

Edgar Filing: Education Realty Trust, Inc. - Form 8-K

Education Realty Trust, Inc.  
Form 8-K  
March 06, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8 K

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

Date of report (Date of earliest event reported): March 1, 2017

Education Realty Trust, Inc.  
Education Realty Operating Partnership, LP

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(Exact Name of Registrant as Specified in Charter)

Maryland	001-32417	20-1352180
Delaware	333-199988-01	20-1352332
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

999 South Shady Grove Road, Suite 600  
Memphis, Tennessee 38120  
(Address of Principal Executive Offices) (Zip Code)

901-259-2500

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(Registrant's telephone number, including area code)

Not Applicable

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(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))

- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On March 1, 2017, Monte J. Barrow notified the board of directors (the “Board”) of Education Realty Trust, Inc. (the “Company”) of his decision to resign from the Board, effective April 1, 2017. Mr. Barrow has served on the Board since January 2005 and has also served as a member of the Board’s Audit Committee, Compensation Committee and Investment Oversight Committee. The retirement of Mr. Barrow is in accordance with the Company’s mandatory retirement policy and is not the result of any disagreement with the Company, the Board or management on any matter relating to the Company’s operations, policies or practices.

Item 5.03. Amendments to Articles of Incorporations or Bylaws; Change in Fiscal Year

On March 1, 2017, the Board approved Amendment No. 2 the (“Amendment”) to the Company’s Amended and Restated Bylaws (the “Bylaws”), which provides the Company’s stockholders with the right to amend the Bylaws upon the affirmative vote of a majority of the votes entitled to be cast on the matter.

The foregoing summary of the Amendment is qualified in its entirety by reference to the copy of the Amendment filed as Exhibit 3.1 to this Current Report on Form 8-K.

Item 7.01. Regulation FD Disclosure.

Representatives of the Company will be meeting with investors from March 6-8, 2017 in Miami, Florida at the Citi 2017 Global Property CEO Conference. Those discussions will focus on the Company’s publicly disclosed business strategy and operating results. The Investor Presentation that will be presented during these meetings with investors is furnished herewith as Exhibit 99.1 to this Current Report on Form 8-K.

The Company believes that certain statements in the information attached may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Actual results may differ materially from those expressed or implied. Information concerning factors that could cause actual results to differ materially from those in forward-looking statements is contained from time to time in the Company’s filings with the Securities and Exchange Commission, including under the captions “Risk Factors,” “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. Forward-looking statements speak only as of the date on which they are made, and, except as otherwise may be required by law, the Company undertakes no obligation to update or revise forward-looking statements.

In accordance with General Instructions B.2 and B.6 of Form 8-K, the information included in this Item 7.01 (including Exhibit 99.1 hereto), shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any filing made by the Company under the Exchange Act or Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
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3.1	Amendment No. 2 to the Amended and Restated Bylaws of Education Realty Trust, Inc.
99.1	Investor Presentation (March 2017)



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EDUCATION REALTY TRUST, INC.

Date: March 6, 2017 By: /s/ Edwin B. Brewer, Jr.  
Edwin B. Brewer, Jr.  
Executive Vice President and Chief Financial Officer

EDUCATION REALTY OPERATING PARTNERSHIP,  
LP

Date: March 6, 2017 By: EDUCATION REALTY OP GP, INC., its general  
partner  
By: /s/ Edwin B. Brewer, Jr.  
Edwin B. Brewer, Jr.  
Executive Vice President and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit No. Description

- |      |  |
|------|--|
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Our business is subject to seasonal influences, with a higher portion of sales and income historically realized during the third quarter of the fiscal year, which includes the back-to-school and holiday seasons. This seasonality causes our operating results to vary somewhat from quarter to quarter and could materially and adversely affect the market price of our securities.

Our operations are dependent on a single distribution facility

Our distribution activities for all books are handled from a single facility in Tulsa, Oklahoma. Any significant interruption in the operation of the distribution facility due to natural disasters, accidents,

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system failures or other unforeseen causes could impair our ability to distribute merchandise to our customers.

**We have a sole source supplier for our products**

We are the exclusive United States distributor for the line of children's books published by Usborne Publishing, Limited, London, UK and our distribution of other publishers' products is extremely limited. There is some risk in having a sole source for our products. The contract between Usborne Publishing, Limited and us has a two-year notice of termination requirement. However, we have an excellent working relationship with our foreign supplier Usborne Publishing, Limited and can foresee no reason for this to change.

**All our products are imported from overseas locations**

Our products are printed at locations throughout Europe, China, Singapore, India, Malaysia and Dubai. The products are then shipped by ocean cargo to the United States. Political unrest in a particular location could cause delays in securing products. However, since our supplier has numerous sources for printing the products, should political unrest occur in one area, the supplier could utilize printers in other locations to provide our product. Should an accident occur while the books are in transit and the supply of a title be depleted as a result, we would experience lost sales.

**Our common stock is thinly traded**

Our common stock is traded on the NASDAQ market under the symbol EDUC. There were 3,757,323 shares outstanding at February 28, 2007. The average shares traded daily for the fiscal years ended February 28, 2007, February 28, 2006, and February 28, 2005 were 3,021 shares, 3,371 shares, and 9,855 shares, respectively.

**Personnel changes**

Our development has largely been achieved through the vision and efforts of our President and CEO. If his services were not available for any reason, our business could be adversely affected.

**Other factors may negatively affect our business**

The foregoing list of risk factors is not exclusive. Other factors and unanticipated events could adversely affect us. We do not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made.

**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.

**Item 3. LEGAL PROCEEDINGS**

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

**Table of Contents****Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of our security holders.

**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 National Market (symbol EDUC). The high and low closing quarterly common stock quotations for fiscal years 2007 and 2006, as reported by the National Association of Securities Dealers, Inc., were as follows:

Period	2007		2006	
	High	Low	High	Low
1st Qtr	8.85	6.86	10.98	10.06
2nd Qtr	7.90	6.10	10.61	10.05
3rd Qtr	7.88	6.24	10.13	7.95
4th Qtr	7.88	6.50	8.57	7.65

The number of shareholders of record of EDC's common stock at May 8, 2007 was 809.

We paid a \$0.20 per share annual dividend during fiscal year 2007 and a \$0.15 per share annual dividend during fiscal year 2006. We paid a \$0.22 per share dividend on May 18, 2007 to shareholders of record as of May 8, 2007.

The following table shows repurchases of our Common Stock which we made during fiscal year 2007.

**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, 2006	3,175	\$ 7.01	3,175	163,968
January 1 - 31, 2007	2,000	\$ 7.10	2,000	161,968
February 1 - 28, 2007	15,029	\$ 7.44	15,029	146,939
Total	20,204	\$ 7.34	20,204	

- (1) In April 2004 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.

**Table of Contents****Item 6. SELECTED FINANCIAL DATA**

The following selected financial data for the five years ended February 28, 2007 should be read in conjunction with our consolidated financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this Report.

	YEARS ENDED FEBRUARY 28 (29)				
	2007	2006	2005	2004	2003
Net Revenues	\$ 31,403,500	\$ 31,788,900	\$ 31,650,800	\$ 31,127,300	\$ 26,869,700
Earnings from Continuing Operations	\$ 2,407,100	\$ 2,398,400	\$ 2,406,100	\$ 2,373,500	\$ 1,996,600
Earnings from Continuing Operations Per Common Share					
Basic	\$ .64	\$ .64	\$ .62	\$ .60	\$ .52
Diluted	\$ .62	\$ .62	\$ .59	\$ .55	\$ .48
Total Assets	\$ 19,701,900	\$ 18,397,900	\$ 17,980,500	\$ 19,112,700	\$ 17,587,700
Cash Dividends Paid Per Common Share	\$ .20	\$ .15	\$ .12	\$ .10	\$ .06

**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 consolidated 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 at Home (UBAH), 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 UBAH 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 \$24.2 billion for calendar year 2006. Sales in the trade industry, defined as wholesale sales to retailers, were approximately \$8.3 billion for calendar year 2006. Sales in the juvenile paperback market, our primary market segment, were approximately \$1.3 billion for calendar year 2006. Our market share in the juvenile paperback market has remained between 0.9% and 1.0% during the last three years.

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



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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 2007	FY 2006	FY 2005
National chain stores	39%	42%	36%
All other	61%	58%	64%
Total net sales	100%	100%	100%

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

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

The Publishing Division's in-house telesales group targets the smaller independent book and gift store market. During fiscal year 2007 the telesales group opened 414 new accounts. Our full-color, 130-page catalogs, which are revised twice a year, are mailed to nearly 5,100 customers and potential customers. We also offer two display racks to assist stores in displaying our products. The larger rack has adjustable shelves that can hold approximately 250 titles. The second rack is four-sided with three levels that will hold between 50 and 60 of our Kid Kits. There were approximately 4,200 of these racks in retail stores throughout the country at the end of fiscal year 2007.

	Net Revenues for Publishing Division		
	FY 2007	FY 2006	FY 2005
Net Revenues	8,121,100	8,403,700	7,362,700

Publishing Division's net revenues decreased \$283,000 from fiscal year 2006 to fiscal year 2007, or 3.3%. Net revenues were down between 3.0 and 3.9% in each area of sales (national chain stores, inside sales and smaller retail sales). Sales for fiscal year 2005 were 14.5% higher than 2005.

**Usborne Books at Home ( UBAH ) Division**

The UBAH Division is a multi-level selling organization that markets its products through independent sales representatives ( consultants ) located throughout the United States. The customer base of UBAH 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 UBAH Division is the addition of new sales consultants and the retention of existing consultants. Current active consultants recruit new sales consultants. UBAH 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. UBAH provides an extensive handbook that is a valuable tool in explaining the various programs to the new recruit.

**Table of Contents****New Consultants Added During Year**

	FY 2007	FY 2006	FY 2005
New Sales Representatives	7,200	5,300	5,600
Active Sales Representatives End of Fiscal Year	9,800	8,100	8,300

The UBAH Division presently has six levels of sales representatives:

Consultants

Supervisors

Senior Supervisors

Executive Supervisors

Senior Executive Supervisors

Directors

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

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

**Percent of Net Revenues by UBAH Marketing Program**

	FY 2007	FY 2006	FY 2005
Home Shows	42%	46%	51%
Direct Sales	3%	3%	3%
School & Library, including Book Fair	36%	36%	33%
Internet	8%	5%	3%
Transportation Revenue	11%	10%	10%
Totals	100%	100%	100%

**Number of Orders by UBAH Marketing Program**

	FY 2007	FY 2006	FY 2005
Home Shows	36,200	37,000	41,200
Direct Sales	7,700	9,000	10,100
School & Library	12,000	12,100	11,500
Internet	40,900	27,400	17,600
	96,800	85,500	80,400

Net revenues from home shows declined 9.1% or \$979,000 during fiscal year 2007. This was a combination of per order averages which were down 4.0% and a lower number of orders placed during fiscal year 2007. Homes shows

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were the original marketing program when UBAH began in 1989 and continue to generate the greatest percentage of revenue for UBAH. 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

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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 0.6% or \$4,000 during fiscal year 2007. This resulted from a 15% decrease in the number of orders placed during the year, offset by an 11% increase in the per order average. Direct sales are sales without a hostess being involved. This program makes it possible for consultants to work directly out of their homes by selling to friends, neighbors and other customers. It is especially convenient for those individuals who wish to order books from a consultant but are unable to attend a home show. The UBAH Division offers many promotions (customer specials) throughout the year. These promotions offer the customer the opportunity to purchase selected items at a discount if the customer meets the defined criteria. The discounts under these promotions are recorded in discounts and allowances.

The school and library marketing program, including book fairs, decreased 0.4% or \$37,000 during fiscal year 2007. The number of orders placed during the year was down slightly and the amount of the per order average decreased 5%. Scholastic dominates the book fair market. Our book fair program is comparable to Scholastic's program and we continue to make inroads into their market share. Many schools hold joint book fairs with UBAH and our competitors and we do well at these events. In many cases, UBAH book fairs have been the only participant. We look forward to future growth in this market area as our book fair program gains wider acceptance.

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

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. UBAH 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.

As shown in the tables above, internet sales continue to show significant growth for UBAH, increasing 59% or \$694,000 during fiscal year 2007. This is the result of more consultants utilizing in-house-developed and hosted web sites in their businesses for a nominal monthly fee. Consultants 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 UBAH marketing programs is recorded as operating and selling expense in the statements of earnings.

We believe that the UBAH Division has the greatest growth potential for us. While there are many multi-level companies in the United States, UBAH 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 UBAH Division is 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

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uses of cash are to pay dividends, repay borrowings on our line of credit, acquire treasury stock and purchase property and equipment. We utilize our bank credit facility to meet our short-term cash requirements, when needed.

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

During fiscal year 2007 we experienced a positive cash flow from operations of \$2,479,000. Cash flow from operations was increased by an increase in accounts payable and accrued expenses of \$479,800 and reduced by an increase in inventories of \$308,100.

Cash used in investing activities was \$34,900 for capital expenditures related to remodeling our assembly area, sprinkler system improvements, new computers and various warehouse improvements. We estimate that cash used in investing activities for fiscal year 2008 will be less than \$500,000. 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 \$1,511,200 which was primarily due to dividend payments of \$751,200, \$676,000 net payments under the bank loan agreement and \$260,700 paid to acquire treasury stock. These were offset by cash received from financing activities of \$111,600 from the sale of treasury stock, \$55,900 from the exercise of stock options and \$9,100 reduced income taxes from exercise of stock options. In September 2002 the Board of Directors authorized paying a minimum annual cash dividend of 20% of net earnings. In 2007, 2006 and 2005 we paid 31%, 31% and 25%, respectively, of net earnings as a cash dividend. We anticipate that in future years we will continue paying cash dividends of 25% - 35% of net earnings.

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 Total Revenues**

	FY 2007	FY 2006	FY 2005
Net revenues	100.0%	100.0%	100.0%
Cost of sales	35.9%	36.6%	35.8%
Gross margin	64.1%	63.4%	64.2%
Operating expenses:			
Operating & selling	23.6%	22.3%	21.7%
Sales commissions	23.6%	23.7%	24.9%
General & administrative	5.8%	5.4%	5.4%
Interest	0.0%	0.3%	0.2%
Total operating expenses	53.0%	51.7%	52.2%
Income from Operations	11.1%	11.7%	12.0%
Other income	1.2%	0.3%	0.3%
Earnings before income taxes	12.3%	12.0%	12.3%
Income taxes	4.7%	4.5%	4.7%
Net earnings	7.6%	7.5%	7.6%





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The following presents an overview of our results of operations for the years ended February 28, 2007 and 2006. We had earnings before income taxes of \$3,880,100 for fiscal year 2007 compared with \$3,814,400 for fiscal year 2006.

**Revenues**

	FY 2007	FY 2006	\$ Increase/ (decrease)
Gross sales	\$ 41,920,700	\$ 42,567,700	\$ (647,000)
Less discounts & allowances	(12,358,800)	(12,367,800)	9,000
Transportation revenue	1,841,600	1,589,000	252,600
Net revenues	\$ 31,403,500	\$ 31,788,900	\$ (385,400)

The UBAH Division's gross sales decreased a slight 0.2% or \$43,300 during FY 2007 when compared with FY 2006. We attribute this decrease to lower sales in the home party, direct sale market, and school and library/book fair market, offset by increased sales in the internet markets. Average sales per order for this division were down 8.9%, while the overall number of orders were up 13.3% primarily due to additional internet sales orders. The Publishing Division's gross sales decreased 3.5% or \$603,700 during FY 2007 when compared with FY 2006.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAH Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were \$8.7 million and \$9.0 million in fiscal years 2007 and 2006, respectively. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 51.8% of Publishing's gross sales in both fiscal year 2007 and 2006.

The UBAH Division's discounts and allowances were \$3.7 million in fiscal year 2007 and \$3.4 million in fiscal year 2006. Most sales in the UBAH Division are at retail. As a part of the UBAH Division's marketing programs, discounts between 40% and 50% of retail are offered on selected items at various times throughout the year. The discounts and allowances in the UBAH Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAH Division's discounts and allowances were 14.6% of UBAH's gross sales in fiscal year 2007 and 13.4% in fiscal year 2006.

Transportation revenues increased \$252,600 in fiscal year 2007 due to an increase in the transportation rate charged to the UBAH Division.

**Expenses**

	FY 2007	FY 2006	\$ Increase/ (decrease)
Cost of sales	\$ 11,274,600	\$ 11,651,200	\$ (376,600)
Operating & selling	7,509,400	7,095,000	414,400
Sales commissions	7,397,800	7,526,200	(128,400)
General & administrative	1,722,900	1,712,500	10,400
Interest	7,600	83,100	(75,500)
Total	\$ 27,912,300	\$ 28,068,000	\$ (155,700)

Cost of sales decreased approximately 3.2% in fiscal year 2007 when compared with fiscal year 2006. Our cost of products is 25% to 34% of the gross sales price, depending upon the product. In comparing the percentage increase in gross sales with the percentage increase in cost of goods,



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consideration must be given to the mix of products sold. Approximately 97% of our products come from one vendor, where the cost of the products is a fixed percentage of the retail price. The mix of products sold has not materially changed in recent years.

We expect the percentage change in year-to-year gross sales and the percentage increases in year-to-year cost of sales to be proportional. The 3.2% decrease in cost of sales for fiscal year 2007 over fiscal year 2006 is relatively consistent with the percent decrease in gross sales of approximately 1.5% for the same periods.

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 are made up of purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network. These costs totaled \$1,200,800 in FY2007 and \$1,414,900 in FY2006. Readers are advised to be cautious when comparing our gross margins with the gross margins of other companies, since some companies include the costs of their distribution networks in cost of sales.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAH Division and the order entry and customer service functions. Operating and selling expenses increased \$414,400 primarily due to higher postage and freight expenses of \$103,500 over the prior year, increases in travel contest incentives and other sales incentives offered by the UBAH Division totaling \$108,300, higher promotion costs in the Publishing Division totaling \$89,400 and an increase in payroll/benefits costs of \$100,500. Operating and selling expenses as a percentage of gross sales were 17.9% and 16.7% for fiscal year 2007 and fiscal year 2006, respectively.

Sales commissions in the Publishing Division increased \$16,100 for the fiscal year ended 2007. 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 1.4% of net sales in fiscal year 2007 and 1.1% of net sales in fiscal year 2006.

Sales commissions in the UBAH Division decreased \$144,500. UBAH Division sales commissions are paid on retail sales and were 31.3% for fiscal year 2007 and 37.6% for fiscal year 2006. 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 UBAH Division.

General and administrative costs include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses increased slightly because of an increase in materials and supplies, outside services and payroll costs, offset by a decrease in legal and audit fees. General and administrative expenses as a percentage of gross sales were 4.1% for fiscal year 2007 and 4.0% for fiscal year 2006.

Interest expense decreased \$75,500 due to decreased short-term borrowings throughout the fiscal year. Interest expense as a percentage of gross sales was negligible at 0.02% in fiscal year 2007 and 0.2% in fiscal year 2006.

The tax provision for fiscal year 2006 was \$1,471,000. The effective rate for fiscal year 2007 was 37.9% and for fiscal year 2006 was 37.1%. Our effective tax rate is higher than the Federal statutory rate due to state income taxes.

**Table of Contents*****Fiscal Year 2006 Compared with Fiscal Year 2005***

We had earnings before income taxes of \$3,814,400 for fiscal year 2006 compared with \$3,885,100 for fiscal year 2005.

**Revenues**

	FY 2006	FY 2005	\$ Increase/ (decrease)
Gross sales	\$ 42,567,600	\$ 41,361,600	\$ 1,206,000
Less discounts & allowances	(12,367,800)	11,324,200	(1,043,600)
Transportation revenue	1,589,000	1,613,300	(24,300)
Net revenues	\$ 31,788,800	\$ 31,650,700	\$ 138,100

The UBAH Division's gross sales decreased 4.0% or \$1,039,200 during FY 2006 when compared with FY 2005. We attribute this decrease to lower sales in the home party and direct sale market, offset by increased sales in the book fair and internet markets. The Publishing Division's gross sales increased 14.8% or \$2,245,200 during FY 2006 when compared with FY 2005. We attribute this increase to increased buying by the major chains and increases in the sales generated by our in-house telesales force.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAH Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were \$9.0 million and \$7.8 million in fiscal years 2006 and 2005, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 51.8% of Publishing's gross sales in fiscal year 2006 and 51.5% in fiscal year 2005.

The UBAH Division's discounts and allowances were \$3.4 million in fiscal year 2006 and \$3.5 million in fiscal year 2005. The UBAH Division is a multi-level selling organization that markets its products through independent sales representatives (consultants). Sales are made to individual purchasers and school and public libraries. Most sales in the UBAH Division are at retail. As a part of the UBAH Division's marketing programs, discounts between 40% and 50% of retail are offered on selected items at various times throughout the year. The discounts and allowances in the UBAH Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAH Division's discounts and allowances were 13.4% of UBAH's gross sales in fiscal year 2006 and 13.5% in fiscal year 2005.

The decrease in transportation revenues is the result of decreased sales in the UBAH Division.

**Expenses**

	FY 2006	FY 2005	\$ Increase/ (decrease)
Cost of sales	\$ 11,651,200	\$ 11,338,000	\$ 313,100
Operating & selling	7,095,000	6,860,500	234,400
Sales commissions	7,526,200	7,875,900	(349,700)
General & administrative	1,712,500	1,719,200	(6,800)
Interest	83,100	67,600	15,400
Total	\$ 28,068,000	\$ 27,861,200	\$ 206,400

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Cost of sales increased approximately 2.8% in fiscal year 2006 when compared with fiscal year 2005. Our cost of its products is 25% to 34% of the gross sales price, depending upon the product. In comparing the percentage increase in gross sales with the percentage increase in cost of goods, consideration must be given to the mix of products sold. Approximately 97% of our products come from one vendor, where the cost of the products is a fixed percentage of the retail price. The mix of products sold has not materially changed in recent years.

We expect the percentage increases in year-to-year gross sales and the percentage increases in year-to-year cost of sales to be similar in movement in the foreseeable future. The 2.8% increase in cost of sales for fiscal year 2006 over fiscal year 2005 is consistent with the percent increase in gross sales of approximately 2.9% for the same periods. Cost of sales is the inventory cost of the product sold, which includes the cost of the product itself and inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network are included in operating and selling expenses. These costs totaled \$1,144,900 in FY2006, \$1,196,900 in FY2005 and \$1,110,600 in FY2004. Readers are advised to be cautious when comparing our gross margins with the gross margins of other companies, since some companies include the costs of their distribution networks in cost of sales.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAH Division and the order entry and customer service functions. Operating and selling expenses increased because of higher postage and freight expense totaling \$126,100, increases in travel contest incentives and other sales incentives offered by the UBAH Division totaling \$116,500 and higher promotion costs in the Publishing Division totaling \$16,500. Offsetting the increase in operating and selling expenses were decreases in payroll costs for both divisions of \$23,200. Operating and selling expenses as a percentage of gross sales were 16.7% and 16.6% for fiscal year 2006 and fiscal year 2005, respectively.

Sales commissions in the Publishing Division increased \$10,700 for the fiscal year ended 2006, due to the increase in net sales. Publishing Division sales commissions are paid on net sales and were 1.1% of net sales in fiscal year 2006 and 1.2% of net sales in fiscal year 2005. Publishing Division sales commissions will fluctuate as a percentage of net sales, depending upon the type of customer. Sales to the major chains are handled by the Publishing Division Vice President and no sales commissions are paid on these sales.

Sales commissions in the UBAH Division decreased \$360,400. UBAH Division sales commissions are paid on retail sales and were 37.6% for fiscal year 2006 and 38.2% for fiscal year 2005. 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 UBAH Division.

General and administrative costs include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses decreased because of lower materials and supplies costs, offset by increased depreciation costs. Materials and supplies costs declined \$34,700. Depreciation costs increased \$26,400 due to the addition of the new warehouse building. General and administrative expenses as a percentage of gross sales were 4.0% for fiscal year 2006 and 4.2% for fiscal year 2005.

Interest expense increased \$15,400 due to increased borrowings throughout fiscal year 2006 and higher interest rates. The Federal Reserve increased interest rates eight times during fiscal year 2006, which in turn caused our borrowing rate to increase. Interest expense as a percentage of gross sales was 0.20% in fiscal year 2006 and .16% in fiscal year 2005.

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The tax provision for fiscal year 2006 was \$1,416,000. The effective rate for fiscal year 2006 was 37.1% and for fiscal year 2005 was 38.0%. Our effective tax rate is higher than the Federal statutory rate due to state income taxes.

**Contractual Obligations**

The table below summarizes the maturity dates of our contractual obligations by period.

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations					
Capital Lease Obligations					
Operating Lease Obligations					
Purchase Obligations	\$2,873,200	\$2,873,200			
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP					
	<b>Total</b>	\$2,873,200	\$2,873,200		

**Bank Credit Agreement**

Effective June 30, 2006 we signed an Eighth Amendment to the Credit and Security Agreement with Arvest Bank which provided a \$5,000,000 line of credit through June 30, 2007. Interest is payable monthly at the Wall Street Journal prime-floating rate minus 0.75% (7.50% at February 28, 2007) and borrowings are collateralized by substantially all assets. At February 28, 2007, we had no borrowings outstanding. Available credit under the revolving credit agreement was \$5,000,000 at February 28, 2007. Borrowings outstanding under the agreement ranged from \$0 to \$700,000 during the fiscal year ended February 28, 2007.

This agreement also contains a new provision for our use of the Bank's letters of credit. The Bank agrees to issue, or obtain issuance of, commercial or standby letters of credit provided that no letters of credit will have an expiry date later than June 30, 2007 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.

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### **Critical Accounting Policies**

*Our discussion and analysis of our financial condition and results of operations are based upon our consolidated 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 over the vesting period.

### **Revenue Recognition**

Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAH Division's sales are paid before the product is shipped. These sales accounted for 74% of net revenues in FY2007, 74% in FY2006 and 77% in FY2005. The provisions of the SEC Staff Accounting Bulletin No.104, Revenue Recognition in Financial Statements, have been applied, and as a result, a reserve is provided for estimated future sales returns. Our sales return policy allows the customer to return all purchases for an exchange or refund for up to 30 days after the customer receives the item. Estimated allowances for sales returns are recorded as sales are recognized and recorded.

Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores. The damages occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers. Transportation revenue, the amount billed to the customer for shipping the product, is recorded when products are shipped. Management has estimated and included a reserve for sales returns of \$84,000 as of February 28, 2007 and \$73,000 as of February 28, 2006.

### **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 \$75,000 as of February 28, 2007 and \$112,200 as of February 28, 2006.

### **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 1/2 years of anticipated sales was classified as noncurrent inventory. Noncurrent inventory balances were \$808,000 and \$657,000 at February 28, 2007 and February 28, 2006, respectively.



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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 \$382,300 and \$304,900 as of February 28, 2007 and 2006, respectively.

Our product line contains approximately 1,400 titles, each with different rates of sale, depending upon the 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. A few of the titles, less than 50, have a limited time when they remain current in content, i.e. computer books, and these few titles are fully reserved. Our products are printed in Europe, China, Singapore, India, Malaysia and Dubai resulting in a six-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 7,500 or more of a title in order to get a solo print run. If we order less than 7,500 of a title, then we must share a print run with the supplier's other customers. Sharing a print run has resulted in delays of up to twelve months in receiving 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 1/2 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 following new accounting standards are applicable to us.

In February 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 155 Accounting for Certain Hybrid Financial Instruments amending SFAS No. 133 and SFAS No. 140. SFAS No. 155 eliminates the exemption from applying SFAS No. 133 to securitized financial assets. The provisions of SFAS No. 155 are to be applied to financial instruments issued or acquired during fiscal periods beginning after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on our financial position or results of operations.

FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) was issued in June 2006. It clarifies recognition and derecognition criteria for tax positions taken in a return that may be subject to challenge upon audit. If it is more likely than not, that the tax position will be sustained upon examination, the benefit is to be recognized in the financial statements. Conversely, if the position is less likely than not to be sustained, the benefit should not be recognized. The recognition/derecognition decision should be reflected in the first interim period when the status changes and not deferred to a future settlement upon audit. General tax reserves to cover aggressive positions taken in filed returns are no longer allowable. Each issue must be judged on its own merits and a recognition/derecognition decision recorded in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. This Interpretation is not expected to have a material effect on our financial position or results of operations in future periods.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements which amends and puts in one place guidance on the use of fair value measurements which had been spread through four APB Opinions and 37 FASB Standards. No extensions of the use of fair value measurements are contained in this new pronouncement, and with some special industry exceptions (e.g., broker-dealers), no significant changes in practice should ensue. The standard is to be applied to financial statements beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material impact on our financial position or results of operations.

Also in September 2006, the FASB issued SFAS No. 158 Employers Accounting for Defined Benefit Pension Plans and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132. This standard requires recognition in the balance sheet of the funded status of pension plans, rather than footnote disclosure which has been current practice. Publicly traded companies are to reflect the new standard in financial statements ending after December 15, 2006, and non-public companies are to apply it in statements ending after June 15, 2007. This standard should not have any impact on our financial position or results of operations.

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In February 2007, the FASB issued SFAS No. 159 Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 . This standard permits the use of fair value measurement of financial assets and liabilities in the balance sheet with the net change in fair value recognized in periodic net income. The Standard is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have a material effect on the our financial position or results of operations.

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**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not have any material market risk.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this Item 8 begins at page 31.

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

There have been no disagreements on any matter of accounting principles or practices or financial statement disclosure within the twenty-four months prior to February 28, 2007.

**Item 9.A 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, 2007. This evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and our Controller/Corporate Secretary (Principal Financial and Accounting Officer).

Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported in accordance within the time periods specified in Securities and Exchange Commission rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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.

**Item 9.B OTHER INFORMATION**

None

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**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

**(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 24, 2007.

**(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 24, 2007.

**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 24, 2007.

**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 24, 2007.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

None

**Item 14. PRINCIPAL ACCOUNTANT'S 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 24, 2007.

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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

<u>Report of Current Independent Registered Public Accounting Firm</u>	Page 26
<u>Balance Sheets February 28, 2007 and 2006</u>	27
<u>Statements of Earnings Years ended February 28, 2007, February 28, 2006 and February 28, 2005</u>	28
<u>Statements of Shareholders Equity - Years ended February 28, 2007, February 28, 2006 and February 28, 2005</u>	29
<u>Statements of Cash Flows - Years ended February 28, 2007, February 28, 2006 and February 28, 2005</u>	30
<u>Notes to Financial Statements</u>	31-39
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 of we 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 (File No. 0-4957).	
3.2 Certificate of Amendment of Restated Certificate of Incorporation dated August 27, 1977 are 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).	

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- 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).
- 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

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- 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
- \*23.1 Consent of current 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 25, 2007

By /s/ Marilyn Welborn

Marilyn Welborn  
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 25, 2007

/s/ Randall W. White

Randall W. White  
Chairman of the Board President, Treasurer  
and Director

May 25, 2007

/s/ John A. Clerico

John A. Clerico, Director

May 25, 2007

/s/ Dean Cosgrove

G. Dean Cosgrove, Director

May 25, 2007

/s/ James F. Lewis

James F. Lewis, Director

May 25, 2007

/s/ Marilyn Welborn

Marilyn Welborn  
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

Educational Development Corporation

We have audited the balance sheets of Educational Development Corporation as of February 28, 2007 and 2006, and the related statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 2007. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Tullius Taylor Sartain & Sartain LLP

Tulsa, Oklahoma

May 29, 2007

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**EDUCATIONAL DEVELOPMENT CORPORATION**  
**BALANCE SHEETS**  
**AS OF FEBRUARY 28**

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,254,304	\$ 321,537
Accounts receivable, less allowance for doubtful accounts and sales returns \$158,878 (2007) and \$185,209 (2006)	2,849,329	2,700,430
Inventories Net	12,387,959	12,159,360
Prepaid expenses and other assets	95,391	119,508
Income taxes receivable	3,374	
Deferred income taxes	117,500	141,700
Total current assets	16,707,855	15,442,535
INVENTORIES Net	459,117	379,570
PROPERTY, PLANT AND EQUIPMENT Net	2,385,322	2,493,929
DEFERRED INCOME TAXES	149,600	81,900
<b>TOTAL</b>	<b>\$ 19,701,896</b>	<b>\$ 18,397,934</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Note payable to bank	\$	\$ 676,000
Accounts payable	3,308,304	2,796,905
Accrued salaries and commissions	560,894	566,379
Income taxes payable		71,749
Dividends payable		750,785
Other current liabilities	171,407	197,486
Total current liabilities	4,040,605	5,059,304
COMMITMENTS (Note 7)		
<b>SHAREHOLDERS EQUITY:</b>		
Common stock, \$0.20 par value; Authorized 8,000,000 shares; Issued 5,791,840 (2007) and 5,771,840 (2006) shares; Outstanding 3,757,323 (2007) and 3,753,923 (2006) shares	1,158,368	1,154,368
Capital in excess of par value	7,649,096	7,577,495
Retained earnings	17,707,698	15,300,999

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	26,515,162	24,032,862
Less treasury stock, at cost	(10,853,871)	(10,694,232)
	15,661,291	13,338,630
 TOTAL	 \$ 19,701,896	 \$ 18,397,934

See notes to financial statements.

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**EDUCATIONAL DEVELOPMENT CORPORATION**  
**STATEMENTS OF EARNINGS**  
**YEARS ENDED FEBRUARY 28,**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
GROSS SALES	\$ 41,920,682	\$ 42,567,648	\$ 41,361,612
Less discounts and allowances	(12,358,838)	(12,367,775)	(11,324,165)
Transportation revenue	1,841,621	1,589,017	1,613,332
 NET REVENUES	 31,403,465	 31,788,890	 31,650,779
COST OF SALES	11,274,571	11,651,182	11,338,039
 Gross margin	 20,128,894	 20,137,708	 20,312,740
 OPERATING EXPENSES:			
Operating and selling	7,509,439	7,094,963	6,860,540
Sales commissions	7,397,767	7,526,184	7,875,891
General and administrative	1,722,933	1,712,469	1,719,240
Interest	7,581	83,054	67,620
	16,637,720	16,416,670	16,523,291
 OTHER INCOME	 386,927	 93,372	 95,625
 EARNINGS BEFORE INCOME TAXES	 3,878,101	 3,814,410	 3,885,074
 INCOME TAXES	 1,471,000	 1,416,000	 1,479,000
 NET EARNINGS	 \$ 2,407,101	 \$ 2,398,410	 \$ 2,406,074
 BASIC AND DILUTED EARNINGS PER SHARE:			
Basic	\$ 0.64	\$ 0.64	\$ 0.62
Diluted	\$ 0.62	\$ 0.62	\$ 0.59
 WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:			
Basic	3,755,608	3,747,759	3,902,075
Diluted	3,875,000	3,898,737	4,088,130

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)		Capital in		Treasury Stock		Shareholders' Equity
	Number of Shares Issued	Amount	Excess of Par Value	Retained Earnings	Number of Shares	Amount	
BALANCE March 1, 2004	5,596,340	\$ 1,119,268	\$ 6,518,669	\$ 12,292,066	1,570,567	\$ (5,686,446)	\$ 14,243,557
Purchases of treasury stock					479,360	(5,103,255)	(5,103,255)
Sales of treasury stock			36,700		(23,100)	85,800	122,500
Exercise of options (\$2.1875 \$6.00/share)	166,000	33,200	510,300				543,500
Tax benefit stock options			399,178				399,178
Stock-based compensation			4,639				4,639
Dividends paid (\$0.12/share)				(484,047)			(484,047)
Net earnings				2,406,074			2,406,074
BALANCE February 28, 2005	5,762,340	1,152,468	7,469,486	14,214,093	2,026,827	(10,703,901)	12,132,146
Purchases of treasury stock					7,500	(77,250)	(77,250)
Sales of treasury stock			48,294		(16,410)	86,919	135,213
Exercise of options (\$2.1875 \$6.00/share)	9,500	1,900	47,475				49,375
Tax benefit stock options			12,240				12,240
Dividends paid (\$0.15/share)				(560,719)			(560,719)
Dividends declared (\$0.20/share)				(750,785)			(750,785)
Net earnings				2,398,410			2,398,410
BALANCE February 28, 2006	5,771,840	1,154,368	7,577,495	15,300,999	2,017,917	(10,694,232)	13,338,630
Purchases of treasury stock					35,616	(260,664)	(260,664)

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Sales of treasury stock			10,526		(19,016)	101,025	111,551
Exercise of options							
(\$2.1875 \$4.00/share)	20,000	4,000	51,938				55,938
Tax benefit stock							
options			9,137				9,137
Cash dividends net of							
accrual					(402)		(402)
Net earnings				2,407,101			2,407,101

BALANCE February 28,  
2007 5,791,840 \$ 1,158,368 \$ 7,649,096 \$ 17,707,698 2,034,517 \$ (10,853,871) \$ 15,661,291

See notes to financial statements.

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings	\$ 2,407,101	\$ 2,398,410	\$ 2,406,074
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	143,549	138,023	125,570
Stock-based compensation			4,639
Deferred income taxes	(43,500)	(82,000)	(28,900)
Provision for doubtful accounts and sales returns	1,482,851	1,323,472	1,210,272
Loss on disposal of property, plant and equipment			1,163
Changes in assets and liabilities:			
Accounts and income tax receivable	(1,635,124)	(1,527,661)	(1,526,421)
Inventories	(308,146)	(66,402)	1,893,703
Prepaid expenses and other assets	24,117	(16,162)	43,678
Accounts payable, accrued salaries and commissions, and other current liabilities	479,835	(859,590)	(54,777)
Income tax payable	(71,749)	71,749	
Total adjustments	71,833	(1,018,571)	1,668,927
Net cash provided by operating activities	2,478,934	1,379,839	4,075,001
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(34,942)	(229,185)	(483,358)
Net cash used in investing activities	(34,942)	(229,185)	(483,358)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings on revolving credit agreement	3,295,000	14,239,000	13,235,000
Payments on revolving credit agreement	(3,971,000)	(14,991,000)	(12,201,000)
Cash received from exercise of stock options	55,938	49,375	543,500
Tax benefit of stock options exercised	9,137	12,240	399,178
Cash received from sale of treasury stock	111,551	135,213	122,500
Cash paid to acquire treasury stock	(260,664)	(77,250)	(5,103,255)
Dividends paid	(751,187)	(560,719)	(484,047)
Net cash used in financing activities	(1,511,225)	(1,193,141)	(3,488,124)
	932,767	(42,487)	103,519



NET INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS

CASH AND CASH EQUIVALENTS BEGINNING OF  
YEAR

321,537 364,024 260,505

CASH AND CASH EQUIVALENTS END OF YEAR

\$ 1,254,304 \$ 321,537 \$ 364,024

SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION:

Cash paid for interest

\$ 11,449 \$ 85,933 \$ 62,533

Cash paid for income taxes

\$ 1,542,400 \$ 1,381,106 \$ 1,117,672

SUPPLEMENTAL DISCLOSURE NON CASH  
INVESTING AND FINANCING ACTIVITIES:

Dividend declared

\$ 750,785

See notes to financial statements.

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**EDUCATIONAL DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED FEBRUARY 28, 2007, FEBRUARY 28, 2006 AND FEBRUARY 28, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Business*** We distribute books and publications through our Publishing and Usborne Books at Home (UBAH) 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. The England based publishing company is our primary supplier.

***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 \$10.6 million, \$11.9 million and \$8.0 million for the fiscal years ended February 28, 2007, February 28, 2006 and February 28, 2005, respectively. Total inventory purchases for those same periods were approximately \$12.4 million, \$13.1 million and \$11.2 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 \$100,000. At times, cash balances may be in excess of the FDIC insurance limit. We believe no significant concentrations of risk exist with respect to our cash. The majority of payments due from banks for third party credit card transactions process within two business days. Amounts due are classified as cash and cash equivalents at February 28, 2007 and 2006.

***Accounts Receivable*** Accounts receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment within thirty days from the invoice date. Trade accounts are stated at the amount management expects to collect from outstanding balances. Delinquency fees are not assessed. Payments of accounts receivable are allocated to the specific invoices identified on the customers' remittance advice. Accounts receivable are carried at original invoice amount less an estimated reserve made for returns and discounts based on quarterly review of historical rates of returns and expected discounts to be taken. The carrying amount of accounts receivable is reduced, if needed, by a valuation allowance that reflects management's best estimate of the amounts that will not be collected.

Management individually reviews all accounts receivable balances that exceed sixty days from invoice date and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation account based on its assessment of the current status of the individual accounts. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements. Recoveries of trade receivables previously written off are recorded when received.

***Inventories*** Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. We present a portion of our inventory as a noncurrent asset.

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Occasionally we purchase book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of our primary supplier. These excess quantities are included in noncurrent inventory. We estimate noncurrent inventory using the current year turnover ratio by title. All inventory in excess of 2 1/2 years of anticipated sales is classified as noncurrent inventory.

Inventories are presented net of a valuation allowance. Management has estimated and included an allowance for slow moving inventory for both current and noncurrent inventory. This allowance is based on management's analysis of inventory on hand at February 28, 2007 and 2006.

**Property, Plant and Equipment** Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives, as follows:

Building	30 years 3-10 years
Machinery & equipment	years
Furniture & fixtures	3 years

**Income Taxes** Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the regular tax rate expected to be in effect when the taxes are actually paid or recovered. Net deferred tax assets related to the recognition of future tax benefits are recorded to the extent that realization of such benefits is considered more likely than not to occur.

**Revenue Recognition** Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAH Division's sales are paid before the product is shipped. These sales accounted for 74% of net revenues in both FY 2007 & 2006 and 77% in FY2005. The provisions of the SEC Staff Accounting Bulletin No.104, Revenue Recognition in Financial Statements, have been applied, and as a result, a reserve is provided for estimated future sales returns.

Our sales return policy allows the customer to return all purchases for an exchange or refund for up to 30 days after the customer receives the item. Estimated allowances for sales returns are recorded as sales are recognized and recorded. Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores related to damages which occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers.

Transportation revenue, the amount billed to the customer for shipping the product, is recorded when products are shipped. Management has estimated and included a reserve for sales returns of \$84,000 as of February 28, 2007 and \$73,000 as of February 28, 2006.

**Advertising Costs** Advertising costs are expensed as incurred. Advertising expenses, included in selling and operating expenses in the statements of earnings, were \$148,000 in FY 2007, \$28,200 in FY2006, and \$11,600 in FY2005.

**Shipping and Handling Costs** We classify shipping and handling costs as operating and selling expenses in the statements of earnings. Shipping and handling costs were \$2,420,700 for FY 2007, \$2,278,200 for FY 2006 and \$2,108,600 for FY 2005.

**Earnings per Share** Basic earnings per share (EPS) is computed by dividing net income 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.

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The following reconciles the diluted earnings per share:

	<b>Year Ended February 28,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Diluted Earnings Per Share:</b>			
Net earnings applicable to common shareholders	\$ 2,407,101	\$ 2,398,310	\$ 2,406,074
<b>Shares:</b>			
Weighted average shares outstanding basic	3,755,608	3,747,759	3,902,075
Assumed exercise of options	119,392	150,978	186,055
Weighted average shares outstanding diluted	3,875,000	3,898,737	4,088,130
<b>Diluted Earnings Per Share</b>	<b>\$ 0.62</b>	<b>\$ 0.62</b>	<b>\$ 0.59</b>

There were no stock options for the fiscal years ended February 28, 2007, February 28, 2006 and February 28, 2005 excluded from the diluted earnings per share calculation.

**Fair Value of Financial Instruments** For cash and cash equivalents, accounts receivable, accounts payable and notes payable to the bank, the carrying amount approximates fair value because of the short maturity of those instruments.

**Long-Lived Asset Impairment** Management reviews the value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future cash flows. No impairment was noted as a result of such review during the years ended February 28, 2007, February 28, 2006 and February 28, 2005.

**Stock-Based Compensation** Share-based payment transactions with employees, such as stock options and restricted stock, are measured at estimated fair value at date of grant and recognized as compensation expense over the vesting period.

**Reclassifications** Certain prior year amounts have been reclassified to conform with the 2007 presentation.

**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 following new accounting standards are applicable to us.

In February 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 155 Accounting for Certain Hybrid Financial Instruments amending SFAS No. 133 and SFAS No. 140. SFAS No. 155 eliminates the exemption from applying SFAS No. 133 to securitized financial assets. The provisions of SFAS No. 155 are to be applied to financial instruments issued or acquired during fiscal periods beginning after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material impact on our financial position or results of operations.

FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) was issued in June 2006. It clarifies recognition and derecognition criteria for tax positions taken in a return that may be subject to challenge upon audit. If it is more likely than not, that the tax position will be sustained upon examination, the benefit is to be recognized in the financial statements. Conversely, if the position is less likely than not to be sustained, the benefit should not be recognized. The recognition/derecognition decision should be reflected in the first interim period when the status changes and not deferred to a future settlement upon audit. General tax reserves to cover aggressive positions taken in filed returns are no longer allowable. Each issue must be judged on its own merits and a recognition/derecognition decision recorded in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. This Interpretation is not expected to have a material effect on our financial position or

results of operations in future periods.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements which amends and puts in one place guidance on the use of fair value measurements which had been spread through four APB Opinions and 37 FASB Standards. No extensions of the use of fair value measurements are contained in this new pronouncement, and with some special industry exceptions (e.g., broker-dealers), no significant changes in practice should ensue. The standard is to be applied to financial statements beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material impact on our financial position or results of operations.

Also in September 2006, the FASB issued SFAS No. 158 Employers Accounting for Defined Benefit Pension Plans and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132. This standard requires recognition in the balance sheet of the funded status of pension plans, rather than footnote disclosure which has been current practice. Publicly traded companies are to reflect the new standard in financial statements ending after December 15, 2006, and non-public companies are to apply it in statements ending after June 15, 2007. This standard should not have any impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. This standard permits the use of fair value measurement of financial assets and liabilities in the balance sheet with the net change in fair value recognized in periodic net income. The Standard is effective for fiscal years beginning after November 15, 2007. The adoption of this standard is not expected to have a material effect on the our financial position or results of operations.

**Table of Contents****2. INVENTORIES**

Inventories consist of the following:

	<b>February 28,</b>	
	<b>2007</b>	<b>2006</b>
Current:		
Book inventory	\$ 12,421,419	\$ 12,186,820
Inventory valuation allowance	(33,460)	(27,460)
Inventories net current	\$ 12,387,959	\$ 12,159,360
Noncurrent:		
Book inventory	\$ 808,000	\$ 657,000
Inventory valuation allowance	(348,883)	(277,430)
Inventories net noncurrent	\$ 459,117	\$ 379,570

**3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	<b>February 28,</b>	
	<b>2007</b>	<b>2006</b>
Land	\$ 250,000	\$ 250,000
Building	2,124,700	2,124,700
Machinery and equipment	1,992,200	1,957,200
Furniture and fixtures	66,900	66,900
	4,433,800	4,398,800
Less accumulated depreciation and amortization	(2,048,500)	(1,904,900)
	\$ 2,385,300	\$ 2,493,900

**Table of Contents****4. INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising our net deferred tax assets and liabilities as of February 28, 2007 and 2006 are as follows:

	<b>2007</b>	<b>2006</b>
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	\$ 28,500	\$ 42,700
Allowance for slow moving inventory	12,700	10,400
Allowance for sales returns	31,900	27,700
Accruals	44,400	59,400
Stock-based compensation	0	1,500
Deferred tax assets	117,500	141,700
Deferred tax asset Net	\$ 117,500	\$ 141,700
Noncurrent:		
Deferred tax assets:		
Allowance for slow moving inventory	\$ 222,800	\$ 138,700
Stock-based compensation	0	4,200
Deferred tax assets	222,800	142,900
Deferred tax liabilities:		
Property and equipment	(73,200)	(61,000)
Deferred tax liabilities	(73,200)	(61,000)
Deferred tax asset Net	\$ 149,600	\$ 81,900

Management has determined that no valuation allowance is necessary to reduce the deferred tax assets as it is more likely than not that such assets are realizable.

The components of income tax expense are as follows:

	<b>2007</b>	<b>As of February 28, 2006</b>	<b>2005</b>
Current:			
Federal	\$ 1,287,300	\$ 1,273,200	\$ 1,300,000
State	227,200	224,800	229,400

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	1,514,500	1,498,000	1,529,400
Deferred:			
Federal	(37,000)	(69,700)	(43,100)
State	(6,500)	(12,300)	(7,300)
	(43,500)	(82,000)	(50,400)
Total income tax expense	\$ 1,471,000	\$ 1,416,000	\$ 1,479,000



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The following reconciles our expected income tax expense utilizing statutory tax rates to the actual tax expense:

	<b>As of Fiscal Year End February 28,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Tax expense at federal statutory rate	\$ 1,319,000	\$ 1,297,000	\$ 1,321,000
State income tax net of federal tax benefit	154,000	151,000	156,000
Other	(2,000)	(32,000)	2,000
 Total income tax expense	 \$ 1,471,000	 \$ 1,416,000	 \$ 1,479,000

**5. EMPLOYEE BENEFIT PLAN**

We have a profit sharing plan that incorporates the provisions of Section 401(k) of the Internal Revenue Code. The 401(k) plan covers substantially all employees meeting specific age and length of service requirements. Matching contributions from the Company are discretionary and amounted to \$69,300, \$65,108, and \$70,280 in the fiscal years ended February 28, 2007, February 28, 2006 and February 28, 2005, respectively.

**6. NOTE PAYABLE TO BANK**

We have a \$5,000,000 revolving credit agreement, with interest payable monthly at prime minus 0.75% (7.50% at February 28, 2007), collateralized by substantially all of our assets and maturing on June 30, 2007. Available credit under the revolving credit agreement was \$5,000,000 at February 28, 2007 and \$4,324,000 at February 28, 2006. This agreement also contains a new provision for our use of the Bank's letters of credit. The Bank agrees to issue, or obtain issuance of, commercial or standby letters of credit provided that no letters of credit will have an expiry date later than June 30, 2007 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.

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 amount of compensation, salaries, investments, capital expenditures and leasing transactions. We intend to renew the bank agreement or obtain other financing upon maturity.

We had no borrowings outstanding on the above revolving credit agreement at February 28, 2007 and \$676,000 of borrowings outstanding at February 28, 2006.

**7. COMMITMENTS**

At February 28, 2007, the Company had outstanding purchase commitments totaling approximately \$2,873,200.

**8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS**

The Board of Directors adopted the 1992 Incentive Stock Option Plan (the 1992 Plan) in June of 1992, which authorized The Company to grant up to 1,000,000 stock options. The 1992 Plan expired in June of 2002 upon which the Board of Directors adopted the 2002 Stock Option Plan (the 2002 Plan). The 2002 Plan also authorized The Company to grant up to 1,000,000 stock options.

Options granted under the 1992 Plan and 2002 Plan (collectively the Incentive Plans) vest at date of grant and are exercisable up to ten years from the date of grant. The exercise price on options granted is equal to the market price at the date of grant. Options outstanding at February 28, 2007 expire beginning in December 2007 through March 2014.

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A summary of the status of our Incentive Plans as of February 28, 2007, February 28, 2006 and February 28, 2005, and changes during the years then ended is presented below:

	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at Beginning of Year	250,200	\$ 3.74	259,700	\$ 3.79	424,700	\$ 3.57
Granted					1,000	10.00
Exercised/canceled	(20,000)	(2.80)	(9,500)	(5.20)	(166,000)	(3.27)
Outstanding at End of Year	230,200	\$ 3.82	250,200	\$ 3.74	259,700	\$ 3.79

The following table summarizes information about stock options outstanding at February 28, 2007:

<b>Weighted Average Exercise Price</b>	<b>Outstanding at February 28, 2007</b>	<b>Remaining Contractual Life (Years)</b>
\$2.19	64,000	3
\$2.50	10,000	2
\$3.81	5,000	1
\$4.00	15,000	1
\$4.63	135,200	1
\$10.00	1,000	7
	230,200	

All options outstanding are exercisable at February 28, 2007.

Options totaling 1,000 shares were granted in the fiscal year ended February 28, 2005. The fair value of options granted under the Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for options granted in the fiscal year ended February 28, 2005: 1% dividend yield, expected volatility of 26.49%, risk free interest rate of 4.06%, and expected life of ten years. Compensation expense was increased by \$4,639 and the income tax provision was decreased by \$1,500 for 2005.

**Table of Contents****9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

The following is a summary of the quarterly results of operations for the years ended February 28, 2007, February 28, 2006 and February 28, 2005.

	Net Revenues	Gross Margin	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
<b>2007</b>					
First quarter	\$ 8,107,000	\$ 5,227,600	\$ 696,600	\$ 0.19	\$ 0.18
Second quarter	6,484,400	3,967,900	424,000	0.11	0.11
Third quarter	9,820,500	6,398,900	798,200	0.21	0.21
Fourth quarter	6,991,600	4,534,500	488,300	0.13	0.12
Total year	\$ 31,403,500	\$ 20,128,900	\$ 2,407,100	\$ 0.64	\$ 0.62
<b>2006</b>					
First quarter	\$ 8,226,700	\$ 5,221,900	\$ 745,200	\$ 0.20	\$ 0.19
Second quarter	6,794,100	4,054,900	394,800	0.11	0.10
Third quarter	9,683,000	6,292,800	739,100	0.20	0.19
Fourth quarter	7,085,100	4,568,100	519,300	0.14	0.13
Total year	\$ 31,788,900	\$ 20,137,700	\$ 2,398,400	\$ 0.64	\$ 0.62
<b>2005</b>					
First quarter	\$ 8,553,300	\$ 5,549,400	\$ 824,400	\$ 0.21	\$ 0.19
Second quarter	6,992,200	4,373,100	452,400	0.11	0.11
Third quarter	9,331,100	6,110,600	809,400	0.21	0.20
Fourth quarter	6,774,200	4,279,600	319,900	0.09	0.09
Total year	\$ 31,650,800	\$ 20,312,700	\$ 2,406,100	\$ 0.62	\$ 0.59

**10. BUSINESS SEGMENTS**

We have two reportable segments: Publishing and Usborne Books at Home ( UBAH ) which are business units that offer different methods of distribution to different types of customers. They are managed separately based on the fundamental differences in their operations.

The Publishing Division markets its products to retail accounts, which include book, toy and gift stores, school supply stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group.

UBAH markets its product line through a nationwide network of independent sales consultants using a combination of direct sales, home shows and book fairs. The UBAH Division also distributes to school and public libraries.

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The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate segment performance based on earnings (loss) before income taxes of the segments, which is defined as segment net sales reduced by direct cost of sales and direct expenses. Corporate expenses, depreciation, interest expense and income taxes are not allocated to the segments, but are listed in the other column. Corporate expenses include the executive department, accounting

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department, information services department, general office management and building facilities management. Our assets and liabilities are not allocated on a segment basis.

Information by industry segment for the years ended February 28, 2007, February 28, 2006 and February 28, 2005 is set forth below:

	<b>Publishing</b>	<b>UBAH</b>	<b>Other</b>	<b>Total</b>
<b>2007</b>				
Net revenues	\$8,121,100	\$23,282,400	\$	\$31,403,500
Earnings (loss) before income taxes	2,508,400	4,863,500	(3,493,800)	\$ 3,878,100
<b>2006</b>				
Net revenues	\$8,403,700	\$23,385,200	\$	\$31,788,900
Earnings (loss) before income taxes	2,833,300	4,743,000	(3,761,900)	\$ 3,814,400
<b>2005</b>				
Net revenues	\$7,362,700	\$24,288,100	\$	\$31,650,800
Earnings (loss) before income taxes	2,447,000	5,172,300	(3,734,200)	3,885,100

**11. STOCK REPURCHASE PLAN**

In April 2004 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. During fiscal year 2007 the Company purchased 35,616 shares of common stock at an average price of \$7.32 per share totaling approximately \$260,700. The maximum number of shares that may be repurchased in the future is 146,939.

**12. SUBSEQUENT EVENT**

On April 30, 2007, we announced that we would pay a \$0.22 per share dividend on May 18, 2007 to shareholders of record as of May 8, 2007.

**13. OTHER INCOME**

During fiscal year 2007, we entered into a Plan of Reorganization and Financing Agreement with a company in Chapter 11 bankruptcy as a prelude to acquiring that bankrupt company. We were not the successful bidder in an auction held by the U.S. Bankruptcy Court, but the Court awarded us a \$250,000 breakup fee which is included in other net income.

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