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 May 31, 2020

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:

Title of class	Trading symbol	Name of each exchange on which registered
Common Stock, $.20 par value	EDUC	NASDAQ

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 July 8, 2020, there were 8,354,691 shares of Educational Development Corporation Common Stock, $0.20 par value outstanding.

TABLE OF CONTENTS

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 29, 2020 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)

	May 31, 2020	February 29, 2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 14,765,500	$ 2,999,400
Accounts receivable, less allowance for doubtful accounts of $296,100 (May 31) and $237,400 (February 29)	2,550,500	2,967,200
Inventories - net	27,162,400	30,087,300
Income taxes receivable	-	221,700
Prepaid expenses and other assets	889,900	950,600
Total current assets	45,368,300	37,226,200
INVENTORIES - net	780,800	1,016,700
PROPERTY, PLANT AND EQUIPMENT - net	26,111,600	26,377,700
OTHER ASSETS	113,800	82,200
TOTAL ASSETS	$ 72,374,500	$ 64,702,800
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 11,046,300	$ 9,661,100
Deferred revenues	2,412,100	385,300
Current maturities of long-term debt	1,126,100	1,027,400
Accrued salaries and commissions	3,685,800	1,657,200
Income taxes payable	380,400	-
Dividends payable	502,200	417,400
Other current liabilities	3,585,700	3,238,200
Total current liabilities	22,738,600	16,386,600
LONG-TERM DEBT - net of current maturities	17,422,200	17,784,300
DEFERRED INCOME TAXES - net	1,084,500	993,300
OTHER LONG-TERM LIABILITIES	143,000	145,800
Total liabilities	41,388,300	35,310,000
SHAREHOLDERS' EQUITY		
Common stock, $0.20 par value; Authorized 16,000,000 shares; Issued 12,410,080 (May 31) and 12,410,080 (February 29) shares; Outstanding 8,352,253 (May 31) and 8,348,651 (February 29) shares	2,482,000	2,482,000
Capital in excess of par value	10,017,900	9,843,900
Retained earnings	31,161,100	29,732,200
	43,661,000	42,058,100
Less treasury stock, at cost	(12,674,800)	(12,665,300)
Total shareholders' equity	30,986,200	29,392,800
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 72,374,500	$ 64,702,800

See notes to condensed financial statements (unaudited).

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended May 31,	
	2020	2019
GROSS SALES	$ 46,896,900	$ 36,473,700
Less discounts and allowances	(12,895,900)	(11,331,400)
Transportation revenue	4,290,700	2,445,100
NET REVENUES	38,291,700	27,587,400
COST OF GOODS SOLD	11,395,500	9,056,200
Gross margin	26,896,200	18,531,200
OPERATING EXPENSES		
Operating and selling	6,340,200	4,383,900
Sales commissions	13,600,500	8,533,000
General and administrative	4,536,000	3,938,200
Total operating expenses	24,476,700	16,855,100
INTEREST EXPENSE	182,200	232,000
OTHER INCOME	(406,600)	(402,400)
EARNINGS BEFORE INCOME TAXES	2,643,900	1,846,500
INCOME TAXES	712,800	482,900
NET EARNINGS	$ 1,931,100	$ 1,363,600
BASIC AND DILUTED EARNINGS PER SHARE		
Basic	$ 0.23	$ 0.17
Diluted	$ 0.23	$ 0.17
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING		
Basic	8,352,424	8,184,272
Diluted	8,352,424	8,191,062
Dividends per share	$ 0.06	$ 0.05

See notes to condensed financial statements (unaudited).

EDUCATIONAL DEVELOPMENT CORPORATION
CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MAY 31, 2020

	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 - February 29, 2020	12,410,080	$ 2,482,000	$ 9,843,900	$ 29,732,200	4,061,429	$ (12,665,300)	$ 29,392,800
Purchases of treasury stock	-	-	-	-	17,565	(75,500)	(75,500)
Sales of treasury stock	-	-	5,000	-	(21,167)	66,000	71,000
Dividends declared ($0.06/share)	-	-	-	(502,200)	-	-	(502,200)
Share-based compensation expense (see Note 6)	-	-	169,000	-	-	-	169,000
Net earnings	-	-	-	1,931,100	-	-	1,931,100
BALANCE - May 31, 2020	12,410,080	$ 2,482,000	$ 10,017,900	$ 31,161,100	4,057,827	$ (12,674,800)	$ 30,986,200

FOR THE THREE MONTHS ENDED MAY 31, 2019

	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 - 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

See notes to condensed financial statements (unaudited).

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 1,931,100	$ 1,363,600
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	409,900	366,200
Deferred income taxes	91,200	(51,800)
Provision for doubtful accounts	67,800	103,500
Provision for inventory valuation allowance	80,000	117,300
Share-based compensation expense	169,000	166,300
Changes in assets and liabilities:		
Accounts receivable	348,900	79,700
Inventories, net	3,080,800	(160,600)
Prepaid expenses and other assets	29,100	460,600
Accounts payable	1,385,200	(2,184,900)
Accrued salaries and commissions, and other liabilities	2,373,300	(957,900)
Deferred revenues	2,026,800	(576,700)
Income taxes	602,100	435,100
Total adjustments	10,664,100	(2,203,200)
Net cash provided by (used in) operating activities	12,595,200	(839,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(143,800)	(129,300)
Net cash used in investing activities	(143,800)	(129,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of term debt	(1,710,800)	(237,800)
Proceeds from term debt	1,447,400	-
Cash received from sale of treasury stock	71,000	122,400
Cash used to purchase treasury stock	(75,500)	(302,500)
Dividends paid	(417,400)	(410,100)
Net cash used in financing activities	(685,300)	(828,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,766,100	(1,796,900)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,999,400	3,199,300
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 14,765,500	$ 1,402,400
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid for interest	$ 184,600	$ 232,000
Cash paid for income taxes	$ 19,500	$ 100,200

See notes to condensed financial statements (unaudited).

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 29, 2020 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.

COVID-19 Update

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported in Wuhan, China and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and President Trump declared the COVID-19 outbreak in the United States as a national emergency. The Company has taken numerous steps, and will continue to take further actions, in its approach to minimize the impact of the COVID-19 pandemic. To ensure the well-being of our employees, the Company offered employees in our office the ability to work from home on a temporary basis; we instructed employees in our warehouse and office to take their temperature at the start of every shift; we requested employees forgo any in-person meetings and instead opt to utilize virtual meeting spaces; and we published and continually updated our employees on the most recent developments related to COVID-19 and best practices for safety and health in the office, warehouse and at home. We are closely monitoring the impact of the COVID-19 pandemic and continually assessing its potential effects on our business. On April 16, 2020, the Company entered into a loan with MidFirst Bank as the lender in an aggregate principal amount of $1.4 million pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This loan program provided paycheck protection for our employees from the economic impact to our business due to COVID-19, which was seen most by the decline in our Publishing division's sales due to the closure of many retail outlets across the country, and in our UBAM division's School and Library and Book Fair sales due to the closure of many schools nation-wide. The Company determined the PPP loan was no longer needed and therefore repaid the loan in full on May 12, 2020. While the Company did not experience a decrease in net revenues in the first quarter of fiscal 2021 compared with the same period in fiscal 2020, the severity and duration of the pandemic are uncertain and the extent to which our results are affected by COVID-19 cannot be accurately predicted.

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 29, 2020 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 December 2019, the FASB published ASU 2019-12: Income Taxes (Topic 740), which simplifies the Accounting for income taxes. Topic 740 addresses a number of topics including but not limited to the removal of certain exceptions currently included in the standard related to intra-period allocation when there are losses, in addition to calculation of income taxes when current year-to-date losses exceed anticipated loss for the year. The amendment also simplifies accounting for certain franchise taxes and disclosure of the effect of enacted change in tax laws or rates. Topic 740 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The impact of the adoption of the standard has not yet been determined and is being evaluated.

In March 2020, the FASB issued ASU 2020-04: Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides optional guidance for a limited period of time to ease potential accounting impacts associated with transitioning away from reference rates that are expected to be discontinued, such as interbank offered rates and LIBOR. This ASU includes practical expedients for contract modifications due to reference rate reform. Generally, contract modifications related to reference rate reform may be considered an event that does not require remeasurement or reassessment of a previous accounting determination at the modification date. This ASU is effective March 12, 2020 through December 31, 2022. The Company's debt agreements include the use of alternate rates when LIBOR is not available. We do not expect the change from LIBOR to an alternate rate will have a material impact and to the extent we enter into modifications of agreements that are impacted by the LIBOR rate phase-out, we will apply such guidance to those contract modifications.

Note 2 – INVENTORIES

Inventories consist of the following:

	2020	
	May 31,	February 29,
Current:		
Book inventory	$ 27,479,000	$ 30,346,900
Inventory valuation allowance	(316,600)	(259,600)
Inventories net – current	$ 27,162,400	$ 30,087,300
Noncurrent:		
Book inventory	$ 1,021,400	$ 1,226,500
Inventory valuation allowance	(240,600)	(209,800)
Inventories net – noncurrent	$ 780,800	$ 1,016,700

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 $4.0 million and $5.9 million for the three months ended May 31, 2020 and 2019, respectively. Total inventory purchases from all suppliers were $5.8 million and $9.2 million for the three months ended May 31, 2020 and 2019, respectively.

Note 3 – LEASES

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.

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 May 31, 2020, are as follows:

Year ending February 28 (29),		
2021	$	9,900
2022		13,700
2023		14,200
2024		8,400
Total future minimum rental payments		46,200
Present value discount		(3,700)
Total operating lease liability	$	42,500

The following table provides further information about our operating leases on our condensed financial statements:

	2020			
	May 31,		**February 29,**	
Current lease liability	$	13,500	$	13,500
Long-term lease liability		29,000		31,700
Right-of-use asset	$	42,500	$	45,200
Remaining lease term (months)		40		43
Discount rate		4.60%		4.60%

	Three Months Ended			
	May 31, 2020		**May 31, 2019**	
Fixed lease cost	$	3,200	$	3,100
Operating cash flows – operating lease	$	3,200	$	3,100

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.

On April 4, 2020, we executed an amendment to one of our existing leases that abated rental payments for the months of May, June and July, 2020. The amendment also extended the term of the lease for three additional months. This amendment represents a lease modification and, as such, we have adjusted our fixed rental income on a straight-line basis over the remaining term starting May 1, 2020.

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

Year ending February 28 (29),		
2021	$	916,000
2022		1,556,100
2023		1,587,500
2024		1,592,500
2025		1,562,000
Thereafter		9,694,300
Total	$	16,908,400

The cost of the leased space was approximately $10,797,900 and $10,789,500 as of May 31, 2020 and February 29, 2020, respectively. The accumulated depreciation associated with the leased assets was $1,927,100 and $1,828,900 as of May 31, 2020 and February 29, 2020, 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:

	2020	
	May 30,	**February 29,**
Line of credit	$ -	$ -
Long-term debt	$ 18,548,300	$ 18,811,700
Less current maturities	(1,126,100)	(1,027,400)
Long-term debt, net of current maturities	$ 17,422,200	$ 17,784,300

We have a Loan Agreement dated 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 $11.4 million and Tranche B totaling $4.2 million as of May 31, 2020, 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 (2.44% at May 31, 2020). Term Loan #1 is secured by the primary office, warehouse and land.

We also have Term Loan #2 with the Bank totaling $2.9 million as of May 31, 2020, 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 (2.44% at May 31, 2020). Term Loan #2 is secured by our secondary warehouse and land. Subsequent to quarter end, the Company paid off Term Loan #2 (See Note 11).

The Loan Agreement also provides 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 (2.44% at May 31, 2020).

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

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 May 31, 2020 and February 29, 2020. Available credit under the revolving credit agreement was approximately $9.0 million and $11.0 million at May 31, 2020 and February 29, 2020, respectively.

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, 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.

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 May 31, 2020, 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.

On April 16, 2020, the Company entered into a loan with the Bank of approximately $1.4 million pursuant to the PPP under the CARES Act. The PPP Loan had a fixed interest rate of 1.00%, with principal and interest payments starting December 1, 2020 and a scheduled maturity date of May 1, 2022. The Company determined the PPP loan was no longer needed and repaid the loan in full, including interest accrued to date, on May 12, 2020.

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

Year ending February 28 (29),		
2021	$	837,000
2022		1,155,500
2023		1,195,500
2024		1,237,100
2025		1,278,600
Thereafter		12,844,600
Total	$	18,548,300

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.

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 May 31,	
	2020	2019
Earnings per share:		
Net earnings applicable to common shareholders	$ 1,931,100	$ 1,363,600
Shares:		
Weighted average shares outstanding-basic	8,352,424	8,184,272
Assumed exercise of options	-	6,790
Weighted average shares outstanding-diluted	8,352,424	8,191,062
Diluted earnings per share:		
Basic	$ 0.23	$ 0.17
Diluted	$ 0.23	$ 0.17

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.

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 or 2021. The number of restricted shares to be distributed depends on attaining the performance metrics defined by the 2019 LTI Plan and may result in the distribution of a number of shares that is less than but not greater to the number of restricted shares outlined in the terms of the 2019 LTI Plan. Restricted shares granted under the 2019 LTI Plan "cliff vest" after five years.

During fiscal year 2019, the Company granted 308,000 restricted shares under the 2019 LTI Plan with an average grant-date fair value of $9.94 per share. The remaining compensation expense for these awards, totaling approximately $1,829,000, will be recognized ratably over the remaining vesting period of approximately 33 months.

During the first quarter of fiscal 2021, the Company granted approximately 151,000 restricted shares under the 2019 LTI Plan with an average grant-date fair value of $6.30 per share. The remaining compensation expense of the awards, totaling approximately $948,500, will be recognized ratably over the remaining vesting period of approximately 57 months. As of May 31, 2020, 141,000 restricted shares were available for issuance as future awards under the 2019 LTI Plan.

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

	Three Months Ended May 31,	
	2020	2019
Share-based compensation expense	$ 169,000	$ 166,300

The following tables summarizes stock award activity during the first quarter of fiscal 2021 under the 2019 LTI Plan:

	Shares	Weighted Average Fair Value (per share)
Outstanding at February 29, 2020	308,000	$ 9.94
Granted	151,000	6.30
Vested	-	-
Forfeited	-	-
Outstanding at May 31, 2020	459,000	$ 8.74

As of May 31, 2020, total unrecognized stock-based compensation expense related to unvested restricted shares was $2,777,500, which we expect to recognize over a weighted-average period of approximately 41.2 months.

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 $6,315,300 and $4,212,200 for the three months ended May 31, 2020 and 2019, 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-month periods ended May 31, 2020 and 2019, are as follows:

NET REVENUES

	Three Months Ended May 31,	
	2020	2019
Publishing	$ 1,365,500	$ 2,339,300
UBAM	36,926,200	25,248,100
Total	$ 38,291,700	$ 27,587,400

EARNINGS (LOSS) BEFORE INCOME TAXES

	Three Months Ended May 31,	
	2020	2019
Publishing	$ 346,600	$ 635,700
UBAM	5,827,100	4,369,000
Other	(3,529,800)	(3,158,200)
Total	$ 2,643,900	$ 1,846,500

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 $19,073,800 and $19,155,500 at May 31, 2020 and February 29, 2020, 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 the period that were not shipped as of May 31, 2020 or February 29, 2020 are recorded as deferred revenues on the condensed balance sheets. We received approximately $2,412,100 and $385,300 at May 31, 2020 and February 29, 2020 in payments for sales orders which were, or will be, shipped out subsequent to the end of the period. Orders that were included in deferred revenues predominantly shipped within the first few days of the next fiscal period.

Note 11 – SUBSEQUENT EVENTS

On June 3, 2020, the Company paid off the remaining balance of the $4,000,000 Term Loan #2 which originated on June 28, 2016. The final payment, including accrued interest, totaled $2,912,500.

On July 9, 2020, the Board of Directors approved a $0.06 dividend that will be paid on or about September 10, 2020 to shareholders of record as of August 20, 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, the COVID-19 pandemic, as well as those factors discussed below and elsewhere in our Annual Report on Form 10-K for the year ended February 29, 2020 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 May 31,	
	2020	2019
Net revenues	$ 38,291,700	$ 27,587,400
Cost of goods sold	11,395,500	9,056,200
Gross margin	26,896,200	18,531,200
Operating expenses		
Operating and selling	6,340,200	4,383,900
Sales commissions	13,600,500	8,533,000
General and administrative	4,536,000	3,938,200
Total operating expenses	24,476,700	16,855,100
Interest expense	182,200	232,000
Other income	(406,600)	(402,400)
Earnings before income taxes	2,643,900	1,846,500
Income taxes	712,800	482,900
Net earnings	$ 1,931,100	$ 1,363,600

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 May 31, 2020

Total operating expenses not associated with a reporting segment increased $0.5 million, or 15.2%, to $3.8 million for the three-month period ended May 31, 2020, compared to $3.3 million for the same quarterly period a year ago. Operating expenses increased due to an increase in freight handling costs of $0.3 million and $0.2 million in additional warehouse labor costs due to increased sales volumes in the first quarter of fiscal year 2021.

Interest expense remained consistent at $0.2 million for the three months ended May 31, 2020, when compared to $0.2 million for the same quarterly period a year ago.

Income taxes increased $0.2 million to $0.7 million for the three months ended May 31, 2020, from $0.5 million for the same quarterly period a year ago. Our effective tax rate increased 0.8%, to 27.0% for the quarter ended May 31, 2020, from 26.2% for the quarter ended May 31, 2019. 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 Months Ended May 31, 2020

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

	Three Months Ended May 31,	
	2020	**2019**
Gross sales	$ 43,946,100	$ 31,428,800
Less discounts and allowances	(11,306,700)	(8,619,900)
Transportation revenue	4,286,800	2,439,200
Net revenues	36,926,200	25,248,100
Cost of goods sold	10,688,600	7,798,800
Gross margin	26,237,600	17,449,300
Operating expenses		
Operating and selling	5,426,300	3,643,000
Sales commissions	13,560,400	8,440,300
General and administrative	1,423,800	997,000
Total operating expenses	20,410,500	13,080,300
Operating income	$ 5,827,100	$ 4,369,000
Average number of active consultants	33,100	31,600

UBAM Operating Results for the Three Months Ended May 31, 2020

UBAM net revenues increased $11.7 million, or 46.4%, to $36.9 million during the three months ended May 31, 2020, as compared to $25.2 million during the same period a year ago. The average number of active consultants in the first quarter of fiscal 2021 was 33,100, an increase of 1,500, or 4.7%, from 31,600 average active consultants selling in the first quarter of fiscal 2020. In addition, due to the closure of many schools across the nation during the quarter from the COVID-19 pandemic, we experienced an increase demand for educational materials in homes. Our increase in active consultants and our ability to receive orders online and deliver directly to our customers' homes resulted in our increased revenues during the quarter.

Gross margin increased $8.8 million, or 50.6%, to $26.2 million during the three months ended May 31, 2020, as compared to $17.4 million during the same period a year ago. Gross margin as a percentage of net revenues increased 2.0% to 71.1% for the three-month period ended May 31, 2020 when compared to 69.1% the same period a year ago. The increase in gross margin percentage was due to a change in the mix of order type, caused by an increase in internet-based sales and a decrease in sales through home parties, school and library and book fairs resulting primarily from the impact of the COVID-19 pandemic. Internet-based orders offer fewer discounts than other UBAM sales order types but have increased sales commission expenses.

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 $7.3 million to $20.4 million during the three-month period ended May 31, 2020, when compared to $13.1 million reported in the same quarter a year ago. Operating and selling expenses increased $1.8 million to $5.4 million during the three-month period ended May 31, 2020, when compared to $3.6 million reported in the same quarter a year ago, due primarily to an increase in postage and freight costs of $1.9 million associated with the increase in volume of orders shipped. Sales commissions increased $5.2 million to $13.6 million during the three-month period ended May 31, 2020, when compared to $8.4 million reported in the same quarter a year ago, due primarily to the increase in internet-based sales, which offer fewer discounts and higher sales commissions to consultants. General and administrative expenses increased $0.4 million to $1.4 million, from $1.0 million, during the three months ended May 31, 2020 when compared to the same period last year, due primarily to a $0.4 million increase in credit card transaction fees associated with increased sales volumes.

Operating income of the UBAM segment increased $1.4 million, or 31.8%, to $5.8 million during the three months ended May 31, 2020, when compared to $4.4 million reported in the same quarter a year ago for reasons described above.

Publishing Operating Results for the Three Months Ended May 31, 2020

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

	Three Months Ended May 31,	
	2020	**2019**
Gross sales	$ 2,950,800	$ 5,044,900
Less discounts and allowances	(1,589,200)	(2,711,500)
Transportation revenue	3,900	5,900
Net revenues	1,365,500	2,339,300
Cost of goods sold	706,900	1,257,400
Gross margin	658,600	1,081,900
Total operating expenses	312,000	446,200
Operating income	$ 346,600	$ 635,700

Publishing Operating Results for the Three Months Ended May 31, 2020

Our Publishing division's net revenues decreased $0.9 million, or 39.1%, to $1.4 million during the three-month period ended May 31, 2020, from $2.3 million reported in the same period a year ago. This decrease in sales resulted from temporary store closures impacted by the COVID-19 pandemic. Many of our publishing customers temporarily closed in March, following the guidance from their local authorities in an attempt to reduce the spread of the virus and began reopening in May.

Gross margin decreased $0.4 million, or 36.4%, to $0.7 million during the three-month period ended May 31, 2020, from $1.1 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 increased 2.0%, to 48.2%, during the three-month period ended May 31, 2020, from 46.2% reported in the same quarter a year ago. The increase in gross margin percentage results primarily from a change in our customer mix. Certain customers with larger volumes receive increased discounts.

Total operating expenses of the Publishing segment decreased $0.1 million to $0.3 million during the three-month period ended May 31, 2020, from $0.4 million reported in the same quarter a year ago, primarily from $0.1 million reduced exhibits and trade show expenses. Many trade shows and exhibits were cancelled during the first quarter of fiscal 2021 in response to the spread of the COVID-19 pandemic.

Operating income of the Publishing segment decreased $0.3 million, or 50.0%, to $0.3 million during the three-month period ended May 31, 2020 when compared to $0.6 million reported in the same period a year ago, due primarily to the decrease in net revenues.

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 three months of fiscal 2021, we generated positive cash flows from our operations of $12,595,200. These cash flows resulted from:

- net earnings of $1,931,100

Adjusted for:

- depreciation expense of $409,900
- share-based compensation expense of $169,000
- deferred income taxes of $91,200
- provision for inventory valuation allowance of $80,000
- provision for doubtful accounts of $67,800

Positively impacted by:

- decrease in inventory, net of $3,080,800
- decrease in accounts receivable of $348,900
- decrease in prepaid expenses and other assets of $29,100
- increase in accrued salaries of $2,373,300
- increase in deferred revenues of $2,026,800
- increase in accounts payable of $1,385,200
- increase in income tax payable of $602,100

Cash used in investing activities was $143,800 for capital expenditures, which were primarily comprised of software upgrades that our UBAM consultants use to monitor their business and place customer orders.

Cash used in financing activities was $685,300, which was primarily comprised of $417,400 of dividends paid, net cash used for term debt of $263,400, and $4,500 net cash used in treasury stock transactions.

During fiscal year 2021, 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 $11.4 million and Tranche B totaling $4.2 million as of May 31, 2020, 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 $2.9 million as of May 31, 2020, 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. Subsequent to quarter end, the Company paid off Term Loan #2.

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 May 31, 2020 and February 29, 2020. Available credit under the revolving credit agreement was $9.0 million at May 31, 2020.

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 (2.44% at May 31, 2020).

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 May 31, 2020, 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),		
2021	$	837,000
2022		1,155,500
2023		1,195,500
2024		1,237,100
2025		1,278,600
Thereafter		12,844,600
Total	$	18,548,300

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 May 31, 2020 and February 29, 2020.

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 $0.3 million at May 31, 2020, and $0.2 million at February 29, 2020. Included within this allowance is $0.1 million of reserve for vendor discounts to sell remaining inventory as of May 30, 2020 and February 29, 2020.

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 China, Europe, 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. Inventory in excess of 2 ½ years of anticipated sales is classified as noncurrent inventory. Noncurrent inventory balances prior to valuation allowances were $1.0 million and $1.2 million at May 31, 2020 and February 29, 2020, 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; in summary, having consignment inventory leads to additional sales opportunities. Approximately 7.4% of our active consultants maintained consignment inventory at the end of the first fiscal quarter 2021. 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 $1.3 million at May 31, 2020 and $1.5 million at February 29, 2020.

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 $0.5 million as of May 31, 2020 and February 29, 2020, 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. Any cash dividends declared after the restricted stock award is made, but before the vesting period is completed, will be reinvested in Company shares at the opening trading price on the dividend payment date. Shares purchased with cash dividends will also retain the same restrictions until the completion of the original vesting period associated with the awarded shares.

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.

During the first three months of fiscal 2021, the Company recognized $0.2 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 May 31, 2020. 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 May 31, 2020 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

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 (1)
March 1 - 31, 2020	17,565	$ 4.30	17,565	519,594
April 1 - 30, 2020	-	-	-	519,594
May 1 - 31, 2020	-	-	-	519,594
Total	17,565	$ 4.30	17,565	

(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. Amounts in the table reflect the remaining number of shares available to be repurchased. 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: July 13, 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.
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.

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: July 13, 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: July 13, 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 May 31, 2020, 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: July 13, 2020

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

Date: July 13, 2020

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