EDUCATIONAL DEVELOPMENT CORP
Form 10-K
May 27, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2011

OR

o 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 o No x

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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 o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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. o

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

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

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

Yes o No x

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, 2010, on the NASDAQ Stock Market, LLC was $22,153,200.

As of May 25, 2011, 3,880,441 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for fiscal year 2011 relating to our Annual Meeting of Shareholders to be held on July 21, 2011 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:

- 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.

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Percent Net Revenues by Division

	2011		2010	
Publishing	36	%	33	%
UBAM	64	%	67	%
Total revenues	100	%	100	%

(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 6,200 consultants in 50 states at February 28, 2011.

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 38% 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
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, 2011, 70 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.

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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.

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

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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 2011 and 2010, as reported by the National Association of Securities Dealers, Inc., were as follows:

	2011		2010	
Period	High	Low	High	Low
1st Qtr	$ 7.00	$ 5.97	$ 6.05	$ 3.10
2nd Qtr	$ 5.96	$ 5.15	$ 5.87	$ 4.40
3rd Qtr	$ 7.00	$ 5.48	$ 5.66	$ 4.76
4th Qtr	$ 7.00	$ 6.25	$ 6.19	$ 5.25

The number of shareholders of record of EDC's common stock at March 11, 2011 was 684.

During fiscal year 2011, we paid quarterly dividends totaling $0.51 per share as follows: $0.12 per share dividend on March 19, 2010, $0.12 per share dividend on June 18, 2010, $0.12 per share dividend on September 17, 2010, and $0.15 per share dividend on December 17, 2010. An additional $0.12 per share dividend was declared on February 28, 2011 and was paid during fiscal year 2012 to shareholders of record on March 11, 2011. Per share dividends during fiscal year 2010 totaled $0.55 paid plus $0.12 declared, but paid in fiscal year 2011.

The following table shows repurchases of our common stock which we made during the fourth quarter of fiscal year 2011.

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, 2010	-	$ -	-	397,042
January 1 - 31, 2011	202	$ 6.85	202	396,840
February 1 - 28, 2011	-	$ 0.00	-	396,840
Total	202	$ 6.85	202	

(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.

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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 $11.7 billion for calendar year 2010. Sales in the trade industry, defined as wholesale sales to retailers, were approximately $5.3 billion for calendar year 2010.

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.

Publishing Division Sales by Market Type

	FY 2011		FY 2010	
National chain stores	38	%	39	%
All other	62	%	61	%
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.

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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 2011	FY 2010
Net Revenues	$ 9,829,400	$ 9,502,700

Publishing Division's net revenues increased $326,700 in fiscal year 2011 from fiscal year 2010, or 3.4%. Net revenues were up 9.7% for smaller retail stores and 3.6% for inside sales, but were down 0.7% for national chain stores.

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.

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 2011	FY 2010
New Sales Representatives	4,100	6,200
Active Sales Representatives End of Fiscal Year	6,200	8,000

The UBAM Division presently has six levels of sales representatives:

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

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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 2011		FY 2010	
Home Shows	33	%	37	%
Direct Sales	2	%	2	%
School & Library, including Book Fairs	42	%	38	%
Internet	13	%	13	%
Transportation Revenue	10	%	10	%
Totals	100	%	100	%

Number of Orders by UBAM Marketing Program

	FY 2011	FY 2010
Home Shows	24,100	29,000
Direct Sales	4,200	5,100
School & Library, including Book Fairs	12,500	12,400
Internet	41,700	46,000
	82,500	92,500

Net revenues from home shows declined 16% or $783,700 during fiscal year 2011. This was primarily due to 17% fewer orders placed during the period offset by per-order averages which were up 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 17% or $53,000 during fiscal year 2011. This resulted from an 18% decrease in the number of orders placed during the year. 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.

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The school and library marketing program, including book fairs, decreased 1% or $36,600 during fiscal year 2011. The number of orders placed during the year was flat while the per-order average decreased 1%.

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 8% or $141,000 during fiscal year 2011. 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

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, and purchase property and equipment. If needed, we would utilize our bank credit facility to meet our short-term cash requirements.

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 2011 we experienced a positive cash flow from operations of $2,815,400. Cash flow from operations was increased by a decrease in inventories of $1,341,200 and an increase in current liabilities of $157,000 and a $31,800 increase in net income tax payable/receivable, offset by a $131,000 increase in prepaid expenses and other assets.

Cash used in investing activities was $19,600 for capital expenditures. We estimate that cash used in investing activities for fiscal year 2012 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 $2,004,500 which was primarily due to dividend payments of $1,982,500, $75,000 notes payable paid, and $191,000 paid to acquire treasury stock. These were offset by cash received of

$239,600 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 2011 and 2010, we paid 170% and 111%, respectively, of net earnings as a cash dividend.

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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 2011		FY 2010	
Net revenues	100.0	%	100.0	%
Cost of sales	37.8	%	36.8	%
Gross margin	62.2	%	63.2	%
Operating expenses:				
Operating and selling	26.0	%	24.5	%
Sales commissions	20.4	%	21.4	%
General and administrative	8.7	%	7.1	%
Casualty Loss	0.7	%	-	%
Total operating expenses	55.8	%	53.0	%
Income from operations	6.4	%	10.2	%
Other income	0.5	%	0.5	%
Earnings before income taxes	6.9	%	10.7	%
Income taxes	2.6	%	4.0	%
Net earnings	4.3	%	6.7	%

Fiscal Year 2011 Compared with Fiscal Year 2010

The following presents an overview of our results of operations for the years ended February 28, 2011 and 2010. We had earnings before income taxes of $1,870,200 for fiscal year 2011 compared with $3,052,400 for fiscal year 2010.

Revenues

		FY 2011		FY 2010		$ Increase/ (decrease)
Gross sales	$	39,630,700	$	40,451,300	$	(820,600)
Less discounts & allowances		(13,657,600)		(13,209,700)		(447,900)
Transportation revenue		1,270,100		1,429,200		(159,100)
Net revenues	$	27,243,200	$	28,670,800	$	(1,427,600)

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The UBAM Division's gross sales decreased 8.1% or $1,686,000 during FY 2011 when compared with FY 2010. This decrease is attributable to lower sales in the home party, direct sales, school and library/book fair, and the internet markets. Average sales per order for this division were up 2.2%, while the overall number of orders was down 10.8% due to reductions in each of those markets. The Publishing Division's gross sales increased 4.4% or $865,400 during FY 2011 when compared with FY 2010.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAM Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were $10,646,500 in fiscal year 2011 and $10,111,300 in fiscal year 2010. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 52.1% of Publishing's gross sales in fiscal year 2011 and 51.7% in fiscal year 2010.

The UBAM Division's discounts and allowances were $3,011,100 in fiscal year 2011 and $3,098,400 in fiscal year 2010. Most sales in the UBAM Division are at retail. As a part of the UBAM Division's marketing programs, discounts between 40% and 50% of retail are offered on selected items at various times throughout the year. The discounts and allowances in the UBAM Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAM Division's discounts and allowances were 15.7% of UBAM's gross sales in fiscal year 2011 and 14.8% in fiscal year 2010.

Transportation revenues decreased $159,100 in fiscal year 2011, primarily due to the decrease in sales during the year.

Expenses

	FY 2011	FY 2010	$ Increase/ (decrease)
Cost of sales	$ 10,284,700	$ 10,538,300	$ (253,600)
Operating and selling	7,077,200	7,032,400	44,800
Sales commissions	5,568,600	6,130,500	(561,900)
General and administrative	2,380,600	2,042,400	338,200
Casualty loss	188,500	-	188,500
Total	$ 25,499,600	$ 25,743,600	$ (244,000)

Cost of sales decreased 2.4% in fiscal year 2011 when compared with fiscal year 2010. Our cost of products is 25% to 34% of the gross sales price, depending upon the product. In comparing the percentage change in gross sales with the percentage change in cost of goods, consideration must be given to the mix of products sold. Approximately 71% of our products come from one vendor, where the cost of the products is a fixed percentage of the retail price.

Cost of sales is the inventory cost of product sold (including the cost of the product itself and inbound freight charges). Operating and selling expenses include purchasing and receiving, inspection, warehousing, and other costs of our distribution network, which totaled $1,135,100 in FY 2011 and $1,162,100 in FY 2010. When comparing our gross margins with the gross margins of other companies, note that we do not include the costs of our distribution network in our cost of sales.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAM Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 17.9% for fiscal year 2011 and 17.4% for fiscal year 2010.

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Sales commissions in the Publishing Division increased $29,600 for the fiscal year ended 2011. Sales commissions for this division fluctuate depending upon the amount of sales made to our "house accounts," which are our largest customers and do not have any commission expense associated with them, and sales made by the Company's outside sales representatives. Publishing Division sales commissions are paid on net sales and were 2.1% in fiscal year 2011 and 1.8% of net sales in fiscal year 2010.

Sales commissions in the UBAM Division decreased $591,500. UBAM Division sales commissions are paid on retail sales and were 39.6% for fiscal year 2011 and 39.2% for fiscal year 2010. The fluctuation in the percentages of commission expense to retail sales is the result of the type of sale. Home shows, book fairs, school and library sales and direct sales have different commission rates. Also contributing to the fluctuations in the percentages is the payment of overrides and bonuses, both dependent on consultants' monthly sales and downline sales. The decrease in sales commissions is the result of lower sales in the UBAM Division.

General and administrative expenses include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses as a percentage of gross sales were 6.0% for fiscal year 2011 and 5.0% for fiscal year 2010.

The tax provision for fiscal year 2011 was $702,000. The effective rate for fiscal year 2011 was 37.5% and for fiscal year 2010 was 37.3%. Our effective tax rate is higher than the Federal statutory rate due to state income taxes.

Contractual Obligations

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

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 uncollectable 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.

Stock-Based Compensation

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

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Revenue Recognition

Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAM Division's sales are paid before the product is shipped. These sales accounted for 64% of net revenues in fiscal year 2011 and 67% of net revenues in fiscal year 2010.

Estimated allowances for sales returns are recorded as sales are recognized and recorded. Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores. The damages occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers. Transportation revenue, the amount billed to the customer for shipping the product, is recorded when products are shipped. Management has estimated and included a reserve for sales returns of $100,000 as of both February 28, 2011 and 2010.

Allowance for Doubtful Accounts

We maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. An estimate of uncollectable amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, customers' financial conditions and current economic trends. Management has estimated allowance for doubtful accounts of $462,800 and $131,300 as of February 28, 2011 and 2010, respectively.

Inventory

Management continually estimates and calculates the amount of non-current inventory. The inventory arises due to occasional purchases of book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of our primary supplier. 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 was classified as noncurrent inventory. Noncurrent inventory balances were $903,000 and $989,000 at February 28, 2011 and 2010, respectively.

Inventories are presented net of a valuation allowance. Management has estimated and included a valuation allowance for both current and noncurrent inventory. This allowance is based on management's identification of slow moving inventory on hand. Management has estimated a valuation allowance for both current and noncurrent inventory of $330,700 and $355,000 as of February 28, 2011 and 2010, respectively.

Our product line contains approximately 1,500 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 three to four-month lead-time to have a title reprinted and delivered to us.

Our principal supplier, based in England, imposes minimum order requirements before reprinting a title. At the current time we must reorder 6,500 or more of a title in order to get a solo print run. If we order less than 6,500 of a title, then we normally share a print run with the supplier's other customers, which can result in more 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 Management to determine that 2 ½ years represents a reasonable estimate of the normal operating cycle for our products.

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 pronouncements and concluded that the recently issued accounting standards are not applicable to us.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 begins at page 23.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. 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 February 28, 2011. This evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and our Controller/Corporate Secretary (Principal Financial and Accounting Officer).

Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to them, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported in accordance within the time periods specified in Securities and Exchange Commission rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events.

During the fourth fiscal quarter of the fiscal year covered by this report on Form 10-K, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934 (the "Exchange Act"). Under the supervision and with the participation of our management, including our President and our Controller, we evaluated the effectiveness of our internal control over financial reporting based on the framework in INTERNAL CONTROL-INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under that framework and applicable SEC rules, our management concluded that our internal control over financial reporting was effective as of February 28, 2011.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. OTHER INFORMATION

None

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERANCE

(a) Identification of Directors

The information required by this Item 10 is furnished by incorporation by reference to the information under the caption "Election of Directors" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 21, 2011.

(b) Identification of Executive Officers

Information regarding our executive officers required by Item 401 of Regulation S-K is presented in Item 1 hereof under the subcaption "Executive Officers" as permitted by General Instruction G (3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

(c) Compliance with Section 16 (a) of the Exchange Act

The information required by this Item 10 is furnished by incorporation by reference to the information under the caption "Section 16 (a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 21, 2011.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is furnished by incorporation by reference to the information under the caption "Executive Compensation" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 21, 2011.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is furnished by incorporation by reference to the information under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Compensation Plans" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 21, 2011.

Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

None

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is furnished by incorporation by reference to the information under the caption "Independent Registered Public Accountants" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 21, 2011.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements

Schedules have been omitted as such information is either not required or is included in the financial statements.

2. Exhibits

3.1 Restated Certificate of Incorporation dated April 26, 1968 and Certificate of Amendment thereto dated June 21, 1968 are incorporated herein by reference to Exhibit 1 to Registration Statement on Form 10-K (File No. 0-4957).

3.2 Certificate of Amendment of Restated Certificate of Incorporation dated August 27, 1977 is incorporated herein by reference to Exhibit 20.1 to Form 10-K for fiscal year ended February 28, 1981 (File No. 0-4957).

3.3 By-Laws as amended are incorporated herein by reference to Exhibit 20.2 to Form 10-K for fiscal year ended February 28, 1981 (File No. 0-4957).

3.4 Certificate of Amendment of Restated Certificate of Incorporation dated November 17, 1986 is incorporated herein by reference to exhibit 3.3 to Form 10-K for fiscal year ended February 28, 1987 (File No. 0-4957).

3.5 Certificate of Amendment of Restated Certificate of Incorporation dated March 22, 1996 is incorporated herein by reference to Exhibit 3.4 to Form 10-K for fiscal year ended February 28, 1997 (File No. 0-4957).

3.6 Certificate of Amendment of Restated Certificate of Incorporation dated July 15, 2002 is incorporated herein by reference to Exhibit 10.30 to Form 10-K dated February 28, 2003 (File No. 0-4957).

4.1 Specimens of Common Stock Certificates are incorporated herein by reference to Exhibits 3.1 and 3.2 to Registration Statement on Form 10-K (File No. 0-4957) filed June 29, 1970.

10.1 Usborne Agreement-Contractual agreement by and between the Company and Usborne Publishing Limited dated November 25, 1988 is incorporated herein by reference to Exhibit 10.12 to Form 10-K dated February 28, 1989 (File No. 0-4957).

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10.2	Party Plan-Contractual agreement by and between the Company and Usborne Publishing Limited dated March 14, 1989 is incorporated herein by reference to Exhibit 10.13 to Form 10-K dated February 28, 1989 (File No. 0-4957).
10.3	Amendment dated January 1, 1992 to Usborne Agreement - Contractual agreement by and between the Company and Usborne Publishing Limited is incorporated herein by reference to Exhibit 10.13 to Form 10-K dated February 29, 1992 (File No. 0-4957).
10.4	Educational Development Corporation 1992 Incentive Stock Option Plan is incorporated herein by reference to Exhibit 4(c) to Registration Statement on Form S-8 (File No. 33-60188).
10.5	Restated Loan Agreement dated June 30, 1999 between the Company and State Bank & Trust, N.A., Tulsa, OK, is incorporated herein by reference to Exhibit 10.24 to Form 10-K dated February 29, 2000 (File No. 0-4957).
10.6	Educational Development Corporation 2002 Incentive Stock Option Plan is incorporated herein by reference to Exhibit A to definitive proxy statement on Schedule 14A dated May 23, 2002 (File No. 0-4957).
10.7	Amendment dated November 12, 2002 to Usborne Agreement – Contractual agreement by and between we and Usborne Publishing Limited is incorporated herein by reference to Exhibit 10.24 to Form 10-K dated February 28, 2003 (File No. 0-4957).
10.8	Employment Agreement between Randall W. White and the Company dated February 28, 2004.
10.9	Fifth Amendment dated June 30, 2004 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
10.10	Sixth Amendment dated June 30, 2005 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK
10.11	Seventh Amendment dated September 2, 2005 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
10.12	Eighth Amendment dated June 30, 2006 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK
10.13	Ninth Amendment dated June 30, 2007 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
10.14	Tenth Amendment dated June 30, 2008 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
10.15	Eleventh Amendment dated June 30, 2009 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
10.16	Twelfth Amendment dated June 30, 2010 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.

*23.1	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification of the Chief Executive Officer of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Controller and Corporate Secretary (Principal Financial and Accounting Officer) of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed Herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(b) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EDUCATIONAL DEVELOPMENT CORPORATION

Date: May 27, 2011 By /s/ Marilyn Pinney
Marilyn Pinney
Controller and Corporate Secretary
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: May 27, 2011 /s/ Randall W. White
Randall W. White
Chairman of the Board
President, Treasurer and
Director

May 27, 2011 /s/ John A. Clerico
John A. Clerico, Director

May 27, 2011 /s/ James F. Lewis
James F. Lewis, Director

May 27, 2011 /s/ Ronald T. McDaniel
Ronald T. McDaniel, Director

May 27, 2011 /s/ Marilyn Pinney
Marilyn Pinney
Controller and Corporate Secretary
(Principal Financial and Accounting Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Educational Development Corporation

We have audited the accompanying balance sheets of Educational Development Corporation as of February 28, 2011 and 2010, and the related statements of earnings, shareholders' equity and cash flows for each of the two years in the period ended February 28, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educational Development Corporation as of February 28, 2011 and 2010, and the results of its operations and its cash flows for each of the two years in the period ended February 28, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ HOGANTAYLOR LLP
Tulsa, Oklahoma
May 27, 2011

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EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
AS OF FEBRUARY 28,

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,988,200	$ 1,196,900
Accounts receivable, less allowance for doubtful accounts and sales returns $562,800 (2011) and $231,300 (2010)	3,076,300	3,305,500
Inventories—Net	10,010,100	11,285,300
Prepaid expenses and other assets	315,500	268,400
Income tax receivable	-	8,000
Deferred income taxes	367,700	256,900
Total current assets	15,757,800	16,321,000
INVENTORIES—Net	593,000	659,000
PROPERTY, PLANT AND EQUIPMENT—Net	2,042,400	2,147,500
OTHER ASSETS	256,500	172,500
DEFERRED INCOME TAXES	55,300	60,400
TOTAL	$ 18,705,000	$ 19,360,400
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,407,900	$ 2,259,100
Accrued salaries and commissions	398,700	531,600
Current maturities of long-term debt	75,000	75,000
Income tax payable	23,800	-
Dividends payable	468,700	466,400
Other current liabilities	672,400	531,200
Total current liabilities	4,046,500	3,863,300
LONG-TERM NOTES PAYABLE, net of current maturities	-	75,000
COMMITMENTS (Note 7)		
SHAREHOLDERS' EQUITY:		
Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 6,041,040 (2011) and 6,039,040 (2010) shares; Outstanding 3,905,898 (2011) and 3,887,030 (2010) shares	1,208,200	1,207,800
Capital in excess of par value	8,548,000	8,544,000
Retained earnings	16,575,100	17,391,700
	26,331,300	27,143,500
Less treasury stock, at cost	(11,672,800)	(11,721,400)
	14,658,500	15,422,100

TOTAL	$18,705,000	$19,360,400

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF EARNINGS
FOR THE YEARS ENDED FEBRUARY 28,

	2011	2010
GROSS SALES	$39,630,700	$40,451,300
Less discounts and allowances	(13,657,600)	(13,209,700)
Transportation revenue	1,270,100	1,429,200
NET REVENUES	27,243,200	28,670,800
COST OF SALES	10,284,700	10,538,300
Gross margin	16,958,500	18,132,500
OPERATING EXPENSES:		
Operating and selling	7,077,200	7,032,400
Sales commissions	5,568,600	6,130,500
General and administrative	2,380,600	2,042,400
Casualty loss	188,500	-
	15,214,900	15,205,300
OTHER INCOME	126,600	125,200
EARNINGS BEFORE INCOME TAXES	1,870,200	3,052,400
INCOME TAXES	702,000	1,138,800
NET EARNINGS	$1,168,200	$1,913,600
BASIC AND DILUTED EARNINGS PER SHARE:		
Basic	$0.30	$0.49
Diluted	$0.30	$0.49
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:		
Basic	3,887,895	3,866,510
Diluted	3,890,384	3,868,082

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28,

	Common Stock (par value $0.20 per share)				Treasury Stock		
	Number of Shares Issued	Amount	Capital in Excess of Par Value	Retained Earnings	Number of Shares	Amount	Shareholders' Equity
BALANCE—March 1, 2009	6,039,040	$ 1,207,800	$ 8,508,400	$ 18,062,800	2,200,579	$ (11,883,700)	$ 15,895,300
Purchases of treasury stock	-	-	-	-	7,919	(46,400)	(46,400)
Sales of treasury stock	-	-	-	-	(56,488)	208,700	208,700
Dividends declared ($0.12/share)	-	-	-	(466,400)	-	-	(466,400)
Dividends paid ($0.55/share)	-	-	-	(2,118,300)	-	-	(2,118,300)
Stock-based compensation	-	-	35,600	-	-	-	35,600
Net earnings	-	-	-	1,913,600	-	-	1,913,600
BALANCE—February 28, 2010	6,039,040	1,207,800	8,544,000	17,391,700	2,152,010	(11,721,400)	15,422,100
Purchases of treasury stock	-	-	-	-	29,393	(191,000)	(191,000)
Sales of treasury stock	-	-	-	-	(46,262)	239,600	239,600
Dividends declared ($0.12/share)	-	-	-	(468,700)	-	-	(468,700)
Dividends paid ($0.39/share)	-	-	-	(1,516,100)	-	-	(1,516,100)
Exercise of options at $2.1875	2,000	400	4,000	-	-	-	4,400
Net earnings	-	-	-	1,168,200	-	-	1,168,200
BALANCE—February 28, 2011	6,041,040	$ 1,208,200	$ 8,548,000	$ 16,575,100	2,135,141	$ (11,672,800)	$ 14,658,500

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$1,168,200	$1,913,600
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	124,700	136,500
Deferred income taxes	(105,700)	(41,300)
Stock-based compensation	-	35,600
Provision for doubtful accounts and sales returns	1,619,600	1,207,400
Changes in assets and liabilities:		
Accounts receivable	(1,390,400)	(1,259,900)
Inventories, net	1,341,200	(1,073,700)
Prepaid expenses and other assets	(131,100)	(73,700)
Accounts payable, accrued salaries and commissions, and other current liabilities	157,100	(322,000)
Income tax payable/receivable, net	31,800	(110,200)
Total adjustments	1,647,200	(1,501,300)
Net cash provided by operating activities	2,815,400	412,300
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(19,600)	(5,600)
Net cash used in investing activities	(19,600)	(5,600)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(75,000)	(150,000)
Cash received from exercise of stock options	4,400	-
Cash received from sale of treasury stock	239,600	208,700
Cash paid to acquire treasury stock	(191,000)	(46,400)
Borrowings under revolving credit agreement	-	2,200,000
Payments under revolving credit agreement	-	(2,200,000)
Dividends paid	(1,982,500)	(2,118,300)
Net cash used in financing activities	(2,004,500)	(2,106,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	791,300	(1,699,300)
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	1,196,900	2,896,200
CASH AND CASH EQUIVALENTS—END OF YEAR	$1,988,200	$1,196,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$742,700	$1,290,400

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—We distribute books and publications through our Publishing and Usborne Books and More ("UBAM") Divisions to book, toy and gift stores, libraries and home educators located throughout the United States ("U.S."). We are the sole U.S. distributor of books and related items, which are published by an England-based publishing company, Usborne, our primary supplier. We are also in the direct publishing market through our ownership of Kane/Miller Publishers. The terms "EDC," "we," "our," or "us," mean Educational Development Corporation, a Delaware corporation, unless the context indicates otherwise.

Estimates—Our financial statements were prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from these estimates.

Business Concentration—A significant portion of our inventory purchases are concentrated with an England-based publishing company. Purchases from this company were approximately $7.3 million for the year ended February 28, 2011 and $10.0 million for the year ended February 28, 2010. Total inventory purchases for those same periods were approximately $10.3 million and $13.5 million, respectively.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand and cash on deposit in banks. We maintain bank accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times, cash balances may be in excess of the FDIC insurance limit. The majority o