” “should,” “could,” and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties, and we can give no assurance that such expectations or assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements are described under “*Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in our Annual Report on Form 10-K for the year ended February 28, 2019 and in this quarterly report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Quarterly Report on Form 10-Q and speak only as of the date of this Quarterly Report on Form 10-Q. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
**EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED BALANCE SHEETS (UNAUDITED)**

	November 30, 2019	February 28, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,988,900	\$ 3,199,300
Accounts receivable, less allowance for doubtful accounts of \$247,700 (November 30) and \$268,600 (February 28)	4,064,300	3,258,800
Inventories - Net	29,673,800	33,445,600
Prepaid expenses and other assets	972,000	1,603,500
Total current assets	43,699,000	41,507,200
 INVENTORIES - Net	 915,900	 575,000
 PROPERTY, PLANT AND EQUIPMENT - Net	 26,512,700	 27,164,600
 OTHER ASSETS	 67,400	 19,500
 TOTAL ASSETS	 <u>\$ 71,195,000</u>	 <u>\$ 69,266,300</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 12,007,500	\$ 14,228,600
Deferred revenues	494,800	965,600
Current maturities of long-term debt	1,053,600	945,900
Accrued salaries and commissions	3,186,400	2,039,000
Income taxes payable	1,347,400	756,400
Dividends payable	423,500	410,100
Other current liabilities	4,164,700	4,177,900
Total current liabilities	22,677,900	23,523,500
 LONG-TERM DEBT - Net of current maturities	 18,003,600	 18,830,700
DEFERRED INCOME TAXES - Net	953,700	872,600
OTHER LONG-TERM LIABILITIES	148,500	109,000
Total liabilities	41,783,700	43,335,800
 SHAREHOLDERS' EQUITY		
Common stock, \$0.20 par value; Authorized 16,000,000 shares; Issued 12,400,080 (November 30) and 12,092,080 (February 28) shares; Outstanding 8,388,016 (November 30) and 8,195,082 (February 28) shares	2,480,000	2,418,400
Capital in excess of par value	9,603,400	8,975,100
Retained earnings	29,607,200	25,754,900
	41,690,600	37,148,400
Less treasury stock, at cost	(12,279,300)	(11,217,900)
Total shareholders' equity	29,411,300	25,930,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 71,195,000</u>	<u>\$ 69,266,300</u>

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
GROSS SALES	\$ 53,619,900	\$ 53,486,000	\$ 122,635,300	\$ 125,574,400
Less discounts and allowances	(16,406,500)	(16,572,600)	(37,978,900)	(38,918,700)
Transportation revenue	3,611,200	3,569,200	8,193,600	8,530,200
NET REVENUES	40,824,600	40,482,600	92,850,000	95,185,900
COST OF GOODS SOLD	13,279,900	13,141,600	30,382,500	31,274,000
Gross margin	27,544,700	27,341,000	62,467,500	63,911,900
OPERATING EXPENSES				
Operating and selling	6,513,500	6,540,600	15,089,900	14,554,400
Sales commissions	13,008,600	12,689,200	28,804,700	29,375,300
General and administrative	4,373,500	4,476,000	12,029,300	12,106,900
Total operating expenses	23,895,600	23,705,800	55,923,900	56,036,600
INTEREST EXPENSE	216,500	228,600	691,000	712,000
OTHER INCOME	(403,100)	(397,600)	(1,196,300)	(1,172,300)
EARNINGS BEFORE INCOME TAXES	3,835,700	3,804,200	7,048,900	8,335,600
INCOME TAXES	1,099,900	988,600	1,941,900	2,212,700
NET EARNINGS	<u>\$ 2,735,800</u>	<u>\$ 2,815,600</u>	<u>\$ 5,107,000</u>	<u>\$ 6,122,900</u>
BASIC AND DILUTED EARNINGS PER SHARE				
Basic	<u>\$ 0.33</u>	<u>\$ 0.34</u>	<u>\$ 0.62</u>	<u>\$ 0.75</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.34</u>	<u>\$ 0.61</u>	<u>\$ 0.75</u>
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING				
Basic	<u>8,406,709</u>	<u>8,194,072</u>	<u>8,301,209</u>	<u>8,185,561</u>
Diluted	<u>8,412,638</u>	<u>8,201,776</u>	<u>8,307,496</u>	<u>8,193,206</u>
Dividends per share	<u>\$ 0.05</u>	<u>\$ 0.10</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED NOVEMBER 30, 2019

	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 - February 28, 2019	12,092,080	\$ 2,418,400	\$ 8,975,100	\$ 25,754,900	3,896,998	\$ (11,217,900)	\$ 25,930,500
Purchases of treasury stock	-	-	-	-	36,959	(302,500)	(302,500)
Sales of treasury stock	-	-	68,100	-	(19,171)	54,300	122,400
Dividends declared (\$0.05/share)	-	-	-	(408,900)	-	-	(408,900)
Share-based compensation expense (see Note 6)	-	-	166,300	-	-	-	166,300
Net earnings	-	-	-	1,363,600	-	-	1,363,600
BALANCE - May 31, 2019	12,092,080	2,418,400	9,209,500	26,709,600	3,914,786	(11,466,100)	26,871,400
Purchases of treasury stock	-	-	-	-	60,357	(417,100)	(417,100)
Sales of treasury stock	-	-	54,000	-	(22,961)	54,600	108,600
Dividends declared (\$0.05/share)	-	-	-	(422,300)	-	-	(422,300)
Share-based compensation expense (see Note 6)	-	-	166,200	-	-	-	166,200
Issuance of restricted share awards for vesting	308,000	61,600	(61,600)	-	-	-	-
Net earnings	-	-	-	1,007,600	-	-	1,007,600
BALANCE - August 31, 2019	12,400,080	2,480,000	9,368,100	27,294,900	3,952,182	(11,828,600)	27,314,400
Purchases of treasury stock	-	-	-	-	84,841	(534,100)	(534,100)
Sales of treasury stock	-	-	69,000	-	(24,959)	83,400	152,400
Dividends declared (\$0.05/share)	-	-	-	(423,500)	-	-	(423,500)
Share-based compensation expense (see Note 6)	-	-	166,300	-	-	-	166,300
Net earnings	-	-	-	2,735,800	-	-	2,735,800
BALANCE - November 30, 2019	<u>12,400,080</u>	<u>\$ 2,480,000</u>	<u>\$ 9,603,400</u>	<u>\$ 29,607,200</u>	<u>4,012,064</u>	<u>\$ (12,279,300)</u>	<u>\$ 29,411,300</u>

FOR THE NINE MONTHS ENDED NOVEMBER 30, 2018

	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 - February 28, 2018	12,092,080	\$ 2,418,400	\$ 8,573,300	\$ 20,714,500	3,912,468	\$ (11,304,100)	\$ 20,402,100
Purchases of treasury stock	-	-	-	-	2,846	(29,600)	(29,600)
Sales of treasury stock	-	-	-	-	(3,302)	25,100	25,100
Dividends declared (\$0.05/share)	-	-	-	(409,000)	-	-	(409,000)
Net earnings	-	-	-	1,816,600	-	-	1,816,600
BALANCE - May 31, 2018	12,092,080	2,418,400	8,573,300	22,122,100	3,912,012	(11,308,600)	21,805,200
Exercise of options	-	-	-	-	(9,634)	77,200	77,200
Share-based compensation expense (see Note 6)	-	-	70,000	-	-	-	70,000
Net earnings	-	-	-	1,490,700	-	-	1,490,700
BALANCE - August 31, 2018	12,092,080	2,418,400	8,643,300	23,612,800	3,902,378	(11,231,400)	23,443,100
Purchases of treasury stock	-	-	-	-	233	(2,300)	(2,300)
Sales of treasury stock	-	-	-	-	(13,650)	124,800	124,800
Dividends declared (\$0.10/share)	-	-	-	(818,800)	-	-	(818,800)
Share-based compensation expense (see Note 6)	-	-	185,300	-	-	-	185,300
Net earnings	-	-	-	2,815,600	-	-	2,815,600
BALANCE - November 30, 2018	<u>12,092,080</u>	<u>\$ 2,418,400</u>	<u>\$ 8,828,600</u>	<u>\$ 25,609,600</u>	<u>3,888,961</u>	<u>\$ (11,108,900)</u>	<u>\$ 25,747,700</u>

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED NOVEMBER 30,

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 5,107,000	\$ 6,122,900
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,054,100	1,085,100
Deferred income taxes, net	81,100	673,100
Provision for doubtful accounts	39,900	68,500
Provision for inventory valuation allowance	283,400	246,200
Share-based compensation expense	498,800	255,300
Changes in assets and liabilities:		
Accounts receivable	(845,400)	(705,000)
Inventories	3,147,500	(4,441,700)
Prepaid expenses and other assets	583,600	(324,400)
Accounts payable	(2,221,100)	3,327,000
Accrued salaries and commissions, and other liabilities	1,173,700	2,384,300
Deferred revenues	(470,800)	364,300
Income taxes payable	591,000	(1,252,900)
Total adjustments	3,915,800	1,679,800
Net cash provided by operating activities	9,022,800	7,802,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(402,200)	(1,360,500)
Net cash used in investing activities	(402,200)	(1,360,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(719,400)	(702,100)
Cash received from sale of treasury stock	383,400	227,100
Cash used to purchase treasury stock	(1,253,700)	(31,900)
Dividends paid	(1,241,300)	(818,100)
Net cash used in financing activities	(2,831,000)	(1,325,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,789,600	5,117,200
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	3,199,300	2,723,300
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 8,988,900</u>	<u>\$ 7,840,500</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid for interest	\$ 693,800	\$ 704,300
Cash paid for income taxes	<u>\$ 1,318,000</u>	<u>\$ 2,859,100</u>

See notes to financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Unaudited Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim condensed financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. The Unaudited Condensed Financial Statements include all adjustments considered necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. Accordingly, the Unaudited Condensed Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. However, we believe that the disclosures made are adequate to make the information not misleading. These interim Unaudited Condensed Financial Statements should be read in conjunction with our audited financial statements as of and for the year ended February 28, 2019 included in our Form 10-K. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year due to the seasonality of our product sales.

On July 24, 2018, our Board of Directors authorized a two-for-one stock split in the form of a stock dividend. The stock dividend was distributed on August 22, 2018 to shareholders of record as of August 14, 2018. All share-based data, including the number of shares outstanding and per share amounts, have been retroactively adjusted to reflect the stock split for all periods presented.

Use of Estimates in the Preparation of Financial Statements

The preparation of the Unaudited Condensed Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Accounting Policies

Our significant accounting policies, other than the adoption of new accounting pronouncements separately documented herein, are consistent with those disclosed in Note 1 to our audited financial statements as of and for the year ended February 28, 2019 included in our Form 10-K.

New Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. We have reviewed the recently issued accounting standards updates (“ASU”) and concluded that the following recently issued accounting standards apply to us:

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). In addition, in July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11, Leases (Topic 842), Targeted Improvements, which provide an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. The new accounting model for lessors remains largely unchanged, although some changes have been made to align it with the new lessee model and the new revenue recognition guidance. This update also requires companies to include additional disclosures regarding their lessee and lessor agreements. We adopted this standard on March 1, 2019, and it did not have a material impact on our condensed financial position, results of operations or cash flows. Adoption of this ASU resulted in an increase in our assets and liabilities by approximately \$52,900, due to the recognition of right of use assets and lease liabilities. See Note 3 – Leases for our lease disclosures.

In June 2016, FASB issued ASU No. 2016-13 “Financial Instruments—Credit Losses”, which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted ASU No. 2016-13 in the first quarter of fiscal 2020. The adoption of this ASU did not have a material impact on the Company’s condensed financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820). The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. The Company adopted ASU No. 2018-13 in the first quarter of fiscal 2020. The adoption of this ASU did not have a material impact on the Company's condensed financial position, results of operations or cash flows.

Note 2 – INVENTORIES

Inventories consist of the following:

	2019	
	November 30,	February 28,
Current:		
Book inventory	\$ 30,041,900	\$ 33,494,200
Inventory valuation allowance	(368,100)	(48,600)
Inventories net - current	<u>\$ 29,673,800</u>	<u>\$ 33,445,600</u>
Noncurrent:		
Book inventory	\$ 1,188,600	\$ 904,400
Inventory valuation allowance	(272,700)	(329,400)
Inventories net - noncurrent	<u>\$ 915,900</u>	<u>\$ 575,000</u>

Book inventory quantities in excess of what we expect will be sold within the normal operating cycle, based on 2 ½ years of anticipated sales, are included in non-current inventory.

Significant portions of our inventory purchases are concentrated with an England-based publishing company, Usborne Publishing, Ltd. ("Usborne"). Purchases from this company were approximately \$4.2 million and \$8.0 million for the three months ended November 30, 2019 and 2018, respectively. Total inventory purchases from all suppliers were \$6.9 million and \$10.1 million for the three months ended November 30, 2019 and 2018, respectively.

Purchases from Usborne were approximately \$16.1 million and \$23.5 million for the nine months ended November 30, 2019 and 2018, respectively. Total inventory purchases from all suppliers were \$24.1 million and \$31.7 million for the nine months ended November 30, 2019 and 2018, respectively.

Note 3 – LEASES

As of March 1, 2019, we adopted ASU 2016-02, Leases (Topic 842) using the modified retrospective method of adoption. We elected to use the transition option that allows us to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment (if any) to the opening balance of retained earnings in the year of adoption. Comparable periods continue to be presented under the guidance of the previous standard, ASC 840. ASC 842 requires lessees to recognize a lease liability and right-of-use asset on the balance sheet for operating leases. For lessors, the new accounting model remains largely the same, although some changes have been made to align it with the new lessee model and the new revenue recognition guidance, ASC 606, Revenue from Contracts with Customers. Our adoption of ASC 842 did not result in any adjustments to retained earnings.

We have both lessee and lessor arrangements. Our leases are evaluated at inception or at any subsequent modification. Depending on the terms, leases are classified as either operating or finance leases if we are the lessee, or as operating, sales-type or direct financing leases if we are the lessor, as appropriate under ASC 842. Our lessee arrangement includes a rental agreement where we have the exclusive use of dedicated office space in San Diego, California, and qualifies as an operating lease. Our lessor arrangements include three rental agreements for warehouse and office space in Tulsa, Oklahoma, and each qualifies as an operating lease under ASC 842.

In accordance with ASC 842, we have made an accounting policy election to not apply the new standard to lessee arrangements with a term of one year or less and no purchase option that is reasonably certain of exercise. We will continue to account for these short-term arrangements by recognizing payments and expenses as incurred, without recording a lease liability and right-of-use asset.

We have also made an accounting policy election for both our lessee and lessor arrangements to combine lease and non-lease components. This election is applied to all of our lease arrangements as our non-lease components are not material and do not result in significant timing differences in the recognition of rental expenses or income.

In addition, the Company elected the package of practical expedients upon adoption which permits the Company to not reassess under the new standard the Company's prior conclusions about lease identification, lease classification and initial direct costs.

Operating Leases – Lessee

We recognize a lease liability, reported in other liabilities on the condensed balance sheets, for each lease based on the present value of remaining minimum fixed rental payments (which includes payments under any renewal option that we are reasonably certain to exercise), using a discount rate that approximates the rate of interest we would have to pay to borrow on a collateralized basis over a similar term. We also recognize a right-of-use asset, reported in other assets on the condensed balance sheets, for each lease, valued at the lease liability, adjusted for prepaid or accrued rent balances existing at the time of initial recognition. The lease liability and right-of-use asset are reduced over the term of the lease as payments are made and the assets are used.

Minimum fixed rental payments are recognized on a straight-line basis over the life of the lease as costs and expenses on our condensed statements of earnings. Variable and short-term rental payments are recognized as costs and expenses as they are incurred. Future minimum rental payments under operating leases with initial terms greater than one year as of November 30, 2019, are as follows:

Year ending February 28 (29),		
2020	\$	3,200
2021		13,200
2022		13,700
2023		14,200
2024		8,400
Total future minimum rental payments		52,700
Present value discount		(4,800)
Total operating lease liability	\$	<u>47,900</u>

The following table provides further information about our operating leases as of and for the nine months ended November 30, 2019:

Current lease liability	\$	13,400
Long-term lease liability	\$	34,500
Right-of-use asset	\$	47,900
Fixed lease cost	\$	9,400
Operating cash flows – operating lease	\$	9,400
Remaining lease term (months)		46
Discount rate		4.60%

Operating lease expense was \$13,900 for nine months ended November 30, 2018 and was recognized in accordance with ASC 840.

Operating Leases – Lessor

We recognize fixed rental income on a straight-line basis over the life of the lease as revenue on our condensed statements of earnings. Variable rental payments are recognized as revenue in the period in which the changes in facts and circumstances on which the variable lease payments are based occur.

Future minimum payments receivable under operating leases with terms greater than one year are estimated as follows:

Year ending February 28 (29),		
2020	\$	373,600
2021		1,509,300
2022		1,539,800
2023		1,570,800
2024		1,575,500
Thereafter		10,859,200
Total	\$	<u>17,428,200</u>

The cost of the leased space was approximately \$10,809,700 and \$10,359,900 as of November 30, 2019 and February 28, 2019, respectively. The accumulated depreciation associated with the leased assets was \$1,751,100 and \$1,233,400 as of November 30, 2019 and February 28, 2019, respectively. Both the leased assets and accumulated depreciation are included in property, plant and equipment-net on the condensed balance sheets.

Note 4 – DEBT

Debt consists of the following:

	2019	
	November 30,	February 28,
Line of credit	\$ -	\$ -
Long-term debt	\$ 19,057,200	\$ 19,776,600
Less current maturities	(1,053,600)	(945,900)
Long-term debt, net of current maturities	<u>\$ 18,003,600</u>	<u>\$ 18,830,700</u>

We have a Loan Agreement dated as of March 10, 2016 (as amended the “Loan Agreement”) with MidFirst Bank (“the Bank”) which includes multiple loans. Term Loan #1 is comprised of Tranche A totaling \$11.6 million and Tranche B totaling \$4.3 million as of November 30, 2019, both with the maturity date of December 1, 2025. Tranche A has a fixed interest rate of 4.23% and interest is payable monthly. For Tranche B, interest is payable monthly at the bank adjusted LIBOR Index plus a tiered pricing rate based on the Company’s Adjusted Funded Debt to EBITDA Ratio (3.99% at November 30, 2019). Term Loan #1 is secured by the primary office, warehouse and land.

We also have Term Loan #2 with the Bank totaling \$3.1 million as of November 30, 2019, with the maturity date of June 28, 2021, and interest payable monthly at the bank adjusted LIBOR Index plus a tiered pricing rate based on the Company’s Adjusted Funded Debt to EBITDA Ratio (3.99% at November 30, 2019). Term Loan #2 is secured by our secondary warehouse and land. The Loan Agreement also provided a \$15.0 million revolving loan (“line of credit”) through August 15, 2020 with interest payable monthly at the bank adjusted LIBOR Index plus a tiered pricing rate based on the Company’s Adjusted Funded Debt to EBITDA Ratio (3.99% at November 30, 2019).

Tranche B of Term Loan #1, Term Loan #2 and the line of credit accrue interest at a tiered rate based on our Adjusted Funded Debt to EBITDA Ratio, which is payable monthly. The variable interest pricing tier is as follows:

Pricing Tier	Adjusted Funded Debt to EBITDA Ratio	LIBOR Margin (bps)
I	>2.00	300.00
II	>1.50 but ≤2.00	275.00
III	>1.00 but ≤1.50	250.00
IV	≤1.00	225.00

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Adjusted Funded Debt is defined as all long-term and short-term bank debt less the outstanding balances of Tranche A and Tranche B Term Loans. EBITDA is defined in the Loan Agreement as earnings before interest expense, income tax expense (benefit) and depreciation and amortization expenses, reduced by rental income. The \$15.0 million line of credit is limited to advance rates on eligible receivables and eligible inventory levels.

We had no borrowings outstanding on our revolving credit agreement at November 30, 2019 and February 28, 2019. Available credit under the revolving credit agreement was \$11,210,700 and \$12,439,300 at November 30, 2019 and February 28, 2019, respectively.

On June 15, 2018, the Company executed the Eighth Amendment Loan Agreement with the Bank related to our Loan Agreement. The amendment modified the Loan Agreement, extending the termination date until August 15, 2019, reduced the interest rate pricing grid for all floating rate borrowings covered by the Loan Agreement, established a new \$3,000,000 advancing term loan to be used for capital expansions to increase daily shipping capacity, released the personal Guaranty of Randall W. White and Carol White, along with other covenant restrictions being lessened. The amendment also included an adjustment to the Adjusted Funded Debt to EBITDA ratio for covenant compliance.

On February 7, 2019, the Company executed the Ninth Amendment Loan Agreement with the Bank related to our Loan Agreement. The amendment modified the Loan Agreement, removing the covenant prohibiting the Company from repurchasing its shares, subject to certain restrictions.

On August 15, 2019, the Company executed the Tenth Amendment Loan Agreement with the Bank related to our Loan Agreement. The amendment modified the Loan Agreement, extending the termination date of the line of credit to August 15, 2020, amends the definition of LIBOR Margin, reduces the frequency of reports to the Lender, amends the Adjusted Funded Debt to EBITDA Ratio and amends the Compliance and Borrowing Base Certificates reporting requirements.

The Loan Agreement 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 August 15, 2020, 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 November 30, 2019, we had no letters of credit outstanding.

The Loan Agreement contains provisions that require us to maintain specified financial ratios; restricts transactions with related parties; prohibits mergers or consolidation; disallows additional debt; and limits the amount of investments, capital expenditures and leasing transactions we can make on a quarterly basis. Additionally, the Loan Agreement places limitations on the amount of dividends that may be distributed and the total value of stock that can be repurchased.

The following table reflects aggregate future maturities of long-term debt during the next five fiscal years and thereafter as follows:

Year ending February 28 (29),		
2020	\$	256,200
2021		1,067,400
2022		1,114,600
2023		1,161,600
2024		1,210,600
Thereafter		14,246,800
Total	\$	<u>19,057,200</u>

Note 5 – EARNINGS PER SHARE

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. See Note 1 for additional information regarding the stock split that occurred in fiscal 2019.

The computation of weighted average common and common equivalent shares used in the calculation of basic and diluted EPS is shown below.

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Earnings per share:				
Net earnings applicable to common shareholders	\$ 2,735,800	\$ 2,815,600	\$ 5,107,000	\$ 6,122,900
Shares:				
Weighted average shares outstanding-basic	8,406,709	8,194,072	8,301,209	8,185,561
Assumed exercise of options	5,929	7,704	6,287	7,645
Weighted average shares outstanding-diluted	8,412,638	8,201,776	8,307,496	8,193,206
Diluted earnings per share:				
Basic	\$ 0.33	\$ 0.34	\$ 0.62	\$ 0.75
Diluted	\$ 0.33	\$ 0.34	\$ 0.61	\$ 0.75

Note 6 – 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 the date of grant. For awards subject to service conditions, compensation expense is recognized over the vesting period on a straight-line basis. Awards subject to performance conditions are attributed separately for each vesting tranche of the award and are recognized ratably from the service inception date to the vesting date for each tranche. Forfeitures are recognized when they occur.

The Company has outstanding stock options under the 2002 Employee Incentive Stock Option Plan totaling 10,000 shares. No options have been exercised in the three and nine months ended November 30, 2019. All options outstanding at November 30, 2019 were exercised in December 2019.

In July 2018, our shareholders approved the Company's 2019 Long-Term Incentive Plan ("2019 LTI Plan"). The 2019 LTI Plan establishes up to 600,000 shares of restricted stock which can be granted to certain members of management based on exceeding specified net revenues and pre-tax performance metrics during fiscal years 2019, 2020 and 2021. Restricted shares granted under the 2019 LTI Plan "cliff vest" after five years.

The restricted share awards granted under the 2019 LTI Plan contain both service and performance conditions. The Company recognizes share compensation expense only for the portion of the restricted share awards that are considered probable of vesting. Shares are considered granted, and the service inception date begins, when a mutual understanding of the key terms and conditions between the Company and the employee have been established. The fair value of these awards is determined based on the closing price of the shares on the grant date. The probability of restricted share awards granted with future performance conditions is evaluated at each reporting period and compensation expense is adjusted based on the probability assessment.

For certain awards that provide discretion to adjust the allocation of the restricted shares, the service-inception date for such awards could precede the grant date as a mutual understanding of the key terms and conditions between the Company and the employee has not yet been established. For awards in which the service-inception date precedes the grant date, compensation cost is accrued beginning on the service-inception date. The Company estimates the award's fair value on each subsequent reporting date, until the grant date, based on the closing market price of the Company's common stock. On the grant date, the award's fair value is fixed, subject to the remaining performance conditions, and the cumulative amount of previously recognized compensation expense is adjusted to the fair value at the grant date.

During fiscal year 2019, the Company granted approximately 308,000 restricted shares under the 2019 LTI Plan with an average grant-date fair value of \$9.94 per share. During the third fiscal quarter of 2020, the Company recognized \$166,300 of compensation expense associated with the shares granted in fiscal year 2019. The Company recognized compensation expense totaling \$498,800 in the first nine months of fiscal year 2020. The remaining compensation expense for these awards, totaling approximately \$2,161,600, will be recognized ratably over the remaining vesting period of approximately 39 months.

A summary of compensation expense recognized in connection with restricted share awards follows:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Share-based compensation expense	\$ 166,300	\$ 185,300	\$ 498,800	\$ 255,300

Note 7 – SHIPPING AND HANDLING COSTS

We classify shipping and handling costs as operating and selling expenses in the statements of earnings. Shipping and handling costs include postage, freight, handling costs, as well as, shipping materials and supplies. These costs were \$6,037,600 and \$5,897,500 for the three months ended November 30, 2019 and 2018, respectively. These costs were \$14,087,400 and \$13,556,400 for the nine months ended November 30, 2019 and 2018, respectively.

Note 8 – BUSINESS SEGMENTS

We have two reportable segments: Publishing and Usborne Books & 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. Our Publishing segment 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 our internal tele-sales group. Our UBAM segment markets its products through a network of independent sales consultants using a combination of internet sales, direct sales, home shows and book fairs.

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 revenues 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 below. Corporate expenses include the executive department, accounting department, information services department, general office management, warehouse operations and building facilities management. Our assets and liabilities are not allocated on a segment basis.

Information by reporting segment for the three and nine-month periods ended November 30, 2019 and 2018, are as follows:

NET REVENUES

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Publishing	\$ 2,724,200	\$ 3,161,300	\$ 7,766,300	\$ 8,073,000
UBAM	38,100,400	37,321,300	85,083,700	87,112,900
Total	\$ 40,824,600	\$ 40,482,600	\$ 92,850,000	\$ 95,185,900

EARNINGS (LOSS) BEFORE INCOME TAXES

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Publishing	\$ 832,900	\$ 998,800	\$ 2,253,300	\$ 2,141,800
UBAM	6,501,200	6,459,800	14,358,500	15,835,800
Other	(3,498,400)	(3,654,400)	(9,562,900)	(9,642,000)
Total	\$ 3,835,700	\$ 3,804,200	\$ 7,048,900	\$ 8,335,600

Note 9 – FAIR VALUE MEASUREMENTS

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

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

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

Level 3 – Unobservable inputs for the asset or liability.

We do not report any assets or liabilities at fair value in the financial statements. However, the estimated fair value of our term notes payable is estimated by management to approximate \$19,086,000 and \$19,123,700 at November 30, 2019 and February 28, 2019, respectively. Management's estimates are based on the obligations' characteristics, including floating interest rate, maturity, and collateral. Such valuation inputs are considered a Level 2 measurement in the fair value valuation hierarchy.

Note 10 – DEFERRED REVENUES

The Company's UBAM division receives payments on orders in advance of shipment. Any payments received prior to the end of our fiscal quarter that were not shipped as of November 30, 2019 are recorded as deferred revenues on the condensed balance sheet. We received approximately \$494,800 at November 30, 2019 in payments for sales orders which were, or will be, shipped out subsequent to the quarter end. Orders that were included in deferred revenues predominantly shipped within the first few days of the next fiscal quarter.

Note 11 – SUBSEQUENT EVENTS

On January 7, 2020, our Board of Directors declared a distribution of \$0.05 per share of common stock. This cash distribution will be paid on or about March 12, 2020 to shareholders of record on February 25, 2020.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Factors Affecting Forward-Looking Statements

The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside our control. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, our success in recruiting and retaining new consultants, our ability to locate and procure desired books, our ability to ship the volume of orders that are received without creating backlogs, our ability to obtain adequate financing for working capital and capital expenditures, economic and competitive conditions, regulatory changes and other uncertainties, as well as those factors discussed below and elsewhere in our Annual Report on Form 10-K for the year ended February 28, 2019 and this Quarterly Report on Form 10-Q, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may or may not occur. See "Cautionary Remarks Regarding Forward-Looking Statements" in the front of this Quarterly Report on Form 10-Q.

Overview

We are the exclusive United States trade co-publisher of Usborne children's books and the owner of Kane Miller. We operate two separate segments; UBAM and Publishing, to sell our Usborne and Kane Miller children's books. These two segments each have their own customer base. The Publishing segment markets its products on a wholesale basis to various retail accounts. The UBAM segment markets its products through a network of independent sales consultants using a combination of home shows, internet party plan events and book fairs. All other supporting administrative activities are recognized as other expenses outside of our two segments. Other expenses consist primarily of the compensation of our office, warehouse and sales support staff as well as the cost of operating and maintaining our corporate office and distribution facility.

The following table shows our condensed statements of earnings data:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Net revenues	\$ 40,824,600	\$ 40,482,600	\$ 92,850,000	\$ 95,185,900
Cost of goods sold	13,279,900	13,141,600	30,382,500	31,274,000
Gross margin	27,544,700	27,341,000	62,467,500	63,911,900
Operating expenses				
Operating and selling	6,513,500	6,540,600	15,089,900	14,554,400
Sales commissions	13,008,600	12,689,200	28,804,700	29,375,300
General and administrative	4,373,500	4,476,000	12,029,300	12,106,900
Total operating expenses	23,895,600	23,705,800	55,923,900	56,036,600
Interest expense	216,500	228,600	691,000	712,000
Other income	(403,100)	(397,600)	(1,196,300)	(1,172,300)
Earnings before income taxes	3,835,700	3,804,200	7,048,900	8,335,600
Income taxes	1,099,900	988,600	1,941,900	2,212,700
Net earnings	\$ 2,735,800	\$ 2,815,600	\$ 5,107,000	\$ 6,122,900

See the detailed discussion of revenues, costs of services, gross margin, general and administrative expenses by reportable segment below. The following is a discussion of significant changes in the non-segment related general and administrative expenses, other income and expenses and income taxes during the respective periods.

Non-Segment Operating Results for the Three Months Ended November 30, 2019

Total operating expenses not associated with a reporting segment decreased \$0.1 million, or 2.6%, to \$3.7 million for the three-month period ended November 30, 2019, compared to \$3.8 million for the same quarterly period a year ago. Operating expenses decreased as a result of operational efficiencies gained primarily from reduced labor in our warehouse during the quarter.

Interest expense remained consistent at \$0.2 million for the three months ended November 30, 2019, when compared to \$0.2 million for the same quarterly period a year ago.

Income taxes increased \$0.1 million, or 10%, to \$1.1 million for the three months ended November 30, 2019, from \$1.0 million for the same quarterly period a year ago. Our effective tax rate increased 2.7%, to 28.7% for the quarter ended November 30, 2019, from 26.0% for the quarter ended November 30, 2018. Our effective tax rate increased due to a fluctuation in sales mix between states. Our tax rates are higher than the federal statutory rate of 21% due to the inclusion of state income and franchise taxes.

Non-Segment Operating Results for the Nine Months Ended November 30, 2019

Total operating expenses not associated with a reporting segment remained consistent at \$10.1 million for the nine-month period ended November 30, 2019, compared to \$10.1 million for the same period a year ago.

Interest expense remained consistent at \$0.7 million for the nine months ended November 30, 2019 and for the same period a year ago.

Income taxes decreased \$0.3 million, or 13.6%, to \$1.9 million for the nine months ended November 30, 2019, from \$2.2 million for the same period a year ago. Our effective tax rate increased 1.0%, to 27.5% for the nine months ended November 30, 2019, from 26.5% for the nine months ended November 30, 2018. Our effective tax rate increased due to a fluctuation in sales mix between states. Our tax rates are higher than the federal statutory rate of 21% due to the inclusion of state income and franchise taxes.

UBAM Operating Results for the Three and Nine Months Ended November 30, 2019

The following table summarizes the operating results of the UBAM segment:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Gross sales	\$ 47,974,800	\$ 46,881,300	\$ 106,219,100	\$ 108,524,300
Less discounts and allowances	(13,469,600)	(13,120,200)	(29,298,200)	(29,915,300)
Transportation revenue	3,595,200	3,560,200	8,162,800	8,503,900
Net revenues	38,100,400	37,321,300	85,083,700	87,112,900
Cost of goods sold	11,830,100	11,489,700	26,317,100	26,945,600
Gross margin	26,270,300	25,831,600	58,766,600	60,167,300
Operating expenses				
Operating and selling	5,599,200	5,551,000	12,690,500	12,017,300
Sales commissions	12,912,200	12,588,200	28,511,700	29,095,600
General and administrative	1,257,700	1,232,600	3,205,900	3,218,600
Total operating expenses	19,769,100	19,371,800	44,408,100	44,331,500
Operating income	\$ 6,501,200	\$ 6,459,800	\$ 14,358,500	\$ 15,835,800
Average number of active consultants	33,600	30,200	32,900	32,700

UBAM Operating Results for the Three Months Ended November 30, 2019

UBAM net revenues increased \$0.8 million, or 2.1%, to \$38.1 million during the three months ended November 30, 2019, as compared to \$37.3 million during the same period a year ago. The average number of active consultants in the third quarter of fiscal 2020 was 33,600, an increase of 3,400, or 11.3%, from 30,200 average active consultants selling in the third quarter of fiscal 2019. During our annual convention in late June this year, we announced a UBAM 30th Anniversary Recruiting Special which resulted in the signing of over 10,000 new active consultants during the five-week recruiting special. These new consultants contributed to our growth compared to the prior period.

Gross margin increased \$0.5 million, or 1.9%, to \$26.3 million during the three months ended November 30, 2019, as compared to \$25.8 million during the same period a year ago. Gross margin, as a percentage of net revenues remained consistent, decreasing 0.2% to 69.0% for the three-month period ended November 30, 2019 when compared to 69.2% the same period a year ago.

UBAM operating expenses consists of operating and selling expenses, sales commissions and general and administrative expenses. Operating and selling expenses primarily consists of freight expenses and materials and supplies. Sales commissions include amounts paid to consultants for new sales and promotions. These operating expenses are directly tied to the sales volumes of the UBAM segment. General and administrative expenses include payroll, outside services, inventory reserves and other expenses directly associated with the UBAM segment. Total operating expenses increased \$0.4 million, or 2.1%, to \$19.8 million during the three-month period ended November 30, 2019, when compared to \$19.4 million reported in the same quarter a year ago. Operating and selling expenses remained consistent at \$5.6 million for the three-month periods ended November 30, 2019 and 2018. Sales commissions increased \$0.3 million to \$12.9 million during the three-month period ended November 30, 2019, when compared to \$12.6 million reported in the same quarter a year ago, due primarily to the increase in sales. General and administrative expenses increased \$0.1 million to \$1.3 million, from \$1.2 million, during the three months ended November 30, 2019 when compared to the same period last year.

Operating income of the UBAM segment remained consistent at \$6.5 million during the three months ended November 30, 2019 and for the same period last year.

UBAM Operating Results for the Nine Months Ended November 30, 2019

UBAM net revenues decreased \$2.0 million, or 2.3%, to \$85.1 million during the nine-month period ended November 30, 2019, as compared to \$87.1 million from the same period a year ago. The reduced net revenues were primarily attributed to the first quarter of fiscal 2020 when we had fewer active sales consultants than the comparable quarter of the prior year.

Gross margin decreased \$1.4 million, or 2.3%, to \$58.8 million during the nine-month period ended November 30, 2019, when compared to \$60.2 million during the same period a year ago, due primarily to a decrease in net revenues. Gross margin, as a percentage of net revenues, stayed consistent at 69.1% for the nine-month periods ended November 30, 2019 and 2018.

Operating expenses increased \$0.1 million to \$44.4 million during the nine-month period ended November 30, 2019 from \$44.3 million for the same period a year ago. Operating and selling expenses increased \$0.7 million to \$12.7 million during the nine-month period ended November 30, 2019, when compared to \$12.0 million reported in the same period a year ago, due to increased freight costs in the current year. Sales commissions decreased \$0.6 million to \$28.5 million during the nine-month period ended November 30, 2019, when compared to \$29.1 million reported in the same period a year ago, due to lower net revenues. General and administrative expenses remained consistent at \$3.2 million for the nine months ended November 30, 2019 and 2018.

Operating income of the UBAM segment decreased \$1.4 million, or 8.9%, to \$14.4 million during the nine-month period ended November 30, 2019, when compared with \$15.8 million from the same period a year ago. The decrease in operating income was primarily due to a decrease in net revenues.

Publishing Operating Results for the Three and Nine Months Ended November 30, 2019

The following table summarizes the operating results of the Publishing segment:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2019	2018	2019	2018
Gross sales	\$ 5,645,100	\$ 6,604,700	\$ 16,416,200	\$ 17,050,100
Less discounts and allowances	(2,936,900)	(3,452,400)	(8,680,700)	(9,003,400)
Transportation revenue	16,000	9,000	30,800	26,300
Net revenues	2,724,200	3,161,300	7,766,300	8,073,000
Cost of goods sold	1,449,800	1,651,900	4,065,400	4,328,400
Gross margin	1,274,400	1,509,400	3,700,900	3,744,600
Total operating expenses	441,500	510,600	1,447,600	1,602,800
Operating income	\$ 832,900	\$ 998,800	\$ 2,253,300	\$ 2,141,800

Publishing Operating Results for the Three Months Ended November 30, 2019

Our Publishing division's net revenues decreased \$0.5 million, or 15.6%, to \$2.7 million during the three-month period ended November 30, 2019, from \$3.2 million reported in the same period a year ago. This decrease resulted from a sales promotion with one of our largest customers that impacted the third quarter last fiscal year. This customer did not have a similar promotion in the third quarter of fiscal 2020. The timing of sales promotions with our large customers vary from year to year as does their overall sales volume impact.

Gross margin decreased \$0.2 million, or 13.3%, to \$1.3 million during the three-month period ended November 30, 2019, from \$1.5 million reported in the same quarter a year ago primarily due to the decrease in net revenues. Gross margin, as a percentage of net revenues, remained consistent, decreasing 0.9%, to 46.8% during the three-month period ended November 30, 2019, from 47.7% reported in the same quarter a year ago.

Total operating expenses of the Publishing segment decreased \$0.1 million, or 20.0%, to \$0.4 million during the three-month period ended November 30, 2019, from \$0.5 million reported in the same quarter a year ago.

Operating income of the Publishing segment decreased \$0.2 million, or 20.0%, to \$0.8 million during the three-month period ended November 30, 2019 when compared to \$1.0 million reported in the same period a year ago, due primarily to the decrease in net revenues.

Publishing Operating Results for the Nine Months Ended November 30, 2019

Our Publishing division's net revenues decreased \$0.3 million, or 3.7%, to \$7.8 million during the nine-month period ended November 30, 2019, from \$8.1 million reported in the same period a year ago, primarily from the sales promotion of the large customer run during the third quarter of fiscal 2019.

Gross margin remained consistent at \$3.7 million during the nine-month period ended November 30, 2019, and in the same period a year ago. Gross margin as a percentage of net revenues, increased 1.3%, to 47.7% during the nine-month period ended November 30, 2019, from 46.4% reported in the same period a year ago. The increase in gross margin resulted from a change in customer mix, as certain sales agreements with specific customers have higher gross margin due to lower discounts, and a change in product mix, as different products have higher gross margin due to lower product costs.

Total operating expenses decreased \$0.2 million, or 12.5%, to \$1.4 million during the nine-month period ended November 30, 2019, from \$1.6 million reported in the same period a year ago. This decrease primarily resulted from a decrease in freight from lower sales and less promotions and marketing expenses incurred during the first nine months of fiscal 2020, when compared to the same period last year.

Total operating income increased \$0.2 million, or 9.5%, to \$2.3 million during the nine-month period ended November 30, 2019, from \$2.1 million reported in the same period a year ago. The increase in operating income was due to increased sales from customers with lower discounts and decreased operating expenses.

Liquidity and Capital Resources

EDC has a history of profitability and positive cash flow. We typically fund our operations from the cash we generate. We also use available cash to pay down outstanding bank loan balances, for capital expenditures, to pay dividends, and to acquire treasury stock. We have utilized a bank credit facility and other term loan borrowings to meet our short-term cash needs, as well as fund capital expenditures, when necessary.

During the first nine months of fiscal 2020, we experienced cash inflow from our operations of \$9,022,800. Cash flows resulted from the following items:

- net earnings of \$5,107,000
- a decrease in inventories, net, of \$3,147,500,
- an increase in accrued salaries and commissions, and other liabilities of \$1,173,700,
- depreciation expense of \$1,054,100,
- an increase in income tax payable of \$591,000,
- a decrease in prepaid expenses and other assets of \$583,600,
- share-based compensation expense of \$498,800,
- an increase in provision for inventory valuation allowance of \$283,400,
- an increase in deferred income taxes, net, of \$81,100, and
- an increase in the provision for doubtful accounts of \$39,900,

Offset by:

- a decrease in accounts payable of \$2,221,100
- an increase in accounts receivable of \$845,400, and
- a decrease in deferred revenue of \$470,800.

Cash used in investing activities was \$402,200 for capital expenditures, which was primarily comprised of improvements to upgrade our e-commerce and consultant facing websites used in our UBAM division.

Cash used in financing activities was \$2,831,000, which was primarily comprised of \$1,241,300 of dividends paid, \$870,300 net cash used in treasury stock transactions, and payments on long-term debt of \$719,400.

During fiscal year 2020, we continue to expect our cash from operations, along with our line of credit with our Bank, will provide us the ability to meet our liquidity requirements. Cash generated from operations will be used to replace inventory, to liquidate existing debt and any excess cash is expected to be distributed to our shareholders or used to purchase available shares on the market.

We have a Loan Agreement with the Bank including Term Loan #1 comprised of Tranche A totaling \$11.6 million and Tranche B totaling \$4.3 million as of November 30, 2019, both with the maturity date of December 1, 2025. Tranche A has a fixed interest rate of 4.23% and interest is payable monthly. The Loan Agreement also includes Term Loan #2 totaling \$3.1 million as of November 30, 2019, which is secured by a warehouse and land with the maturity date of June 28, 2021, and a \$15.0 million line of credit through August 15, 2020.

On June 15, 2018, the Company executed the Eighth Amendment Loan Agreement with the Bank which extended the termination date until August 15, 2019, reduced the interest rate pricing grid for all floating rate borrowings covered by the Loan Agreement, established a new \$3.0 million advancing term loan to be used for capital expansions to increase daily shipping capacity, released the personal guaranty of Randall W. White and Carol White, along with other covenant restrictions being lessened. The amendment also included an adjustment to the Adjusted Funded Debt to EBITDA ratio for covenant compliance.

On February 7, 2019, the Company executed the Ninth Amendment Loan Agreement which removed the covenant prohibiting the Company from repurchasing its shares and identified certain restrictions on the amount of funds that the Company could use to repurchase shares.

On August 15, 2019, the Company executed the Tenth Amendment Loan Agreement which extended the termination date of the line of credit to August 15, 2020, amended the definition of LIBOR Margin, reduced the frequency of reports to the Lender, amended the Adjusted Funded Debt to EBITDA Ratio and amended the Compliance and Borrowing Base Certificates reporting requirements.

We had no borrowings on our revolving credit agreement at November 30, 2019 and February 28, 2019. Available credit under the revolving credit agreement was \$11.2 million at November 30, 2019.

Tranche B of Term Loan #1, Term Loan #2 and the line of credit accrue interest monthly, at the bank adjusted LIBOR Index plus a tiered pricing rate based on the Company's Adjusted Funded Debt to EBITDA Ratio (3.99% at November 30, 2019).

The Loan 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 the sum of the line of credit plus the letters of credit issued would not exceed the borrowing base in effect at the time. As of November 30, 2019, we had no letters of credit outstanding. 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 amounts of dividends declared, investments, capital expenditures, leasing transactions, and establish a dollar limit on the amount of shares that can be repurchased.

The following table reflects aggregate future maturities of long-term debt during the next five fiscal years and thereafter as follows:

Year ending February 28 (29),		
2020	\$	256,200
2021		1,067,400
2022		1,114,600
2023		1,161,600
2024		1,210,600
Thereafter		14,246,800
Total	\$	<u>19,057,200</u>

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 associated with product orders are recognized and recorded when products are shipped. Products are shipped FOB shipping point. UBAM's sales are generally paid at the time the product is ordered. Sales which have been paid for but not shipped are classified as deferred revenue on the balance sheet. Sales associated with consignment inventory are recognized when reported and payment associated with the sale has been remitted. Transportation revenue represents the amount billed to the customer for shipping the product and is recorded when the product is shipped.

Estimated allowances for sales returns are recorded as sales are recognized. 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 received from the retail stores of our Publishing Division. Those damages occur in the stores, not in shipping to the stores, and we typically do not offer credit for damaged returns. It is industry practice to accept non-damaged returns from retail customers. Management has estimated and included a reserve for sales returns of \$0.2 million as of November 30, 2019 and February 28, 2019.

Allowance for Doubtful Accounts

We maintain an allowance for estimated losses resulting from the inability of our customers to make required payments and a reserve for vendor share markdowns (collectively “allowance for doubtful accounts”). An estimate of uncollectible amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, customers’ financial conditions and current economic trends. Management has estimated and included an allowance for doubtful accounts of \$0.2 million at November 30, 2019, and \$0.3 million at February 28, 2019. Included within this allowance is \$0.1 million of reserve for vendor discounts to sell remaining inventory as of November 30, 2019 and February 28, 2019.

Inventory

Our inventory contains over 2,000 titles, each with different rates of sale depending upon the nature and popularity of the title. Almost all of our product line is saleable as the books are not topical in nature and remain current in content today as well as in the future. Most of our products are printed in Europe, China, Singapore, India, Malaysia and Dubai resulting in a four- to six-month lead-time to have a title printed and delivered to us.

Certain inventory is maintained in a noncurrent classification. Management continually estimates and calculates the amount of noncurrent inventory. Noncurrent inventory arises due to occasional purchases of titles in quantities in excess of what will be sold within the normal operating cycle, due to minimum order requirements of our suppliers. Noncurrent inventory was estimated by management using the current year turnover ratio by title. All inventory in excess of 2 ½ years of anticipated sales is classified as noncurrent inventory. Noncurrent inventory balances prior to valuation allowances were \$1.2 million and \$0.9 million at November 30, 2019 and February 28, 2019, respectively.

Consultants that meet certain eligibility requirements may request and receive inventory on consignment. We believe allowing our consultants to have consignment inventory greatly increases their ability to be successful in making effective presentations at home shows, book fairs and other events; and having consignment inventory leads to additional sales opportunities. Approximately 10.5% of our active consultants maintained consignment inventory at the end of the third fiscal quarter 2020. Consignment inventory is stated at cost, less an estimated reserve for consignment inventory that is not expected to be sold or returned to the Company. The total cost of inventory on consignment with consultants was \$1.8 million at November 30, 2019 and \$1.5 million at February 28, 2019.

Inventories are presented net of a valuation allowance, which includes reserves for inventory obsolescence and reserves for consigned inventory that is not expected to be sold or returned to the Company. Management estimates the inventory obsolescence allowance for both current and noncurrent inventory, which is based on management’s identification of slow-moving inventory. Management has estimated a valuation allowance for both current and noncurrent inventory, including the reserve for consigned inventory, of \$0.6 million and \$0.4 million as of November 30, 2019 and February 28, 2019, respectively.

Our principal supplier, based in England, generally requires a minimum re-order of 6,500 or more of a title in order to get a solo print run. Smaller orders would require a shared print run with the supplier’s other customers, which can result in lengthy delays to receive the ordered title. Anticipating customer preferences and purchasing habits requires historical analysis of similar titles in the same series. We then place the initial order or re-order based upon this analysis. These factors and historical analysis have led our management to determine that 2 ½ years represents a reasonable estimate of the normal operating cycle for our products.

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 the date of grant. For awards subject to service conditions, compensation expense is recognized over the vesting period on a straight-line basis. Awards subject to performance conditions are attributed separately for each vesting tranche of the award and are recognized ratably from the service inception date to the vesting date for each tranche. Forfeitures are recognized when they occur.

The restricted share awards granted under the 2019 Long-Term Incentive Plan (“2019 LTI Plan”) contain both service and performance conditions. The Company recognizes share-based compensation expense only for the portion of the restricted share awards that are considered probable of vesting. Shares are considered granted, and the service inception date begins, when a mutual understanding of the key terms and conditions between the Company and the employees have been established. The fair value of these awards is determined based on the closing price of the shares on the grant date. The probability of restricted share awards granted with future performance conditions is evaluated at each reporting period and compensation expense is adjusted based on the probability assessment.

For certain awards that provide discretion to adjust the allocation of the restricted shares, the service-inception date for such awards could precede the grant date as a mutual understanding of the key terms and conditions between the Company and the employees has not yet been established. For awards in which the service-inception date precedes the grant date, compensation cost is accrued beginning on the service-inception date. The Company estimates the award's fair value on each subsequent reporting date, until the grant date, based on the closing market price of the Company's common stock. On the grant date, the award's fair value is fixed, subject to the remaining performance conditions, and the cumulative amount of previously recognized compensation expense is adjusted to the fair value at the grant date. During the first nine months of fiscal 2020, the Company recognized \$0.5 million of compensation expense associated with the shares granted.

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 November 30, 2019. This evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer and 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).

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended November 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

<u>Period</u>	<u>Total # of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total # of Shares Purchased as Part of Publicly Announced Plan (1)</u>	<u>Maximum # of Shares that may be Repurchased under the Plan (1)</u>
September 1 - 30, 2019	57,739	\$ 6.07	57,739	636,579
October 1 - 31, 2019	22,986	6.75	22,986	613,593
November 1 - 30, 2019	4,116	6.91	4,116	609,477
Total	<u>84,841</u>	<u>\$ 6.30</u>	<u>84,841</u>	

(1) On February 4, 2019 the Board of Directors approved a new stock repurchase plan, replacing the former 2008 stock repurchase plan. The maximum number of shares which can be purchased under the new plan is 800,000. This plan has no expiration date.

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 Chief Financial Officer 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

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: January 14, 2020

By /s/ Randall W. White
Chairman of the Board, President
and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT INDEX

- 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.](#)
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- 32.1 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

Exhibit 31.1

CERTIFICATION

I, Randall W. White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Educational Development Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2020

/s/ Randall W. White
Chairman of the Board, President
and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Dan E. O'Keefe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Educational Development Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2020

/s/ Dan E. O'Keefe

Chief Financial Officer and Corporate Secretary
(Principal Financial and Accounting Officer)

Exhibit 32.1

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

In connection with the quarterly report of Educational Development Corporation (the “Company”) on Form 10-Q for the period ended November 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2020

By /s/ Randall W. White
Randall W. White
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Date: January 14, 2020

By /s/ Dan E. O’Keefe
Dan E. O’Keefe
Chief Financial Officer and Corporate Secretary
(Principal Financial and Accounting Officer)