

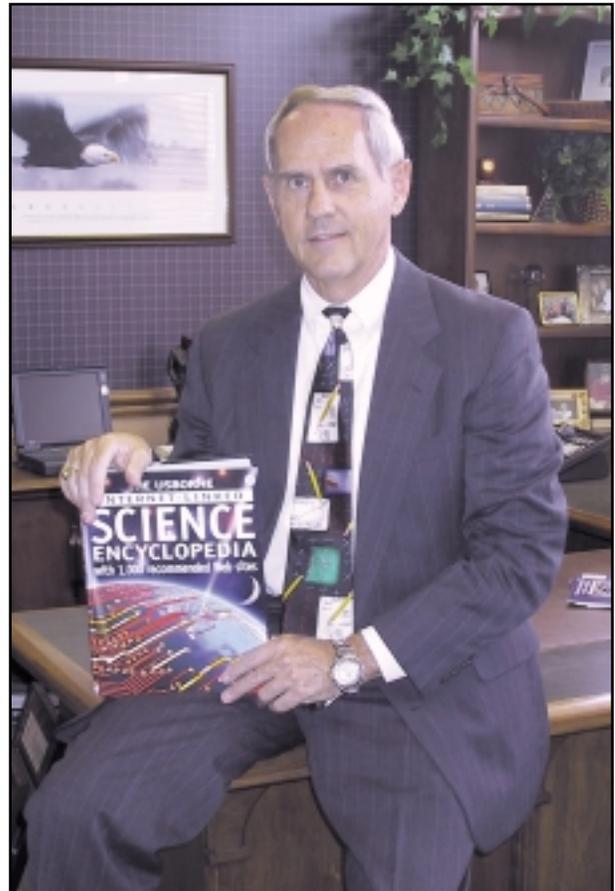
Dear Stockholders and Friends,

Fiscal year 2001 saw the introduction of a new revolutionary concept in books, a co-branding agreement with a major national fast food chain, the introduction of Internet sales and a sales resurgence that I feel will be a springboard to an outstanding new year. Fiscal year 2002 began with a bang as the Company recorded the highest March sales in the Company's history. In addition, the Company was featured on the cover of the April 2, 2001 issue of Publishers Weekly, the International News Magazine of the book publishing and bookselling industry. This provided significant exposure that has already had far reaching effects, and has impacted both the Home Business and the Publishing Divisions.

In January 2001 we announced the launching of The Next Usborne Revolution, Non-fiction for the Internet Generation. This is a new generation of books with links to 1,000 fascinating web sites. While the books are stand alone editions, they incorporate web sites especially selected to enhance the text presentation of the books with animation and sound, film clips, interactive games online, experiments and revision aids. These products were unlike any on the market and the Company is proud to be on the cutting edge of educational publishing.

In August the Company created individual personalized web sites for the Home Business Division's sales consultants. These web sites allow the sales consultants to promote their businesses both in sales and in recruiting and allow individual customers to purchase our products via the Internet using a shopping cart arrangement featuring our online catalog of 1,100 titles. Further enhancements now allow the sales consultants to conduct E-shows and E-bookfairs, which are home demonstrations and school bookfairs via the Internet.

I want to thank our long time shareholders who have remained with us through the trying times of the last several years. The storm clouds have dissipated and the sun is breaking through. We are back on track with our five year growth program. The Company has a strong balance sheet with minimal debt. We have an excellent product line and the infrastructure in place to handle the anticipated sales growth. We are very optimistic about the growth potential of our Company and the enhancing of shareholder value. We expect fiscal year 2002 to be one of the best in our history.



Randall W. White, Chairman of the Board,
President and Chief Executive Officer

Cordially yours,

Randall W. White
Chairman of the Board, President
and Chief Executive Officer

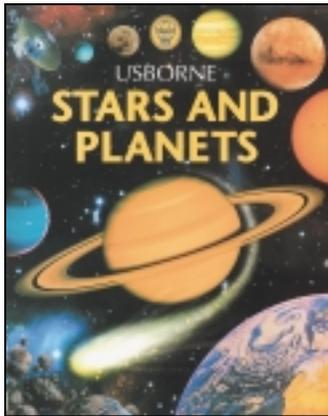
THE COMPANY

Educational Development Corporation, a Delaware corporation, was incorporated in 1965 to develop curriculum materials for schools. In 1978 the Publishing Division was created to distribute the Usborne line of children's books. The Home Business Division was started during 1989.

Educational Development Corporation is the exclusive United States trade publisher of a line of children's books produced in the United Kingdom by Usborne Publishing Limited. The Home Business Division distributes these books through independent sales consultants who hold book shows in individual homes and through book fairs, direct sales and the Internet. This division also sells the books to school and public libraries. The Company's Publishing Division markets the books to retail book stores, toy stores, specialty stores and other retail outlets throughout the United States.

OUR PRODUCT LINE

USBORNE BOOKS



The principal product of the Company is a line of children's books produced in the United Kingdom by Usborne Publishing Limited. Usborne produces and distributes books in over 85 countries and in more than 70 languages. The Company is the United States trade publisher of these books and presently offers more than 1100 different titles.

Usborne books are fascinating, lavishly illustrated books written with humor, surprise and drama. They incorporate activities and puzzles to challenge a child's observation skills and intelligence. Their superb printing quality on acid free paper and exceptionally well-produced graphics, high ratio of pictures to text, short magazine-like format and unique detail set Usborne books apart from all other books. There is a wide range of subjects covering hobbies, history, science, nature, foreign language, parent's guides and much more. Usborne books appeal to all ages, infants to adults, with prices to suit everyone. Usborne Internet-linked reference books offer 1,000 fascinating Web sites with animations, sound and video clips, interactive games, experiments and study guides. These books feature vibrant design, superb full-color photography and detailed illustrations. The books contain 'Internet links' boxes which suggest interesting Web sites to enhance the book's content. While each book works in conjunction with the Internet, it is also a completely self-sufficient book that can be used without accessing the Internet.

The Company is pleased to receive recognition of our products. During the past year, various books and kid kits received awards from Parent Council, Parents' Choice, Dr. Toy, American Booksellers Association - Kids' Pick of the Lists, Latino Literary Hall of Fame and Practical Homeschooling. In addition, as pictured on page one of this annual report, we were featured in the April 2, 2001 edition of the magazine, Publishers Weekly.

USBORNE KID KITS

The Usborne Kid Kits are currently available in 62 different titles, with more in the planning stages. Each Kid Kit highlights an Usborne book by teaming it with specially selected age-appropriate items

and/or toys which complement the information contained in the book, thereby reinforcing a child's overall learning experience. Kid Kits are available in a variety of themes including playtime, science, craft and hobby. They provide something for age groups from toddlers to teens. All Kid Kits are attractively packaged in a reusable vinyl bag with handle and Velcro closure.



Kathy Slemp
Vice President
Usborne Books at Home

THE HOME BUSINESS DIVISION

The Company began the Home Business Division in March, 1989. This Division, operating as Usborne Books at Home, markets the entire Usborne product line through a network of independent sales consultants. These sales consultants sell through a combination of direct sales, home shows, book fairs and the Internet. In July 1996, the Home Business Division began EDC Educational Services to enhance the marketing program to schools and libraries through the Division's independent sales consultants.

Usborne Books at Home was the first multilevel direct selling company in the United States to offer primarily nonfiction educational books for children. There are approximately 4,900 independent sales consultants selling our books in all fifty states. This Division has 197 exclusive titles. Consultants also market the rest of the Company's product line of books, Kid Kits, CD-ROMS and puzzles.

Usborne Books at Home will hold its Fifth National Convention in May 2001 in Tulsa, Oklahoma. This three-day event will offer training and motivational sessions for the consultants in attendance. It is a great opportunity for consultants to meet their peers and exchange ideas. The Home Business Division also participates in many training seminars held throughout the country. In addition, leadership skills training programs for supervisors were held in Tulsa during the year. Usborne Books at Home has been featured in Wealth Building Magazine as one of the "142 Proven Direct Sales Firms." The Home Business Division has also been featured in "Better Parenting," a nationally aired television program.

THE PUBLISHING DIVISION

The Publishing Division began in 1978 when the Company became the United States publisher of the Usborne line of children's books. Today, the Publishing Division serves more than 10,000 clients and utilizes a variety of marketing procedures to insure that our customers' needs are effectively met.

Through the efforts of our nationally recognized telesales staff and our highly qualified field sales representatives, the Company maintains a high degree of contact with bookstores, gift shops, art stores, museums and various other profit and non-profit organizations throughout the country. Additionally, trade and wholesale distribution companies provide valuable assistance in fulfilling needed customer services.



Ronald T. McDaniel
National Sales Manager
Publishing Division

Sales to the national chains continue to be extremely important to the Publishing Division. These chains are expanding on a continual basis and it is extremely important that the Company participates in this growth. To that end, the Publishing Division is significantly increasing our participation in cooperative advertising and joint promotional efforts with the national chains. We expect this trend to continue in the foreseeable future.



Michael L. Puhl
Vice President
Operations

OPERATIONS AND INFORMATION SYSTEMS

The Company's operations are located in Tulsa, Oklahoma. The Company leases approximately 9,000 square feet of office space and 71,000 square feet of adjoining warehouse space. On April 1, 2001 the Company had 60 full-time employees and 2 part-time employees.

In-house operations continue to be one of the strengths of EDC's operations. With over 95% of all orders shipped the same day they are received, and with a 98% fill rate, we remain the leader in product delivery in our industry. In an effort to remain the leader, technological improvements continued to be the main focus of the operations staff in fiscal year 2001. We entered into the field of Internet sales by offering personalized web sites for our Usborne Books At Home consultants. These web sites allow individual customers to purchase our products through the Internet in a way which is beneficial to both the individual consultant and the Company. The web sites use a shopping cart arrangement that allows the customer to easily purchase any item in our online catalog. With over 800 web sites already established, sales will continue to build in future years.



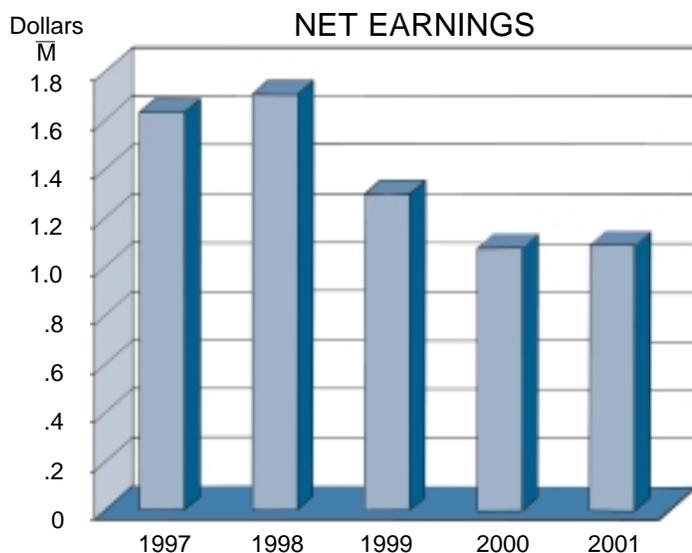
Craig M. White
Vice President
Information Systems

The consultant web sites were further enhanced with the addition of E-shows and E-bookfairs. These features allow an expanded audience to participate in our regular sales routes of homeshows and school bookfairs. The consultant base was extremely enthused with these innovations, and we will continue to work towards methods which make their job of getting books into peoples hands as easy as possible.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

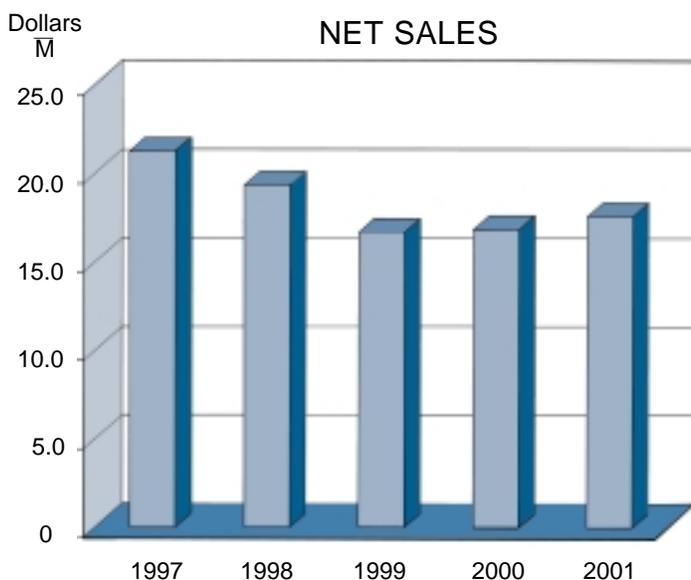
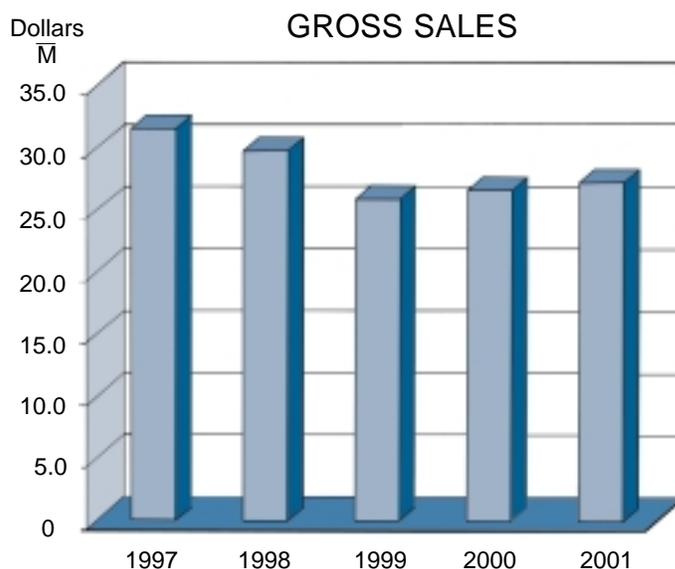
General

Certain statements contained in this Management's Discussion and Analysis are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate. Actual events and results may be materially different from anticipated results described in such statements. The Company's ability to achieve such results is subject to certain risks and uncertainties. Such risks and uncertainties include but are not limited to product prices, continued availability of capital and financing, and other factors affecting the Company's business that may be beyond its control.



EDC had net earnings of \$ 1,090,262 for fiscal year 2001 compared to \$ 1,079,028 for fiscal year 2000, \$1,297,493 for fiscal year 1999, \$1,704,568 for fiscal year 1998, and \$1,630,088 for fiscal year 1997.

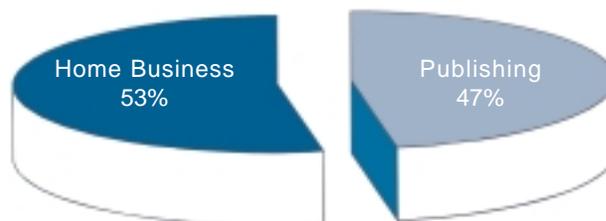
Gross sales for fiscal year 2001 were \$27,260,879 compared to \$26,613,943 in fiscal year 2000, \$25,889,212 in fiscal year 1999, \$29,764,345 in fiscal year 1998, and \$31,547,007 in fiscal year 1997.



Net sales for fiscal year 2001 were \$17,596,848 compared to \$16,851,261 for fiscal year 2000, \$16,671,385 for fiscal year 1999, \$19,343,362 in fiscal year 1998, and \$21,239,507 in fiscal year 1997.



2001 NET SALES BY DIVISION



2000 NET SALES BY DIVISION

Net sales from the Company's Home Business Division were \$10,243,098 in fiscal year 2001 compared to \$8,890,370 in fiscal year 2000, and \$8,876,683 in fiscal year 1999. Net sales from the Company's Publishing Division were \$7,353,750 in fiscal year 2001 compared to \$7,960,891 in fiscal year 2000, and \$7,794,702 in fiscal year 1999.



2001 OPERATING PROFIT



2000 OPERATING PROFIT

The Company's cost of sales in fiscal year 2001 was \$7,287,920 compared to \$6,984,387 in fiscal year 2000, and \$6,724,539 in fiscal year 1999. Cost of sales as a percentage of gross sales was 26.7% in fiscal year 2001 compared to 26.2% in fiscal year 2000 and 26.0% in fiscal year 1999. Cost of sales as a percentage of gross sales will fluctuate depending upon the product mix being sold.

Operating and selling expenses increased 2.2% during fiscal year 2001 when compared with fiscal year 2000. As a percentage of gross sales, these costs were 12.1% for both fiscal year 2001 and fiscal year 2000. Contributing to the increase in operating and selling expenses was a \$130,000 non-recurring charge related to recruiting expenses in the Home Business Division. Increased credit card costs in the Home Business Division, the result of increased sales, also contributed to the increase. Offsetting these increases were decreases in depreciation expense and payroll costs.

Sales commissions increased 14.6% during fiscal year 2001 when compared with fiscal year 2000. As a percentage of gross sales, these costs were 13.7% in fiscal year 2001 compared with 12.3% for fiscal year 2000. Sales commissions as a percentage of gross sales is determined by the product mix sold and the division that makes the sale. Commission expense in the Publishing Division declined 10.8% for fiscal year 2001, which was the result of a decline in net sales. Offsetting this decline was an increase in the Home Business Division's commission expense of 15.5%, which was the result of increased sales and the higher commission structure in the Home Business division.

General and administrative expenses decreased 12.4% in fiscal year 2001 versus fiscal year 2000. As a percentage of gross sales, these expenses were 5.3% and 6.1% for fiscal years 2001 and 2000, respectively. A decrease in depreciation expense in the MIS department contributed to the decrease in general and administrative expenses.

Interest expense increased 131.1% in fiscal year 2001 when compared with fiscal year 2000. As a percentage of gross sales, interest expense was 0.4% in fiscal year 2001 and 0.2% in fiscal year 2000. Higher interest rates and increased borrowings throughout the year contributed to the increase in interest expense.

FINANCIAL POSITION

Working capital was \$8.1 million for fiscal year end 2001 and \$7.6 million for fiscal year end 2000. An increase in inventory and decreases in payables and short-term bank debt contributed to the increase in working capital at fiscal year end 2001. The Company pays interest on its bank promissory note monthly from current cash flows. Management expects its financial position to remain strong and to increase working capital during the next fiscal year.

Management believes the Company's liquidity at February 28, 2001 to be adequate. There are no known demands, commitments, events or uncertainties that would result in a material change in the Company's liquidity during fiscal year 2002. Capital expenditures are expected to be less than \$750,000 in fiscal year 2002. These expenditures would consist primarily of software and hardware enhancements to the Company's existing data processing equipment, leasehold improvements and additions to the warehouse shipping system.

Effective June 30, 2000 the Company signed a First Amendment to the Credit and Security Agreement with State Bank which provides a \$3,500,000 line of credit. The line of credit is evidenced by a promissory note in the amount of \$3,500,000 payable June 30, 2001. The note bears interest at the Wall Street Journal prime floating rate minus 0.25% payable monthly (8.25% at February 28, 2001). The note is collateralized by substantially all of the assets of the Company. At February 28, 2001, the Company had \$1,084,000 in borrowings. Available credit under the revolving credit agreement was \$2,416,000 at February 28, 2001.

The Company obtained and uses the credit facility to fund routine operations. Payments are made from current cash flows. The Company plans to renew this facility when it matures June 30, 2001. The Company believes its borrowing capacity under this line to be adequate for the next several years.

The Company generated cash from operating activities during fiscal year 2001. Accounts receivable decreased during fiscal year 2001, the result of lower sales in the Publishing Division. The Company plans to continue to maximize its collection efforts in order to maintain cash flows.

Inventory levels increased 5.5% from fiscal year end 2000 to fiscal year end 2001 as new titles were added to the product line. The Company continues to monitor inventory levels to ensure that adequate inventory is on hand to support sales as well as to meet the six to eight month resupply requirements of its principal supplier.

The major component of accounts payable is the amount due to the Company's principal supplier. Increases and decreases in inventory levels directly affect the level of accounts payable. Also the timing of the purchases and the payment terms offered by the suppliers affect the year end levels of accounts payable. As inventory levels increase moderately each year, the Company expects accounts payable will also increase moderately each year. Management anticipates cash flows from operating activities to increase in the foreseeable future.

Cash used in investing activities during fiscal year 2001 was primarily for additional computer equipment and software.

The short-term bank loan decreased during fiscal year 2001, the result of increased sales in the Home Business Division.

During the year the Company continued the stock buyback program by purchasing 289,252 shares of its common stock at a cost of \$865,215. In addition the Company paid a dividend of \$0.02 per share or \$78,779 during the fiscal year.



W. Curtis Fossett
Controller & Corporate Secretary

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Educational Development Corporation:

We have audited the accompanying balance sheets of Educational Development Corporation (the "Company") as of February 28, 2001 and February 29, 2000, and the related statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended February 28, 2001. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, such financial statements present fairly, in all material respects, the financial position of the Company at February 28, 2001 and February 29, 2000, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

Tulsa, Oklahoma
April 18, 2001

EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
FEBRUARY 28, 2001 AND FEBRUARY 29, 2000

| ASSETS | 2001 | 2000 |
|--|----------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 268,271 | \$ 214,321 |
| Accounts receivable, less allowances for doubtful accounts and sales returns \$224,346 (2001) and \$209,466 (2000) | 1,478,355 | 2,020,454 |
| Income tax receivable | 72,697 | - |
| Inventories - Net | 9,211,942 | 8,364,096 |
| Prepaid expenses and other assets | 247,126 | 220,381 |
| Deferred income taxes | 97,800 | 137,700 |
| Total current assets | <u>11,376,191</u> | <u>10,956,952</u> |
| INVENTORIES - Net | 1,004,980 | 1,280,000 |
| PROPERTY AND EQUIPMENT - Net | 84,179 | 85,270 |
| DEFERRED INCOME TAXES | <u>6,300</u> | <u>17,800</u> |
| | <u>\$ 12,471,650</u> | <u>\$ 12,340,022</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Note payable to bank | \$ 1,084,000 | \$ 1,278,000 |
| Accounts payable | 1,703,151 | 1,681,601 |
| Accrued salaries and commissions | 325,661 | 258,123 |
| Other current liabilities | 118,711 | 102,966 |
| Income tax payable | - | 46,923 |
| Total current liabilities | <u>3,231,523</u> | <u>3,367,613</u> |
| DEFERRED INCOME TAXES | 24,300 | - |
| COMMITMENTS | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, \$0.20 par value; Authorized 6,000,000 shares; Issued 5,429,240 shares; Outstanding 3,911,400 (2001) and 4,167,389 (2000) shares | 1,085,848 | 1,085,848 |
| Capital in excess of par value | 4,413,627 | 4,410,066 |
| Retained earnings | <u>8,270,624</u> | <u>7,259,141</u> |
| | 13,770,099 | 12,755,055 |
| Less treasury stock, at cost | <u>(4,554,272)</u> | <u>(3,782,646)</u> |
| | <u>9,215,827</u> | <u>8,972,409</u> |
| | <u>\$ 12,471,650</u> | <u>\$ 12,340,022</u> |

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF EARNINGS

YEARS ENDED FEBRUARY 28, 2001, FEBRUARY 29, 2000 AND FEBRUARY 28, 1999

| | 2001 | 2000 | 1999 |
|-------------------------------|---------------------|---------------------|---------------------|
| GROSS SALES | \$ 27,260,879 | \$ 26,613,943 | \$ 25,889,212 |
| Less discounts and allowances | <u>(9,664,031)</u> | <u>(9,762,682)</u> | <u>(9,217,827)</u> |
| Net sales | 17,596,848 | 16,851,261 | 16,671,385 |
| COST OF SALES | <u>7,287,920</u> | <u>6,984,387</u> | <u>6,724,539</u> |
| Gross margin | <u>10,308,928</u> | <u>9,866,874</u> | <u>9,946,846</u> |
| OPERATING EXPENSES: | | | |
| Operating and selling | 3,295,164 | 3,224,442 | 3,118,179 |
| Sales commissions | 3,743,954 | 3,266,733 | 3,308,551 |
| General and administrative | 1,432,030 | 1,634,027 | 1,619,635 |
| Interest | <u>104,925</u> | <u>45,401</u> | <u>96,427</u> |
| | <u>8,576,073</u> | <u>8,170,603</u> | <u>8,142,792</u> |
| OTHER INCOME | <u>37,507</u> | <u>51,757</u> | <u>117,339</u> |
| EARNINGS BEFORE INCOME TAXES | 1,770,362 | 1,748,028 | 1,921,393 |
| INCOME TAXES | <u>680,100</u> | <u>669,000</u> | <u>623,900</u> |
| NET EARNINGS | <u>\$ 1,090,262</u> | <u>\$ 1,079,028</u> | <u>\$ 1,297,493</u> |
| BASIC AND DILUTED EARNINGS | | | |
| PER SHARE: | | | |
| Basic | <u>\$ 0.28</u> | <u>\$ 0.25</u> | <u>\$ 0.26</u> |
| Diluted | <u>\$ 0.27</u> | <u>\$ 0.24</u> | <u>\$ 0.26</u> |
| WEIGHTED AVERAGE NUMBER OF | | | |
| COMMON AND EQUIVALENT SHARES | | | |
| OUTSTANDING: | | | |
| Basic | <u>3,955,527</u> | <u>4,364,608</u> | <u>5,036,574</u> |
| Diluted | <u>4,042,642</u> | <u>4,426,836</u> | <u>5,098,167</u> |

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED FEBRUARY 28, 2001, FEBRUARY 29, 2000 AND FEBRUARY 28, 1999

| | Common Stock (par value \$.20 per share) | | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | | Shareholders' Equity |
|-------------------------------------|---|---------------------|--------------------------------------|----------------------|---------------------|----------------------|-------------------------|
| | Number of Shares Issued | Amount | | | Number of Shares | Amount | |
| | BALANCE, MARCH 1, 1998 | 5,424,240 | | | \$ 1,084,848 | \$ 4,403,566 | |
| Exercise of options at \$1.50/share | 5,000 | 1,000 | 6,500 | - | - | - | 7,500 |
| Issuance of treasury stock | - | - | - | - | (400) | 1,240 | 1,240 |
| Purchases of treasury stock | - | - | - | - | 376,832 | (1,277,186) | (1,277,186) |
| Sales of treasury stock | - | - | - | - | (12,548) | 46,018 | 46,018 |
| Dividends paid (\$0.02/share) | - | - | - | (101,892) | - | - | (101,892) |
| Net earnings | - | - | - | 1,297,493 | - | - | 1,297,493 |
| BALANCE, FEBRUARY 28, 1999 | 5,429,240 | 1,085,848 | 4,410,066 | 6,266,424 | 555,986 | (1,722,960) | 10,039,378 |
| Issuance of treasury stock | - | - | - | - | (200) | 600 | 600 |
| Purchases of treasury stock | - | - | - | - | 874,087 | (2,516,232) | (2,516,232) |
| Sales of treasury stock | - | - | - | - | (168,022) | 455,946 | 455,946 |
| Dividends paid (\$0.02/share) | - | - | - | (86,311) | - | - | (86,311) |
| Net earnings | - | - | - | 1,079,028 | - | - | 1,079,028 |
| BALANCE, FEBRUARY 29, 2000 | 5,429,240 | 1,085,848 | 4,410,066 | 7,259,141 | 1,261,851 | (3,782,646) | 8,972,409 |
| Issuance of treasury stock | - | - | - | - | (583) | 1,700 | 1,700 |
| Purchases of treasury stock | - | - | - | - | 289,252 | (856,215) | (856,215) |
| Sales of treasury stock | - | - | 3,561 | - | (32,680) | 82,889 | 86,450 |
| Dividends paid (\$0.02/share) | - | - | - | (78,779) | - | - | (78,779) |
| Net earnings | - | - | - | 1,090,262 | - | - | 1,090,262 |
| BALANCE, FEBRUARY 28, 2001 | <u>5,429,240</u> | <u>\$ 1,085,848</u> | <u>\$ 4,413,627</u> | <u>\$ 8,270,624</u> | <u>1,517,840</u> | <u>\$(4,554,272)</u> | <u>\$ 9,215,827</u> |

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28, 2001, FEBRUARY 29, 2000 AND FEBRUARY 28, 1999

| | 2001 | 2000 | 1999 |
|---|--------------------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net earnings | \$ 1,090,262 | \$ 1,079,028 | \$ 1,297,493 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 59,662 | 299,179 | 308,805 |
| Loss on disposal of property and equipment | - | 1,199 | 535 |
| Deferred income taxes | 75,700 | (90,000) | (7,200) |
| Provision for doubtful accounts and sales returns | 1,381,704 | 984,575 | 1,277,201 |
| Stock issued for awards | 1,700 | 600 | 1,240 |
| Changes in assets and liabilities: | | | |
| Accounts and income tax receivable | (912,302) | (1,107,336) | (995,790) |
| Inventories | (572,826) | (97,422) | 855,556 |
| Prepaid expenses and other assets | (26,745) | (349) | (124,353) |
| Accounts payable, accrued salaries and commissions, and other current liabilities | 104,833 | 554,774 | (1,072,379) |
| Income tax payable | (46,923) | 46,923 | - |
| Total adjustments | <u>64,803</u> | <u>592,143</u> | <u>243,615</u> |
| Net cash provided by operating activities | <u>1,155,065</u> | <u>1,671,171</u> | <u>1,541,108</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment | <u>(58,571)</u> | <u>(43,184)</u> | <u>(56,166)</u> |
| Net cash used in investing activities | <u>(58,571)</u> | <u>(43,184)</u> | <u>(56,166)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Borrowings on revolving credit agreement | 7,703,000 | 6,899,000 | 7,000,000 |
| Payments on revolving credit agreement | (7,897,000) | (6,377,000) | (7,120,000) |
| Cash received from exercise of stock options | - | - | 7,500 |
| Cash received from sale of stock | 86,450 | 455,946 | 46,018 |
| Cash paid to acquire treasury stock | (856,215) | (2,516,232) | (1,277,186) |
| Dividends paid | <u>(78,779)</u> | <u>(86,311)</u> | <u>(101,892)</u> |
| Net cash used in financing activities | <u>(1,042,544)</u> | <u>(1,624,597)</u> | <u>(1,445,560)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 53,950 | 3,390 | 39,382 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>214,321</u> | <u>210,931</u> | <u>171,549</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 268,271</u> | <u>\$ 214,321</u> | <u>\$ 210,931</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | |
| Cash paid for interest | <u>\$ 105,348</u> | <u>\$ 41,251</u> | <u>\$ 98,482</u> |
| Cash paid for income taxes | <u>\$ 724,020</u> | <u>\$ 657,000</u> | <u>\$ 779,000</u> |

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED FEBRUARY 28, 2001, FEBRUARY 29, 2000 AND FEBRUARY 28, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Educational Development Corporation (the "Company") distributes books and publications through its Publishing and Usborne Books at Home Divisions. The Company is the United States ("U.S.") trade publisher of books and related matters, which are published primarily in England and distributed to book, toy and gift stores, libraries and home educators. The Company is also involved in the production and publishing of new book titles. The English publishing company is the Company's primary supplier. The Company sells to its customers, located throughout the U.S., primarily on standard credit terms.

Estimates - The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Actual results could differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and cash on deposit in banks.

Accounts Receivable - Accounts receivable at February 28, 2001 and February 29, 2000, include approximately \$57,000 and \$151,000, respectively, due from directors of the Company.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method.

Property and Equipment - Property and equipment are stated at cost and depreciated and amortized using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives range from two to five years.

During the fourth quarter of fiscal year 2001, the Company changed the estimated life on certain property and equipment. This resulted in a decrease in depreciation in the fourth quarter of approximately \$30,000.

Income Taxes - The Company records deferred income taxes for temporary differences between the financial reporting and tax bases of the Company's assets and liabilities and for operating loss and tax credit carryforwards.

Income Recognition - Sales are recorded when products are shipped. At the time sales are recognized for certain products under specified conditions, estimated allowances for returns are recorded based on prior experience.

Advertising Costs - The Company expenses advertising costs as incurred.

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 the Company has utilized the treasury stock method.

The following reconciles the diluted earnings per share:

| | Year Ended February 28, 2001 | Year Ended February 29, 2000 | Year Ended February 28, 1999 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Diluted Earnings Per Share: | | | |
| Net earnings applicable to common shareholders | <u>\$ 1,090,262</u> | <u>\$ 1,079,028</u> | <u>\$ 1,297,493</u> |
| Shares: | | | |
| Weighted average shares outstanding - basic | 3,955,527 | 4,364,608 | 5,036,574 |
| Assumed exercise of options | <u>87,115</u> | <u>62,228</u> | <u>61,593</u> |
| Weighted average shares outstanding - diluted | <u>4,042,642</u> | <u>4,426,836</u> | <u>5,098,167</u> |
| Diluted Earnings Per Share | <u>\$ 0.27</u> | <u>\$ 0.24</u> | <u>\$ 0.26</u> |

Stock options representing 249,600, 273,400 and 411,000 of common shares for the years ended 2001, 2000 and 1999, were not included in calculation of diluted earnings per share since the effect was antidilutive.

Fair Value of Financial Instruments - For cash and cash equivalents, accounts receivable and accounts payable, the carrying amount approximates fair value because of the short maturity of those instruments. The fair value of the Company's note payable to bank is estimated to approximate carrying value based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

Long-Lived Asset Impairment - The Company reviews the value of long-lived assets and certain identifiable intangibles 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.

Stock-Based Compensation - The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options, if any, is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation."

New Accounting Standard - Effective March 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that all derivatives be recognized as either assets or liabilities in the balance sheet and be measured at fair value. The Company currently does not hold any derivative instruments or engage in hedging activities. Accordingly, this standard had no effect on the Company's financial statements upon adoption.

2. INVENTORIES

Inventories consist of the following:

| | February 28, 2001 | February 29, 2000 |
|-------------------------------|----------------------|----------------------|
| Current: | | |
| Book inventory | \$ 9,258,312 | \$ 8,487,828 |
| Reserve for obsolescence | <u>(46,370)</u> | <u>(123,732)</u> |
| Inventories net - current | <u>\$ 9,211,942</u> | <u>\$ 8,364,096</u> |
| Non-current: | | |
| Book inventory | \$ 1,051,600 | \$ 1,280,000 |
| Reserve for obsolescence | <u>(46,620)</u> | <u>-</u> |
| Inventories net - non-current | <u>\$ 1,004,980</u> | <u>\$ 1,280,000</u> |

The Company occasionally purchases book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of the Company's primary supplier. These amounts are included in non-current inventory.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | February 28, 2001 | February 29, 2000 |
|--|----------------------|----------------------|
| Machinery and equipment | \$ 1,349,715 | \$ 1,291,144 |
| Furniture and fixtures | 56,814 | 56,814 |
| Leasehold improvements | <u>67,778</u> | <u>67,778</u> |
| | 1,474,307 | 1,415,736 |
| Less accumulated depreciation and amortization | <u>(1,390,128)</u> | <u>(1,330,466)</u> |
| | <u>\$ 84,179</u> | <u>\$ 85,270</u> |

4. NOTE PAYABLE

The note payable to bank is under a \$3,500,000 revolving credit agreement, with interest payable monthly at prime minus .25% (8.25% and 8.5% at February 28, 2001 and February 29, 2000, respectively), collateralized by substantially all assets of the Company, maturing on June 30, 2001. At February 28, 2001 and February 29, 2000, the Company had borrowings of \$1,084,000 and \$1,278,000, respectively, under the revolving credit agreement. Available credit under the revolving credit agreement was \$2,416,000 at February 28, 2001. The agreement contains provisions that require the maintenance of 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. The Company is in compliance with all restrictive covenants, except for loans due from directors or executive officers, at February 28, 2001. The Company obtained a debt waiver for the loans due from the directors or executive officers at February 28, 2001. The Company intends to renew the bank agreement or obtain other financing upon maturity.

For each of the three years in the period ended February 28, 2001, the highest amount of short-term borrowings, the average amount of borrowings under these short-term notes, and the weighted average interest rates are as follows:

| | Year Ended February 28, 2001 | Year Ended February 29, 2000 | Year Ended February 28, 1999 |
|--------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Note payable to bank: | | | |
| Largest amount borrowed | \$ 1,733,000 | \$ 1,369,000 | \$ 2,306,000 |
| Average amount borrowed | 1,232,000 | 650,702 | 1,343,549 |
| Weighted average interest rate | 9.0% | 8.0% | 8.3% |

5. 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, and operating loss and tax credit carryforwards. The tax effects of significant items comprising the Company's net deferred tax assets and liabilities as of February 28, 2001 and February 29, 2000 are as follows:

| | February 28, 2001 | February 29, 2000 |
|---|----------------------|----------------------|
| Current: | | |
| Deferred tax assets: | | |
| Allowance for doubtful accounts | \$ 46,800 | \$ 42,300 |
| Allowance for obsolescence | 46,000 | 72,000 |
| Expenses deducted on the cash basis for income tax purposes | 22,800 | 23,400 |
| Other | <u>5,000</u> | <u>-</u> |
| Deferred tax asset | <u>120,600</u> | <u>137,700</u> |
| Deferred tax liability - Software development | <u>(22,800)</u> | <u>-</u> |
| Deferred tax asset - Net | <u>\$ 97,800</u> | <u>\$ 137,700</u> |
| Noncurrent: | | |
| Deferred tax asset - Property and equipment | <u>\$ 6,300</u> | <u>\$ 17,800</u> |
| Deferred tax liability - Software development | <u>\$ (24,300)</u> | <u>\$ -</u> |

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:

| | Year Ended February 28, 2001 | Year Ended February 29, 2000 | Year Ended February 28, 1999 |
|--------------------------|------------------------------------|------------------------------------|------------------------------------|
| Current: | | | |
| Federal | \$ 513,800 | \$ 645,200 | \$ 536,500 |
| State | <u>90,600</u> | <u>113,800</u> | <u>94,600</u> |
| | 604,400 | 759,000 | 631,100 |
| Deferred: | | | |
| Federal | 64,300 | (76,500) | (6,100) |
| State | <u>11,400</u> | <u>(13,500)</u> | <u>(1,100)</u> |
| | <u>75,700</u> | <u>(90,000)</u> | <u>(7,200)</u> |
| Total income tax expense | <u>\$ 680,100</u> | <u>\$ 669,000</u> | <u>\$ 623,900</u> |

The following reconciles the Company's expected income tax expense utilizing statutory tax rates to the actual tax expense:

| | Year Ended February 28, 2001 | Year Ended February 29, 2000 | Year Ended February 28, 1999 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Tax expense at federal statutory rate | \$ 602,000 | \$ 594,000 | \$ 653,000 |
| State income tax, net of federal tax benefit | 72,000 | 70,000 | 66,000 |
| Other | <u>6,100</u> | <u>5,000</u> | <u>(95,100)</u> |
| | <u>\$ 680,100</u> | <u>\$ 669,000</u> | <u>\$ 623,900</u> |

6. EMPLOYEE BENEFIT PLAN

The Company has a profit sharing plan which 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 \$40,557, \$33,477 and \$27,291 in fiscal years 2001, 2000 and 1999, respectively.

7. COMMITMENTS

The Company leases its office and warehouse facilities under a noncancelable operating lease which expires in June 2004. Total rent expense related to these facilities was \$240,000 in fiscal 2001, and \$232,980 in fiscal 2000 and \$225,960 in fiscal 1999.

Future minimum lease payments are as follows:

| | |
|--------------|-------------------|
| Year Ending | |
| February 28, | |
| 2002 | \$ 240,000 |
| 2003 | 240,000 |
| 2004 | 240,000 |
| 2005 | <u>80,000</u> |
| | <u>\$ 800,000</u> |

At February 28, 2001, the Company had outstanding commitments to purchase inventory from its primary vendor totaling approximately \$1,703,000.

8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

In June 1992, the Board of Directors adopted the 1992 Incentive Stock Option Plan (the "Incentive Plan"). A total of 1,000,000 stock options are authorized to be granted under the Incentive Plan.

Options granted under the Incentive Plan 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, 2001 expire beginning in April 2003 through December 2010.

A summary of the status of the Company's Incentive Plan as of February 28, 2001, February 29, 2000 and February 28, 1999 and changes during the years then ended is presented below:

| | 2001 | | 2000 | | 1999 | |
|-------------------------------------|-----------------|--|-----------------|--|-----------------|--|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at Beginning of Year | 507,400 | \$ 3.42 | 490,000 | \$ 3.51 | 328,500 | \$ 3.06 |
| Granted | 136,000 | 2.28 | 40,000 | 2.50 | 171,700 | 4.34 |
| Exercised/canceled | <u>(43,800)</u> | <u>3.30</u> | <u>(22,600)</u> | <u>(3.77)</u> | <u>(10,200)</u> | <u>(2.77)</u> |
| Outstanding at End of Year | <u>599,600</u> | <u>\$ 3.17</u> | <u>507,400</u> | <u>\$ 3.42</u> | <u>490,000</u> | <u>\$ 3.51</u> |

The following table summarizes information about stock options outstanding at February 28, 2001:

| Range of Exercise Prices | Number Outstanding at February 28, 2001 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |
|--------------------------------|--|---|------------------------------------|
| \$1.375 - \$1.50 | 79,000 | 2 | \$1.41 |
| \$1.51 - \$2.50 | 156,000 | 9 | 2.26 |
| \$2.51 - \$3.13 | 115,000 | 4 | 3.11 |
| \$3.81 | 15,000 | 7 | 3.81 |
| \$4.00 | 99,400 | 5 | 4.00 |
| \$4.63 | 135,200 | 9 | 4.63 |
| | <u>599,600</u> | | |

All options outstanding are exercisable at February 28, 2001.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its Incentive Plan. Accordingly, no compensation cost has been recognized for its Incentive Plan. Had compensation cost for the Company's Incentive Plan been determined based on the fair value at the grant dates for awards under the Incentive Plan consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended February 28, 2001, February 29, 2000 and February 28, 1999 would have been reduced to the pro forma amounts indicated below:

| | 2001 | 2000 | 1999 |
|-----------------------------------|---------------------|---------------------|---------------------|
| Net earnings - as reported | <u>\$ 1,090,262</u> | <u>\$ 1,079,028</u> | <u>\$ 1,297,493</u> |
| Net earnings - pro forma | <u>\$ 923,805</u> | <u>\$ 1,038,582</u> | <u>\$ 1,104,347</u> |
| Earnings per share - as reported: | | | |
| Basic | <u>\$ 0.28</u> | <u>\$ 0.25</u> | <u>\$ 0.26</u> |
| Diluted | <u>\$ 0.27</u> | <u>\$ 0.24</u> | <u>\$ 0.26</u> |
| Earnings per share - pro forma: | | | |
| Basic | <u>\$ 0.23</u> | <u>\$ 0.24</u> | <u>\$ 0.22</u> |
| Diluted | <u>\$ 0.23</u> | <u>\$ 0.24</u> | <u>\$ 0.22</u> |

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 2001; no dividend yield, expected volatility of 84%, risk free interest rates between 5.13% and 6.16% and expected lives of ten years; the following assumptions were used for options granted in 2000; no dividend yield, expected volatility of 45%, risk free interest rate of 5.7% and expected lives of ten years; the following assumptions were used for options granted in 1999; no dividend yield, expected volatility of 50%, risk free interest rate of 5.06% and expected lives of four years.

9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 2001, February 29, 2000 and February 28, 1999:

| | Net Sales | Gross Margin | Net Earnings | Basic Earnings Per Share | Diluted Earnings Per Share |
|----------------|----------------------|----------------------|---------------------|--------------------------|----------------------------|
| 2001 | | | | | |
| First quarter | \$ 4,250,400 | \$ 2,453,000 | \$ 276,100 | \$ 0.07 | \$ 0.07 |
| Second quarter | 4,414,600 | 2,464,300 | 352,700 | 0.09 | 0.09 |
| Third quarter | 5,245,600 | 3,180,300 | 381,900 | 0.10 | 0.10 |
| Fourth quarter | <u>3,686,248</u> | <u>2,211,328</u> | <u>79,562</u> | <u>0.02</u> | <u>0.01</u> |
| Total year | <u>\$ 17,596,848</u> | <u>\$ 10,308,928</u> | <u>\$ 1,090,262</u> | <u>\$ 0.28</u> | <u>\$ 0.27</u> |
| 2000 | | | | | |
| First quarter | \$ 4,122,100 | \$ 2,395,600 | \$ 290,300 | \$ 0.06 | \$ 0.06 |
| Second quarter | 4,202,500 | 2,397,400 | 313,600 | 0.07 | 0.07 |
| Third quarter | 5,012,800 | 3,029,400 | 419,800 | 0.10 | 0.10 |
| Fourth quarter | <u>3,513,861</u> | <u>2,044,474</u> | <u>55,328</u> | <u>0.02</u> | <u>0.01</u> |
| Total year | <u>\$ 16,851,261</u> | <u>\$ 9,866,874</u> | <u>\$ 1,079,028</u> | <u>\$ 0.25</u> | <u>\$ 0.24</u> |
| 1999 | | | | | |
| First quarter | \$ 4,160,700 | \$ 2,484,200 | \$ 350,000 | \$ 0.07 | \$ 0.07 |
| Second quarter | 3,950,400 | 2,253,900 | 307,000 | 0.06 | 0.06 |
| Third quarter | 5,453,700 | 3,391,000 | 537,600 | 0.11 | 0.11 |
| Fourth quarter | <u>3,106,585</u> | <u>1,817,746</u> | <u>102,893</u> | <u>0.02</u> | <u>0.02</u> |
| Total year | <u>\$ 16,671,385</u> | <u>\$ 9,946,846</u> | <u>\$ 1,297,493</u> | <u>\$ 0.26</u> | <u>\$ 0.26</u> |

10. BUSINESS SEGMENTS

The Company has two reportable segments: Publishing and Usborne Books at Home ("UBAH"). These reportable segments are business units that offer different methods of distribution to different types of customers. They are managed separately based on the fundamental differences in their operations. The Publishing Division markets its products to retail accounts, which include book, school supply, toy and gift stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group. The UBAH Division markets its product line through a network of independent sales consultants through a combination of direct sales, home shows and book fairs. The UBAH Division also distributes to school and public libraries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on operating profits of the segments which is defined as segment net sales reduced by direct cost of sales and direct expenses. Corporate expenses, including interest and depreciation, and income taxes are not allocated to the segments. The Company's assets are not allocated on a segment basis.

Information by industry segment for the years ended February 28, 2001, February 29, 2000 and February 28, 1999 is set forth below:

| | Publishing | UBAH | Other | Total |
|-------------------------------------|--------------|---------------|-------------|---------------|
| 2001 | | | | |
| Net sales | \$ 7,353,750 | \$ 10,243,098 | \$ - | \$ 17,596,848 |
| Earnings (loss) before income taxes | 2,577,593 | 2,234,031 | (3,041,262) | 1,770,362 |
| 2000 | | | | |
| Net sales | \$ 7,960,891 | \$ 8,890,370 | \$ - | \$ 16,851,261 |
| Earnings (loss) before income taxes | 2,811,887 | 2,181,300 | (3,245,159) | 1,748,028 |
| 1999 | | | | |
| Net sales | \$ 7,794,702 | \$ 8,876,683 | \$ - | \$ 16,671,385 |
| Earnings (loss) before income taxes | 2,848,749 | 2,365,204 | (3,292,560) | 1,921,393 |

* * * * *

DIRECTORS

Robert D. Berryhill
Private Investor

G. Dean Cosgrove
Independent Consultant

John M. Lare
President – Pegasus Foods, Inc.

James F. Lewis
Chief Executive Officer – The Lewis
Companies

Randall W. White
Chairman, President and
Chief Executive Officer – EDC

OFFICERS

Randall W. White
Chairman, President and
Chief Executive Officer

Michael L. Puhl
Vice President - Operations

Craig M. White
Vice President - Information Systems

W. Curtis Fossett
Controller and Corporate Secretary

CORPORATE DATA

Notice of Annual Meeting
June 26, 2001
Sheraton Tulsa
10918 East 41st Street
Tulsa, Oklahoma

Form 10-K
Educational Development Corporation's
Form 10-K filed with the Securities and
Exchange Commission is available upon
request. Write to:
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Educational Development Corporation
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