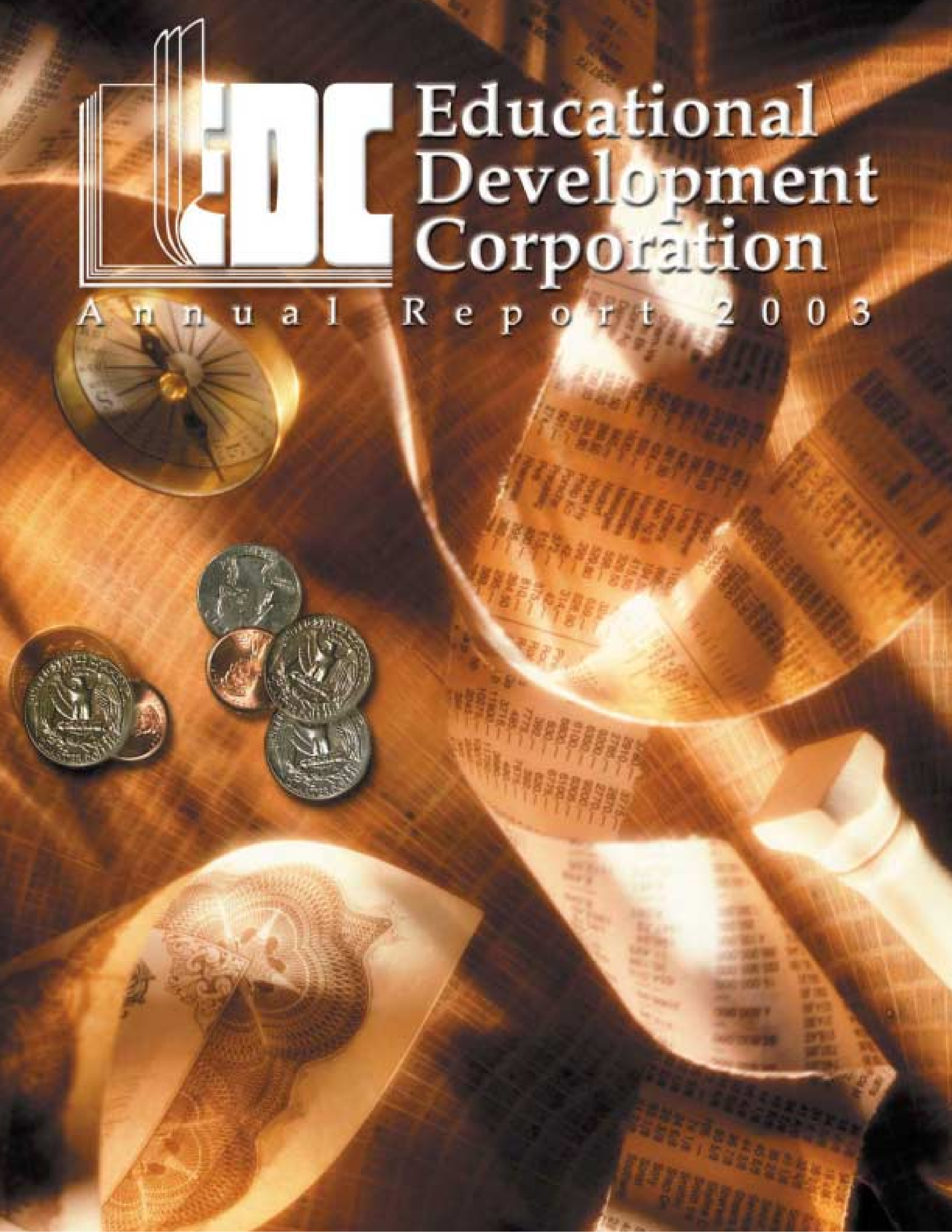
Educational Development Corporation

Annual Report 2003




THE USBORNE TIME TRAVELLER
ROME & ROMANS
Usborne Playtime
Can finger paint
Animals
PUPPETS
Bugs and S

Letter From The President

Dear Stockholders and Friends,

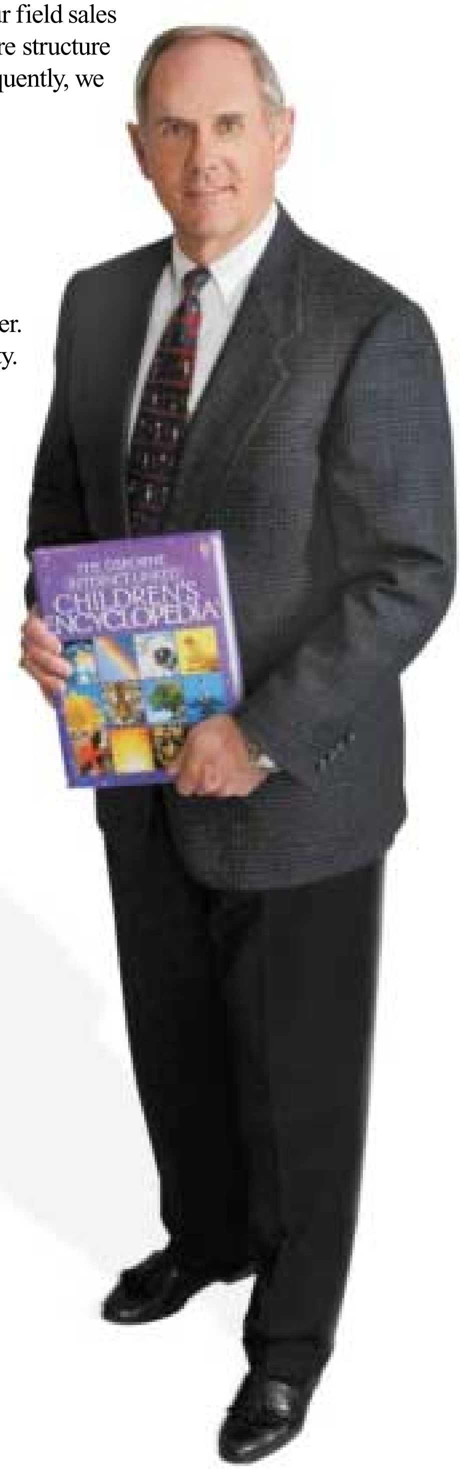
I am very pleased to report Fiscal year 2003 was a record smashing year, with the Home Business Division leading the way with a 31% increase in sales. Publishing sales to retail outlets also recorded an increase as the Company recorded sales of $24,880,111.

I feel there are several reason why we are experiencing this success. We operate an honest, ethical company with a long term vision for success. We feel there are four vital components within the company that must be compensated fairly and evenly. Our product line supplier Usborne Publishing, our management and employees, our field sales force, and our shareholders. If any of these four groups are not given proper consideration, the entire structure becomes unstable. I feel we have arrived at a fair and equitable program for all involved, and consequently, we have a strong business model for future success.

EDC is a company you can be proud to work for and one you can be proud to own.

We have just completed a terrific year, but we think the upcoming year will be much better. The award winning Usborne books now encompass over 1,300 titles and is unsurpassed in quality. Also, I am very proud of our field sales force which grew 47% last year.

The future looks very good for EDC.
The management and staff
are determined and dedicated
to continue and build on our past success.



Cordially yours,

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

The Company

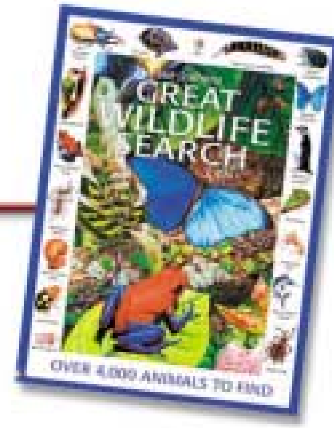
Educational Development Corporation, a Delaware corporation, was incorporated in 1965 to develop curriculum materials for schools. In 1978 the Publishing Division was created to distribute the Usborne line of children's books. The Home Business Division was started during 1989.

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.

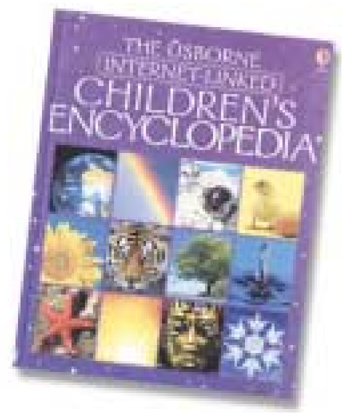
A section of the flow rack system for order fulfillment

Our Product Line

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 1,300 different titles.



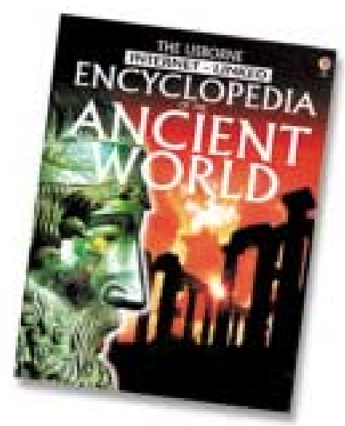
Usborne books are fascinating, lavishly illustrated books written with humor, surprise and drama. They incorporate activities and puzzles to challenge a child's observation skills and intelligence. Their superb print quality on acid free paper and exceptionally well-produced graphics, high ratio of pictures 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 more than 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 the Austin Young Engineer's Award Program, the Teachers' Choice Awards sponsored by Learning Magazine and Dr. Toy. In addition, Advanced Learning Systems, Inc., which promotes the world's most popular reading management software used in schools, Accelerated Reader, has listed 62 of our titles in its catalog.

Usborne Kid Kits

The Usborne Kid Kits are currently available in 65 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.



The Home Business Division

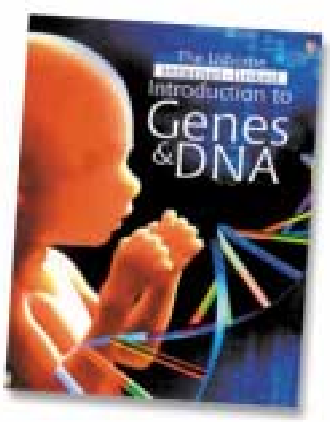
The Company began the Home Business Division in March 1989. This Division, operating as Usborne Books At Home (UBAH), markets the entire Usborne product line, including many exclusive products, through a network of over 7,000 independent sales consultants. The sales consultants sell through various venues including home shows, direct sales, book fairs, Internet sales, and fund raisers.

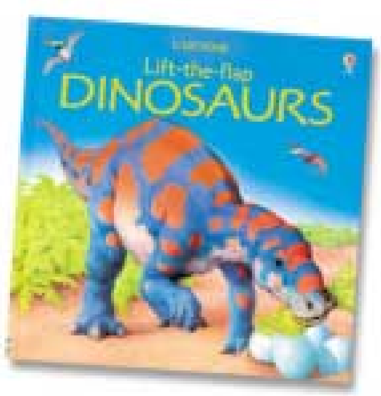
The Home Business Division envelopes a sub-division called EDC Educational Services, which markets the Usborne product line to schools and libraries through the independent sales consultants. EDC Educational Services enhances the UBAH marketing program and provides additional marketing opportunities for the sales consultants. These marketing programs work hand-in-hand with each other. Home shows provide a source of constant income and business growth, increase the networking base for both businesses and provide sales opportunity leads for additional marketing avenues. Individual UBAH Web sites are available for consultants to market their business and to set up home shows and book fairs via the Internet. Reach for the Stars, a pledge-based reading incentive program for schools and organizations, has been very successful and thousands of dollars in cash and books have been given to the schools and organizations.

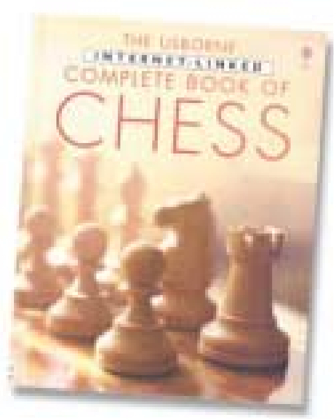
Usborne Books At Home strives for excellence and creativity in training, recognition and incentive programs to encourage the Division's growth. There are Home Office sponsored events in January and August in which hundreds of events are held throughout the country to encourage bookings, recruiting, training, growth, and product knowledge. The timing of these events coincides to kick off new season titles as well as the New Year and the fall selling season. UBAH will hold its Seventh National Convention in June 2003, in Tulsa, Oklahoma. This three-day event offers an excellent opportunity for consultants to meet their peers, exchange ideas, and learn how to build their business. It allows the Home Office to award and recognize national achievement, and supervisors to award and recognize group achievement. The Home Office also sponsors Leadership Skills for UBAH Supervisors, which offers newly promoted supervisors or consultants on the fast track to supervisor the tools to build their business quickly and efficiently. Travel incentive trips are a bonus for the independent consultant and can be earned working part-time on a steady basis. Recent trips include Costa Rica, the Bahamas, and the Mexican Riviera.

Kathy Slemp
Vice President
Usborne Books at Home

Todd R. White
Manager
Educational Services







The Publishing Division

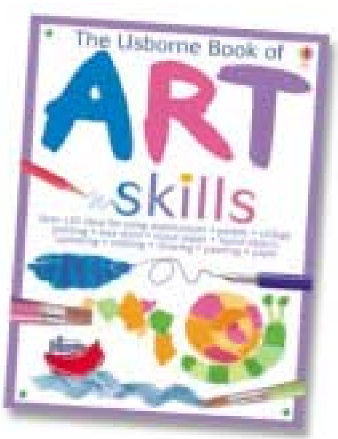
The Publishing Division began in 1978 when the Company became the United States publisher of the Usborne line of children's books. Today, the Publishing Division serves more than 7,000 clients and utilizes a variety of marketing procedures to insure that our customers' needs are effectively met in the highly competitive retail trade.

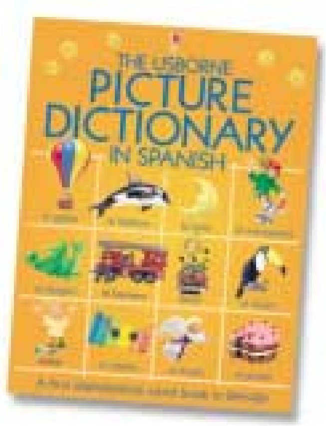
Through the efforts of our organization's exceptionally capable telesales staff, the Company maintains a high degree of contact with bookstores, gift shops, art stores, museums and various other profit and non-profit organizations throughout the country. During the past year, the Company has significantly expanded our field sales representative force. A new sales representative group, who specialize in the book market for the Southeastern parts of the United States, began presenting our books in late spring. In addition, field representatives who specialize in childrens' toy and gift stores for the New England and Mid-Atlantic States have been added to our sales force. These appointments are expected to further enhance retail sales with the very important small and mid-size independent market.

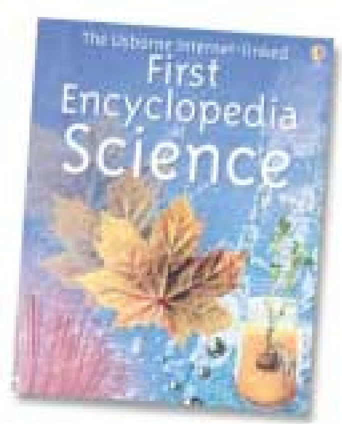
Sales to the national chains continue to be of major importance. During the past two years we have placed a strong emphasis on strengthening the Company's relationships with these companies. Increased participation in cooperative advertising, special promotional programs and institutional advertising has resulted in an increase in sales. This increase is particularly meaningful in that it has occurred in a generally weak retail market. The company will continue to place a strong emphasis on this extremely important aspect of our business.

During the past year the Company has also expanded its marketing efforts with the gift trade. Participation in the major gift shows at San Francisco and New York produced strong sales as well as significantly expanding the number of accounts that the Company services. In addition to the major coastal gift markets, the Company also participated in gift shows in Atlanta, Dallas and Chicago. Participation in the NSSEA (National School Supply and Equipment Association) and MSA (Museum Store Association) also provided important contact with school supply and public museum markets. The Company will continue to expand these marketing efforts in the upcoming year.

Ronald T. McDaniel
Vice President
Publishing







Operations and Information Systems

The Company's operations are located in Tulsa, Oklahoma. In January 2002, the Company purchased the facility which previously was leased. This facility contains approximately 9,000 square feet of office space and 71,400 square feet of adjoining warehouse space. At April 1, 2003, the Company had 76 full-time employees and 1 part-time employee.

In-house operations continue to be a major strength of the Company's operations. A state-of-the-art flow rack system, stretching nearly 600 feet in length, coupled with EDI capabilities for instantaneous receipt of orders, enables the Company to ship over 95% of the orders the same day the orders are received. 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 2003. We offer 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. There are over 3,100 of these web sites in current use.

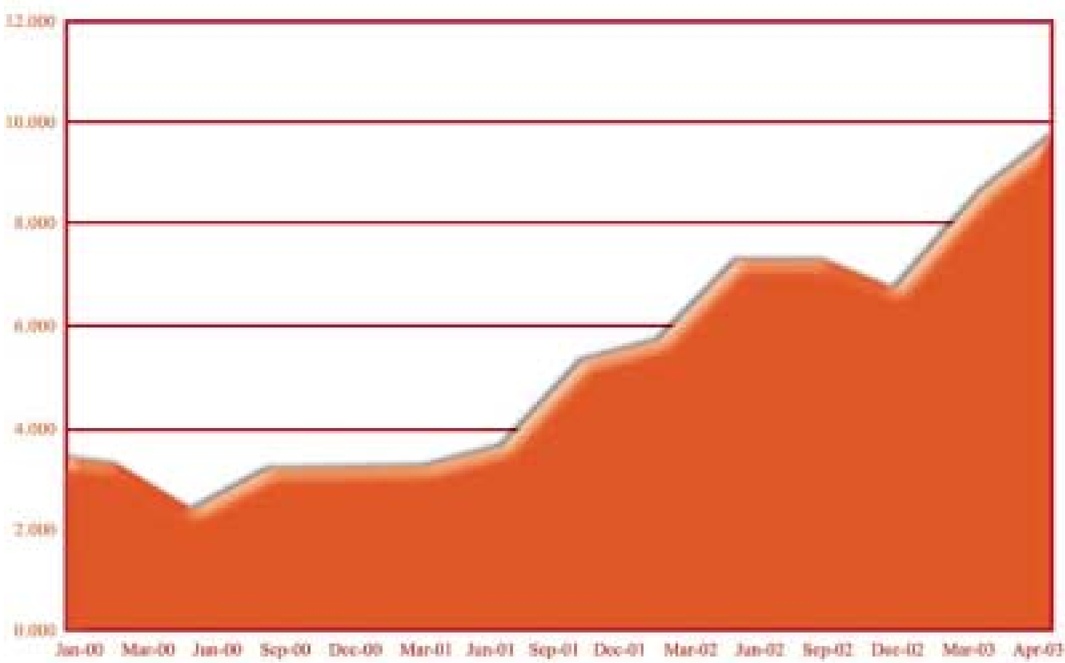
The consultant web sites allow E-shows and E-bookfairs. These features allow an expanded audience to participate in our regular sales routes of homeshows and school bookfairs. The consultant base is extremely enthused with these innovations, and we will continue to work towards methods which make their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

Michael L. Puhl
Vice President
Operations

Craig M. White
Vice President
Information Systems

The Company's Stock

The Company's common stock is traded on the NASDAQ exchange under the symbol EDUC. The chart below tracks the closing stock price from January 2000 through April 2003.



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 $2,038,085 for fiscal year 2003 compared to $1,531,274 for fiscal year 2002, $1,090,262 for fiscal year 2001, $1,079,028 for fiscal year 2000, and $1,297,493 for fiscal year 1999.

Gross sales for fiscal year 2003 were $36,036,786 compared to $30,457,695 in fiscal year 2002, $27,260,879 in fiscal year 2001, $26,613,943 in fiscal year 2000, and $25,889,212 in fiscal year 1999.

Net sales for fiscal year 2003 were $24,880,111 compared to $20,554,451 for fiscal year 2002, $17,596,848 for fiscal year 2001, $16,851,261 in fiscal year 2000, and $16,671,385 in fiscal year 1999.

Net sales from the Company's Home Business Division were $17,319,853 in fiscal year 2003 compared to $13,192,119 in fiscal year 2002 and $10,243,098 in fiscal year 2001. Net sales from the Company's Publishing Division were $7,560,258 in fiscal year 2003 compared to $7,362,332 in fiscal year 2002 and $7,353,750 in fiscal year 2001.

Cost of sales increased 18.1% during FY 2003 when compared with FY 2002. Cost of sales as a percentage of gross sales was 26.6% for FY 2003 and 26.7% for FY 2002. Cost of sales as a percentage of gross sales will fluctuate depending upon the product mix being sold. Management expects the cost of sales percentage for FY 2004 will remain consistent with FY 2003.

Operating and selling expenses increased 13.1% during FY 2003 when compared with FY 2002. As a percentage of gross sales, these costs were 11.7% for FY 2003 and 12.2% for FY 2002. Contributing to the increase in operating and selling expenses were increased payroll costs, higher freight costs, increased credit card costs and increased marketing costs. Those increased costs are attributed to the overall increase in sales in FY 2003 over sales in FY 2002. Management expects operating and selling expenses to be approximately 11% to 13% of gross sales in FY 2004.

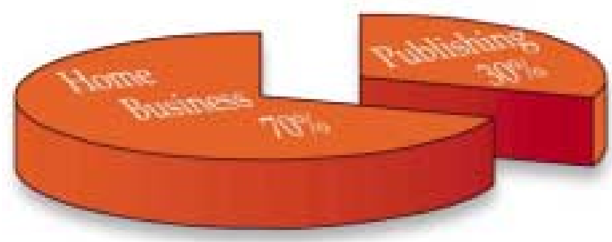
Sales commission increased 30.0% during FY 2003 when compared with FY 2002. As a percentage of gross sales, these costs were 17.6% in FY 2003 and 16.0% in FY 2002. Sales commissions as a percentage of gross sales are determined by the product mix sold and the division that makes the sale. Commission expense in the Publishing Division increased 3.0% during FY 2003 when compared with FY 2002, the result of increased sales. Commission expense in the Home Business Division increased 30.6%, the result of increased sales and the higher commission structure in the Home Business Division.

General and administrative expenses increased 7.3% in FY 2003 versus FY 2002. As a percentage of gross sales, these expenses were 4.4% in FY 2003 and 4.8% in FY 2002. An increase in payroll costs contributed to the increase in general and administrative expenses.

Interest expense declined 95.7% in FY 2003 when compared with FY 2002. As a percentage of gross sales, interest expense was nominal in FY 2003 and 0.07% in FY 2002.

2002 Net Sales

2002 Operating Profits



2003 Net Sales

2003 Operating Profits

Financial Position

Working capital was $9.4 million for fiscal year end 2003 and $7.5 million at fiscal year end 2002. The net effect of an increase in accounts receivable, an increase in inventory and an increase in accounts payable resulted in the increase in working capital at fiscal year end 2003. 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, 2003, is 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 2004. Capital expenditures are expected to be less than $750,000 during fiscal year 2004. These expenditures would consist primarily of software and hardware enhancements to the Company's existing data processing equipment, property improvements and additions to equipment in the warehouse.

W. Curtis Fossett
Controller & Corporate Secretary

Effective June 30, 2002, the Company signed a Third 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, 2003. The note bears interest at the Wall Street Journal prime floating rate minus 0.25% payable monthly (4.00% at February 28, 2003). The note is collateralized by substantially all of the assets of the Company. At February 28, 2003 the Company had no borrowings outstanding. Available credit under the revolving credit agreement was $3,500,000 at February 28, 2003.

The Company uses the credit facility to fund routine operations. The Company plans to renew this facility when it matures on June 30, 2003. The Company believes its borrowing capacity under this line to be adequate for anticipated operating levels.

The Company generated cash of $1.1 million from operating activities during fiscal year 2003 and $4.2 million during FY 2002. Net income for FY 2003 of $2,038,085 contributed to a significant portion of cash flows from operating activities. It was offset by the changes in accounts receivable and inventory. The change in accounts payable and accrued expenses also contributed to cash flows from operating activities.

Accounts receivable increased slightly during the year as several large orders in the Publishing Division were received in February. In addition, the Publishing Division offered special dating terms during the fourth quarter with payment due during the first quarter of fiscal year 2004. The Company plans to continue to maximize its collection efforts in order to maintain cash flows during fiscal year 2004.

Inventory levels increased 30.8% from fiscal year end 2002 to fiscal year end 2003, the result of the timing of deliveries from the Company's principal supplier. 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 Company expects inventory levels to increase moderately over the next year.

Approximately $4.5 million of total accounts payable is payable 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. The Company expects accounts payable to increase moderately next year. Management anticipates cash flows from operating activities to increase in the foreseeable future.

Cash used in investing activities during fiscal year 2003 was primarily for building improvements.

During the year the Company continued the stock buyback program by purchasing 107,498 shares of its common stock at a cost of $765,227. The Company paid a dividend of $0.06 per share or $230,146.

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, 2003 and 2002, and the related statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 2003. 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, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2003, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Tulsa, Oklahoma
April 4, 2003

EDUCATIONAL DEVELOPMENT CORPORATION

BALANCE SHEETS
FEBRUARY 28, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,432,982	$ 906,889
Accounts receivable, less allowance for doubtful accounts and sales returns $189,962 (2003) and $184,076 (2002)	2,137,412	2,040,423
Inventories - Net	11,413,715	8,291,950
Prepaid expenses and other assets	162,674	218,341
Deferred income taxes	72,100	59,200
Total current assets	15,218,883	11,516,803
INVENTORIES - Net	341,880	683,880
PROPERTY, PLANT AND EQUIPMENT - Net	1,941,270	1,907,615
DEFERRED INCOME TAXES	59,700	48,500
	$ 17,561,733	$ 14,156,798

LIABILITIES AND SHAREHOLDERS' EQUITY	2003	2002
CURRENT LIABILITIES:		
Accounts payable	$ 4,997,273	$ 3,380,102
Accrued salaries and commissions	435,728	352,756
Other current liabilities	251,824	244,846
Income taxes payable	160,303	63,753
Total current liabilities	5,845,128	4,041,457
COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Common stock, $0.20 par value; Authorized 8,000,000 (2003) and 6,000,000 (2002) shares; Issued 5,441,640 (2003) and 5,429,240 (2002) shares; Outstanding 3,827,620 (2003) and 3,822,117 (2002) shares	1,088,328	1,085,848
Capital in excess of par value	4,619,406	4,417,507
Retained earnings	11,455,662	9,647,723
	17,163,396	15,151,078
Less treasury stock, at cost	(5,446,791)	(5,035,737)
	11,716,605	10,115,341
	$ 17,561,733	$ 14,156,798

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF EARNINGS
YEARS ENDED FEBRUARY 28, 2003, 2002 AND 2001

	2003	2002	2001
GROSS SALES	$ 36,036,786	$ 30,457,695	$ 27,260,879
Less discounts and allowances	(11,156,675)	(9,903,244)	(9,664,031)
Net sales	24,880,111	20,554,451	17,596,848
COST OF SALES	9,591,425	8,121,522	7,287,920
Gross margin	15,288,686	12,432,929	10,308,928
OPERATING EXPENSES:			
Operating and selling	4,203,340	3,717,465	3,295,164
Sales commissions	6,327,058	4,867,970	3,743,954
General and administrative	1,569,826	1,463,631	1,432,030
Interest	884	20,343	104,925
	12,101,108	10,069,409	8,576,073
OTHER INCOME	77,207	76,554	37,507
EARNINGS BEFORE INCOME TAXES	3,264,785	2,440,074	1,770,362
INCOME TAXES	1,226,700	908,800	680,100
NET EARNINGS	$ 2,038,085	$ 1,531,274	$ 1,090,262
BASIC AND DILUTED EARNINGS PER SHARE:			
Basic	$ 0.53	$ 0.40	$ 0.28
Diluted	$ 0.49	$ 0.38	$ 0.27
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:			
Basic	3,835,411	3,867,221	3,955,527
Diluted	4,158,781	4,061,956	4,042,642

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 2003, 2002 AND 2001

	Common Stock (par value $0.20 per share)				Treasury Stock		
	Number of Shares Issued	Amount	Capital in Excess of Par Value	Retained Earnings	Number of Shares	Amount	Shareholders' Equity
BALANCE, MARCH 1, 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	5,429,240	1,085,848	4,413,627	8,270,624	1,517,840	(4,554,272)	9,215,827
Issuance of treasury stock	-	-	1,327	-	(1,000)	3,023	4,350
Purchases of treasury stock	-	-	-	-	139,603	(634,752)	(634,752)
Sales of treasury stock	-	-	18,480	-	(31,520)	95,812	114,292
Exercise of options ($1.50 - $3.00/share)	-	-	(15,927)	-	(17,800)	54,452	38,525
Dividends paid ($0.04/share)	-	-	-	(154,175)	-	-	(154,175)
Net earnings	-	-	-	1,531,274	-	-	1,531,274
BALANCE, FEBRUARY 28, 2002	5,429,240	1,085,848	4,417,507	9,647,723	1,607,123	(5,035,737)	10,115,341
Purchases of treasury stock	-	-	-	-	107,498	(765,227)	(765,227)
Sales of treasury stock	-	-	138,286	-	(90,201)	321,566	459,852
Exercise of options ($1.50 - $5.50/share)	12,400	2,480	63,613	-	(10,400)	32,607	98,700
Dividends paid ($0.06/share)	-	-	-	(230,146)	-	-	(230,146)
Net earnings	-	-	-	2,038,085	-	-	2,038,085
BALANCE, FEBRUARY 28, 2003	5,441,640	$ 1,088,328	$ 4,619,406	$ 11,455,662	1,614,020	$ (5,446,791)	$ 11,716,605

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2003, 2002 AND 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 2,038,085	$ 1,531,274	$ 1,090,262
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	165,910	120,738	59,662
Deferred income taxes	(24,100)	(27,900)	75,700
Provision for doubtful accounts and sales returns	1,057,803	991,813	1,381,704
Stock issued for awards	-	4,350	1,700
Changes in assets and liabilities:			
Accounts and income tax receivable	(1,154,792)	(1,481,184)	(912,302)
Inventories	(2,779,765)	1,241,092	(572,826)
Prepaid expenses and other assets	11,846	(26,456)	(26,745)
Accounts payable, accrued salaries and commissions, and other current liabilities	1,707,121	1,830,181	104,833
Income tax payable	96,550	63,753	(46,923)
Total adjustments	(919,427)	2,716,387	64,803
Net cash provided by operating activities	1,118,658	4,247,661	1,155,065
CASH FLOWS FROM INVESTING ACTIVITIES -			
Purchases of property and equipment	(155,744)	(1,888,933)	(58,571)
Net cash used in investing activities	(155,744)	(1,888,933)	(58,571)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on revolving credit agreement	1,317,000	2,347,000	7,703,000
Payments on revolving credit agreement	(1,317,000)	(3,431,000)	(7,897,000)
Cash received from exercise of stock options	98,700	38,525	-
Cash received from sale of treasury stock	459,852	114,292	86,450
Cash paid to acquire treasury stock	(765,227)	(634,752)	(856,215)
Dividends paid	(230,146)	(154,175)	(78,779)
Net cash used in financing activities	(436,821)	(1,720,110)	(1,042,544)
NET INCREASE IN CASH AND CASH EQUIVALENTS	526,093	638,618	53,950
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	906,889	268,271	214,321
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,432,982	$ 906,889	$ 268,271
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 884	$ 26,392	$ 105,348
Cash paid for income taxes	$ 1,154,250	$ 800,250	$ 724,020

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2003, 2002 AND 2001

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 to book, toy and gift stores, libraries and home educators located throughout the United States ("U.S."). The Company is 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 the Company's primary supplier.

Estimates - The Company's 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 inventory purchases by the Company are concentrated with an England based publishing company. Purchases from this England based publishing company were approximately $11.1 million, $6.1 million and $6.8 million for fiscal 2003, 2002 and 2001, respectively. Total inventory purchases were approximately $13.9 million, $8.1 million and $8.7 million for fiscal 2003, 2002 and 2001, respectively.

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

Inventories - Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. The Company presents a portion of its inventory as a noncurrent asset. Occasionally the Company 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 excess quantities were included in noncurrent inventory. Noncurrent inventory was estimated by management using the current year turnover ratio by title. All inventory in excess of 2-½ years of anticipated sales was classified as noncurrent inventory.

Inventories are presented net of a reserve for obsolete inventory. Management has estimated and included a reserve for obsolescence for both current and noncurrent inventory. This reserve is based on management's identification of obsolete inventory on hand at February 28, 2003 and 2002.

Prepaid Expenses and Other Assets - Prepaid expenses and other assets at February 28, 2003 and 2002, include notes receivable of approximately $14,000 and $26,000, respectively, due from directors and related parties of the Company.

Property, Plant and Equipment - Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives, which range from 2 to 30 years.

Income Taxes - The Company records deferred tax assets and liabilities 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. The Company records net deferred tax assets related to the recognition of future tax benefits, to the extent that realization of such benefits is considered more likely than not to occur.

Income Recognition - Sales are recognized and recorded when products are shipped. The estimated allowance for sales returns is recorded as sales are recognized and recorded. Management uses prior experience to estimate the allowance for sales returns.

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,		
	2003	**2002**	**2001**
Diluted Earnings Per Share:			
Net earnings applicable to common shareholders	$ 2,038,085	$ 1,531,274	$ 1,090,262
Shares:			
Weighted average shares outstanding - basic	3,835,411	3,867,221	3,955,527
Assumed exercise of options	323,370	194,735	87,115
Weighted average shares outstanding - diluted	4,158,781	4,061,956	4,042,642
Diluted Earnings Per Share	$ 0.49	$ 0.38	$ 0.27

Stock options representing 249,600 of common shares for the year ended 2001 were not included in calculation of diluted earnings per share since the effect was antidilutive. There were no stock options for the years ended 2003 and 2002 excluded from the diluted earnings per share calculation.

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.

Long-Lived Asset Impairment - The Company 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, 2003, 2002 or 2001.

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*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123*.

New Accounting Standards - In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123*, which is effective for fiscal years ending after December 15, 2002. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. See Note 7 for the required disclosures as prescribed by SFAS No. 148.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations it has undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this interpretation did not impact the Company's financial statements.

Reclassifications - Certain prior year amounts have been reclassified to conform with the 2003 presentation.

2. INVENTORIES

Inventories consist of the following:

	February 28,	
	2003	2002
Current:		
Book inventory	$11,460,085	$ 8,338,320
Reserve for obsolescence	(46,370)	(46,370)
Inventories net - current	$11,413,715	$ 8,291,950
Noncurrent:		
Book inventory	$ 511,500	$ 817,500
Reserve for obsolescence	(169,620)	(133,620)
Inventories net - noncurrent	$ 341,880	$ 683,880

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	February 28, 2003	February 28, 2002
Land	$ 250,000	$ 250,000
Building	1,540,000	1,540,000
Machinery and equipment	1,473,054	1,439,057
Furniture and fixtures	237,753	124,592
	3,500,807	3,353,649
Less accumulated depreciation and amortization	(1,559,537)	(1,446,034)
	$ 1,941,270	$ 1,907,615

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 the Company's net deferred tax assets and liabilities as of February 28, 2003 and 2002 are as follows:

	February 28, 2003	February 28, 2002
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	$ 33,800	$ 31,600
Allowance for obsolescence	17,600	17,600
Expenses deducted on the cash basis for income tax purposes	30,800	22,800
Other	3,800	3,800
Deferred tax assets	86,000	75,800
Deferred tax liability - Software development	(13,900)	(16,600)
Deferred tax asset - Net	$ 72,100	$ 59,200
Noncurrent:		
Deferred tax assets:		
Allowance for obsolescence	$ 75,200	$ 61,500
Deferred tax asset - other	1,900	3,800
Deferred tax assets	77,100	65,300
Deferred tax liabilities:		
Software development	-	(13,900)
Property and equipment	(17,400)	(2,900)
Deferred tax liabilities	(17,400)	(16,800)
Deferred tax asset - Net	$ 59,700	$ 48,500

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:

	February 28,		
	2003	2002	2001
Current:			
Federal	$ 1,063,200	$ 796,200	$ 513,800
State	187,600	140,500	90,600
	1,250,800	936,700	604,400
Deferred:			
Federal	(20,500)	(23,700)	64,300
State	(3,600)	(4,200)	11,400
	(24,100)	(27,900)	75,700
Total income tax expense	$ 1,226,700	$ 908,800	$ 680,100

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

	Year Ended February 28,		
	2003	2002	2001
Tax expense at federal statutory rate	$ 1,110,000	$ 830,000	$ 602,000
State income tax, net of federal tax benefit	130,000	96,000	72,000
Other	(13,300)	(17,200)	6,100
	$ 1,226,700	$ 908,800	$ 680,100

5. 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 $60,412, $52,258 and $40,557 in fiscal years 2003, 2002 and 2001, respectively.

6. COMMITMENTS

The Company has a $3,500,000 revolving credit agreement, with interest payable monthly at prime minus .25%, collateralized by substantially all assets of the Company and maturing on June 30, 2003. Available credit under the revolving credit agreement was $3,500,000 at February 28, 2003 and 2002. The agreement contains provisions that require the Company 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. The Company is in compliance with all restrictive covenants at February 28, 2003. The Company intends to renew the bank agreement or obtain other financing upon maturity.

The Company had no borrowings outstanding on the above revolving credit agreement at February 28, 2003 or 2002.

At February 28, 2003, the Company had outstanding commitments to purchase inventory from its primary vendor totaling approximately $4,978,000.

The Company leased its office and warehouse facilities under a noncancelable operating lease until January 2002. On January 7, 2002, the Company purchased its leased office and warehouse facilities for $1,790,000 and simultaneously terminated its lease. Total rent expense related to these facilities was $204,000 in fiscal 2002, and $240,000 in fiscal 2001.

7. 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, 2003 expire beginning in April 2003 through October 2012.

A summary of the status of the Company's Incentive Plans as of February 28, 2003, 2002 and 2001, and changes during the years then ended is presented below:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	590,600	$ 3.24	599,600	$ 3.17	507,400	$ 3.42
Granted	15,000	6.00	10,000	5.50	136,000	2.28
Exercised/canceled	(26,200)	(4.29)	(19,000)	(2.28)	(43,800)	(3.30)
Outstanding at End of Year	579,400	$ 3.26	590,600	$ 3.24	599,600	$ 3.17

The following table summarizes information about stock options outstanding at February 28, 2003:

Range of Exercise Prices	Number Outstanding at February 28, 2003	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1.375 - $1.50	71,500	1	$ 1.40
$1.51 - $2.50	146,000	7	2.26
$2.51 - $3.13	111,700	2	3.11
$ 3.81	15,000	5	3.81
$ 4.00	85,000	5	4.00
$ 4.63	135,200	5	4.63
$ 6.00	15,000	10	6.00
	579,400		

All options outstanding are exercisable at February 28, 2003.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its Incentive Plan. Accordingly, no stock-based employee compensation cost is reflected in net earnings, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Year Ended February 28		
	2003	2002	2001
Net earnings - as reported	$ 2,038,085	$ 1,531,274	$ 1,090,262
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(31,422)	(5,110)	(166,457)
Net earnings - pro forma	$ 2,006,663	$ 1,526,164	$ 923,805
Earnings per share - as reported:			
Basic	$ 0.53	$ 0.40	$ 0.28
Diluted	$ 0.49	$ 0.38	$ 0.27
Earnings per share - pro forma:			
Basic	$ 0.52	$ 0.39	$ 0.23
Diluted	$ 0.48	$ 0.38	$ 0.23

The fair value per option granted in 2003, 2002 and 2001, was $2.09, $0.51 and $1.22, respectively. 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 2003: no dividend yield, expected volatility of 27.64%, risk free interest rate of 3.68%, and expected life of ten years; the following assumptions were used for options granted in 2002: no dividend yield, expected volatility of 35.60%, risk free interest rate of 1.98%, and expected life of one year; 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 life of ten years.

8. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 2003, 2002 and 2001:

	Net Sales	Gross Margin	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2003					
First quarter	$ 6,132,300	$ 3,687,200	$ 547,700	$ 0.14	$0.13
Second quarter	5,602,100	3,304,200	454,000	0.12	0.11
Third quarter	7,827,400	5,025,200	764,900	0.20	0.19
Fourth quarter	5,318,311	3,272,086	271,485	0.07	0.06
Total year	$ 24,880,111	$ 15,288,686	$ 2,038,085	$ 0.53	$ 0.49
2002					
First quarter	$ 4,800,600	$ 2,827,800	$ 369,500	$ 0.09	$0.09
Second quarter	5,108,400	3,000,300	423,800	0.11	0.11
Third quarter	6,007,900	3,772,700	485,000	0.13	0.12
Fourth quarter	4,637,551	2,832,129	252,974	0.07	0.06
Total year	$ 20,554,451	$ 12,432,929	$ 1,531,274	$ 0.40	$ 0.38
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	3,686,248	2,211,328	79,562	0.02	0.01
Total year	$ 17,596,848	$ 10,308,928	$ 1,090,262	$ 0.28	$ 0.27

During the fourth quarter of fiscal year 2001, the Company corrected the depreciation calculated on certain property and equipment, which resulted in a decrease in depreciation expense of approximately $30,000.

9. 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, toy and gift stores, school supply 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, 2003, 2002 and 2001 is set forth below:

	Publishing	UBAH	Other	Total
2003				
Net sales	$ 7,560,258	$ 17,319,853	$ -	$ 24,880,111
Earnings (loss) before income taxes	2,570,156	3,887,858	(3,193,229)	3,264,785
2002				
Net sales	$ 7,362,332	$ 13,192,119	$ -	$ 20,554,451
Earnings (loss) before income taxes	2,579,082	2,845,712	(2,984,720)	2,440,074
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

10. SUBSEQUENT EVENT

On April 2, 2003, the Company announced that it will pay a $0.10 per share dividend on June 11, 2003 to shareholders of record as of May 28, 2003.

* * * * * *

Note Page

DIRECTORS

Robert D. Berryhill
Private Investor

G. Dean Cosgrove
Independent Consultant

James F. Lewis
Retired CEO
The Lewis Companies

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

OFFICERS

Randall W. White
Chairman, President and
Chief Executive Officer

Ronald T. McDaniel
Vice President - Publishing Division

Kathy Slemp
Vice President - Usborne Books at Home

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
July 10, 2003
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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