

## **EDUCATIONAL DEVELOPMENT CORPORATION**

### **AUDIT COMMITTEE CHARTER (Amended January 7, 2004)**

#### **Purpose**

The principal purpose of the Audit Committee (the "Committee") is to assist the Board of Directors (the "Board") in fulfilling its responsibility to oversee the integrity of the Company's accounting and financial reporting processes and audits of the Company's financial statements, including by reviewing the financial reports and other financial information provided by the Company, the Company's disclosure controls and procedures and internal accounting and financial controls, the qualifications and independence of the Company's auditors and the annual independent audit process.

In discharging its oversight role, the Committee is granted the authority to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisers, at the Company's expense, as it determines necessary to carry out its duties.

The Committee shall review this Charter for adequacy on an annual basis.

#### **Membership**

The Committee shall be comprised of not less than three members of the Board, and the Committee's composition will meet the Nasdaq Audit Committee requirements. Accordingly, each of the members will be a director:

- Who has no relationship to the Company that the Board determines would interfere with the exercise of his or her independent judgment in carrying out his or her responsibilities as a member of the Audit Committee.
- Who does not receive any consulting, advisory or other compensatory fee from the Company, other than in the member's capacity as a member of the Board or any of its committees.
- Who is not an "affiliated person" (as defined by applicable law or regulation) of the Company or any subsidiary, other than as a member of the Board or any of its committees.
- Who is financially literate.

In addition, at least one member of the Committee will have sufficient accounting or related financial management expertise to comply with the Nasdaq Audit Committee Composition requirements and, to the extent practicable, be an "audit committee financial expert" (as that term is defined by the Securities and Exchange Commission (the "SEC")). An audit committee financial expert must have all five of the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal control over financial reporting; and (v) an understanding of Audit Committee functions.

Audit Committee members shall be appointed by the Board of Directors. Unless the Board of Directors elects a Chair of the Audit Committee, the Audit Committee shall elect a Chair by majority vote.

### **Meetings**

The Audit Committee shall meet as often as it deems necessary in order to perform its responsibilities. At least quarterly, the Audit Committee shall meet separately with (i) the independent auditor and (ii) the Company's management. The Audit Committee shall keep such records of its meetings as it shall deem appropriate.

### **Duties and Responsibilities**

The Committee's role is one of oversight, and it is recognized that the Company's management is responsible for preparing the Company's financial statements and that the outside auditor is responsible for auditing those financial statements.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight function. The functions are set forth as a guide and may be varied from time to time as appropriate under the circumstances.

- The Committee shall review with management and the outside auditor the audited financial statements to be included in the Company's Annual Report on Form 10-K and the Annual Report to Stockholders, and shall review and consider with the outside auditor the matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61.

- The Committee shall review with the outside auditor, prior to filing with the SEC, the Company's interim financial information to be included in the Company's Quarterly Reports on Form 10-Q and the matters required to be discussed by SAS No. 61.
- The Committee shall periodically discuss with management and the outside auditor the quality and adequacy of the Company's internal controls and internal auditing procedures, if any, including any significant deficiencies in the design or operation of those controls which could adversely affect the Company's ability to record, process, summarize and report financial data and any fraud, in the Company's internal controls.
- The Committee shall periodically review with management and the outside auditor the quality, as well as acceptability, of the Company's accounting policies and discuss with the outside auditor all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of use of such alternative disclosures and treatments and the treatment preferred by the outside auditor.
- The Committee shall periodically discuss with the outside auditor whether all material correcting adjustments identified by the outside auditor in accordance with generally accepted accounting principles and the rules of the SEC are reflected in the Company's financial statements.
- The Committee shall review with management and the outside auditor any material financial or other arrangements of the Company which do not appear on the Company's financial statements and any transactions or courses of dealing with third parties that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or transactions are relevant to understanding of the Company's financial statements.
- The Committee shall review with management and the outside auditor the Company's critical accounting policies and practices.
- The Committee shall review with the outside auditor all material communications between the outside auditor and management, such as any management letter or schedule of unadjusted differences.
- The Committee shall request from the outside auditor annually a formal written statement delineating all relationships between the auditor and the Company consistent with Independence Standards Board

Standard No. 1 and such other requirements as may be established by the Public Company Accounting Oversight Board, discuss with the outside auditor any such and their impact on the outside auditor's independence, and take appropriate action regarding the independence of the outside auditor.

- The Committee shall recommend to the Board whether, based on the reviews and discussions referred to above, the financial statements should be included in the Company's Annual Report on Form 10-K.
- The Committee shall oversee the Company's disclosure controls and procedures.
- The Committee shall have the authority to engage independent counsel and other advisors as it determines necessary.
- The Committee shall be responsible for appointing, setting compensation and overseeing the work of the outside auditor and shall pre-approve all audit and non-audit services to be provided by the outside auditor.
- The Committee shall have access to appropriate funding as determined by the audit committee to carry out its duties.
- The Committee shall review and approve all related-party transactions on an ongoing basis.
- The Committee shall review earnings press releases with management and the outside auditor prior to release.
- The Committee shall conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with the Charter of the Committee. In addition, the Committee shall annually review and reassess the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary.

### **Complaint Procedures**

Any issue of significant financial misconduct shall be brought to the attention of the Committee for its consideration. In this regard, the Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

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While the Audit Committee has the duties and responsibilities set forth in this charter, the Audit Committee is not responsible for planning or conducting the audit or for determining whether the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is not the responsibility of the Audit Committee to resolve disagreements, if any, between management and the independent auditors or to ensure that the Company complies with all laws and regulations