Dear Fellow Shareholders,

I am very pleased to report that fiscal year ended February 28, 1997, was the most profitable and productive year in the history of Educational Development Corporation while achieving the sixth consecutive year of record sales and earnings. During that period, we sold 4,600,000 of the most beautiful, lavishly illustrated, educational books in today's marketplace.

We have experienced explosive growth from $7.9 million in fiscal year 1994 to $21.2 million in fiscal year 1997 and we have a strategic marketing plan in place to continue that growth. We are unique in that we are in two separate and very different industries, the publishing industry and the direct selling industry. We market our products through retail outlets, and also through a dynamic direct sales force. We have an unsurpassed product line which lends itself to this marketing strategy and allows us to successfully pursue four important goals: sales growth, income opportunity for our sales force, operating profit margins and return on stockholders' equity.

The product line itself is very unique. The books are considered "trade" books which are sold as consumer items, but have also been adopted as curriculum by both public and private sectors of education. The potential for growth in the education market is significant. During the past year, responsibility for sales to the education market was transferred to the Home Business Division, and we currently have 850 certified Educational Consultants representing our product line to schools and libraries.

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

Fiscal year 1997 was a year of consolidation. The Library Division was closed, and the compensation plan for the field sales force was restructured. This consolidation allowed the reduction of debt from $5.8 million to $2.0 million at year end. Fiscal year 1998 looks very promising, with a strong financial base, a focused marketing strategy, and an incredible product line. We anticipate a significant improvement over the prior year's growth rate.

Thank you for your support. Our entire staff is dedicated to continuing our strong growth and enhancing operating results.

Cordially yours,

Randall W. White

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 books. The Home Business Division and Library Division were both started in 1989.

Educational Development Corporation is the sole United States distributor 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 showings in individual homes and through book fairs, fund raisers and direct sales. Beginning in July, 1996 the Home Business Division took over the distribution to school and public libraries. The Company's Publishing Division distributes the books to book stores, toy stores, specialty stores and other retail outlets throughout the United States.

OUR PRODUCT LINE

The principal product of both the Home Business Division and the Publishing Division is a line of children's books produced in the United Kingdom by Usborne Publishing Limited. The Company is the United States publisher of these books. Usborne produces and distributes books in over 50 countries and in more than 50 languages.

These award winning books are of excellent quality and cover the ages of preschool to adult. The subject matter includes a wide range such as history, languages, natural science, crafts, parent guides, puzzles and beginning readers. These subjects along with many other subjects make the books one of the most complete lines of nonfiction titles available in the marketplace. Usborne also publishes fiction books, thus offering the young reader a greater variety. The Company presently offers over 900 different titles in its product line.

The Company's product, "Usborne Kid Kits," takes some of our more popular titles and combines them with special items to complement the information obtained within the book. These are packaged in a reusable vinyl bag with handle and snap closure. There are currently thirty-six different kid kits available with more in the planning stages.

Other products include six CD-ROMS, such as Puzzle Castle, Frog Prince and Noah's Ark, as well as several jigsaw puzzles.

Kathy Plecinski, 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 line of approximately 900 titles through a combination of direct sales, home parties, fund raisers and book fairs sold through a network system of independent sales consultants. In July 1996 Usborne Books At Home began EDC Educational Services to enhance the marketing program to schools and libraries through a direct sales force.

Usborne Books at Home was the first multilevel direct selling company in the United States to offer primarily nonfiction educational books for children. We have approximately 5,700 active consultants who are selling our books in all fifty states. The consultants can offer all of the 900 titles plus they have exclusive rights to offer another 72 titles which can only be purchased through these consultants.

The Company recognizes that fund raising is a major market and has developed a program to meet the criteria and requirements of this market. The fund raising market is dominated by cookies, candy and wrapping paper. It is not a market in which comparative shopping is in effect as consumers realize that the prices reflect a large profit for the organization holding the fund raiser. When the Usborne "Hotshots" series was published in 1996, it presented the perfect fund raising product. The Company has put together a group of titles to appeal to all ages from preschool to adult. This program is new to the Company but we are excited and believe it offers great potential.

Usborne Books At Home held it first National Seminar in April 1997. This four-day event offered training and motivational sessions for those in attendance. It offered a great way for consultants to meet their peers and exchange ideas. The Division also participates in regional seminars which are held throughout the country to train supervisors and consultants and to present new programs.

THE PUBLISHING DIVISION

The Publishing Division began in 1978 when the Company first became the United States publisher of the Usborne Line of children's books. This Division presently markets its products through commissioned sales representatives, trade and specialty wholesalers and our in-house telemarketing staff. Our telemarketing staff has achieved recognition as one of the most productive in the publishing industry. Primary sales outlets include approximately 12,000 book, toy and gift stores along with museums and school suppliers. Several national chains of book dealers have placed some of our titles in their distribution systems and have achieved excellent results. The Division also has placed some of our titles in the mass merchandising outlets such as drug, department and discount stores.

The Publishing Division began a display rack program in 1989 by offering special pricing on a 6 foot rack with 5 adjustable shelves which can hold approximately 220 titles. This attractive rack offers the retail merchant an excellent method of displaying many of the Company's titles. There are approximately 2,750 of these racks in retail stores throughout the United States.

Because of their educational nature, our books are being marketed and widely accepted by families who home school their children. Our books have been recommended by one of the foremost authorities on home schooling as the best line of fact books available on the market. This market segment, although small, is growing and has the potential to make a significant contribution to the Company

THE LIBRARY DIVISION

The Library Services Division was closed July 1, 1996 and the responsibility for sales to this market segment was transferred to the Home Business Division. Management believes that the strong consultant base in the Home Business Division will greatly enhance the sales to this market segment of the Company's business. As a result of this change, the Company will no longer represent other publishers of library books but is confident that the larger base of potential sales representatives should provide increased sales in the library market.

PLANS FOR THE FUTURE

The Home Business Division completed its eighth year of record sales with a strong base of active consultants upon which to build future growth. New consultants are signing up daily as more and more people hear about the "Usborne" opportunity. We anticipate continued growth for this Division.

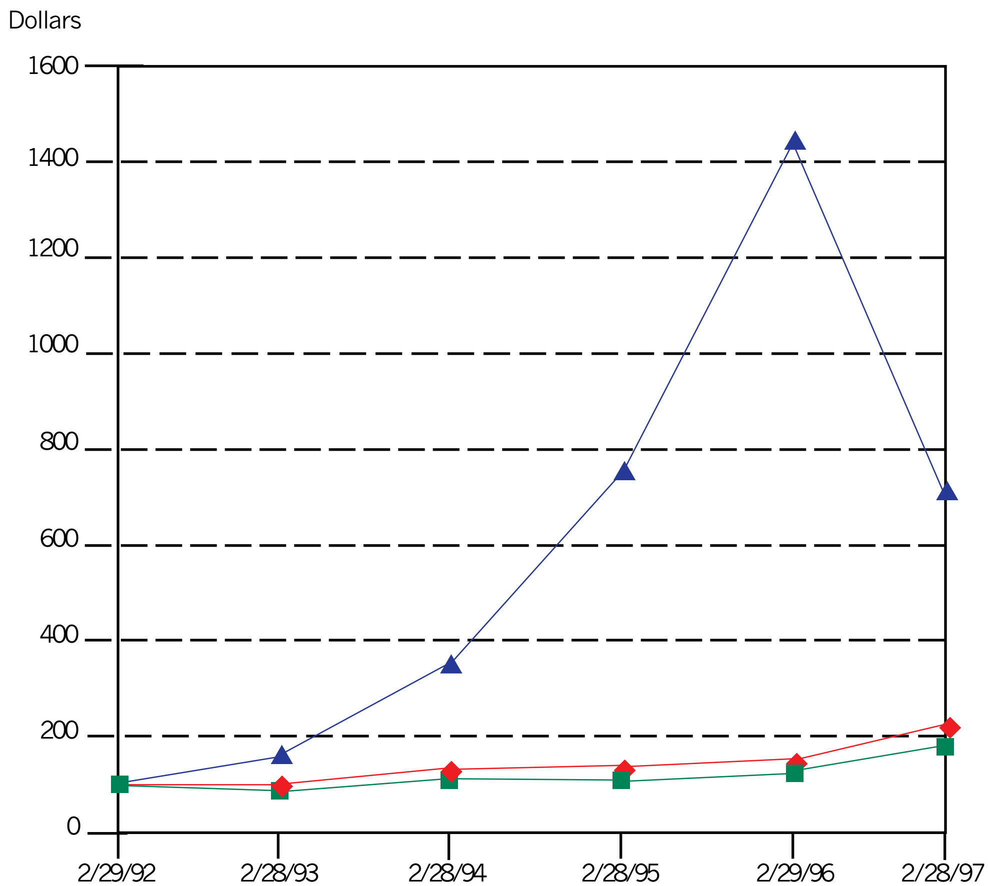
The Publishing Division remains strong. We have an excellent marketing force presenting our titles and are optimistic that this Division will continue to generate strong sales.

The Company continues to have excellent growth potential. Each year we add between 25 and 50 new titles to our product line. We believe our product line to be the best available. The future continues to remain bright for Educational Development Corporation.

PERFORMANCE GRAPH
COMPARISON OF FIVE-YEAR CUMULATIVE RETURN

The following graph compares the performance of the Company's Common Stock with the performance of the Nasdaq Stock Market Total Return Index and the Nasdaq Non-Financial Stock Index. The Center for Research in Security Prices ("CRSP") Index provided the Nasdaq indices used in this graph. The graph assumes $100 was invested on February 29, 1992 in each of the Company's Common Stock and the two Nasdaq indices.

Stockholders are cautioned against drawing any conclusions from the data contained therein, as past results are not necessarily indicative of future performance. The graph in no way reflects the Corporation's forecast of future financial performance.



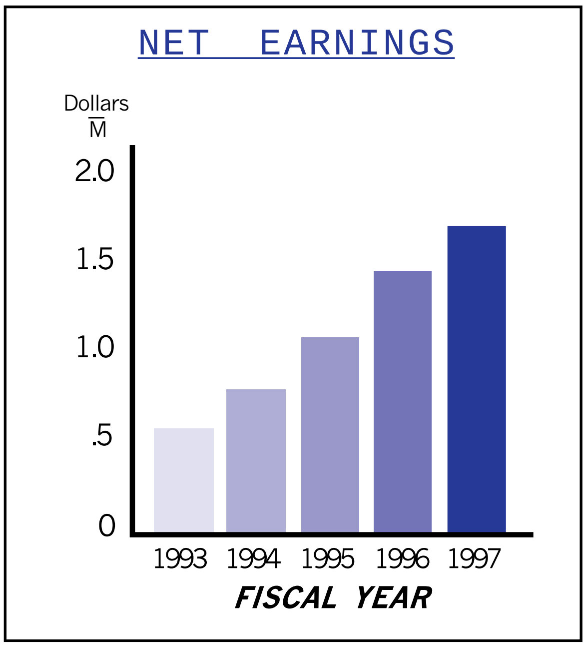
Note: Prior years EDC stock prices restated for 2-1 stock split effective April 1, 1996

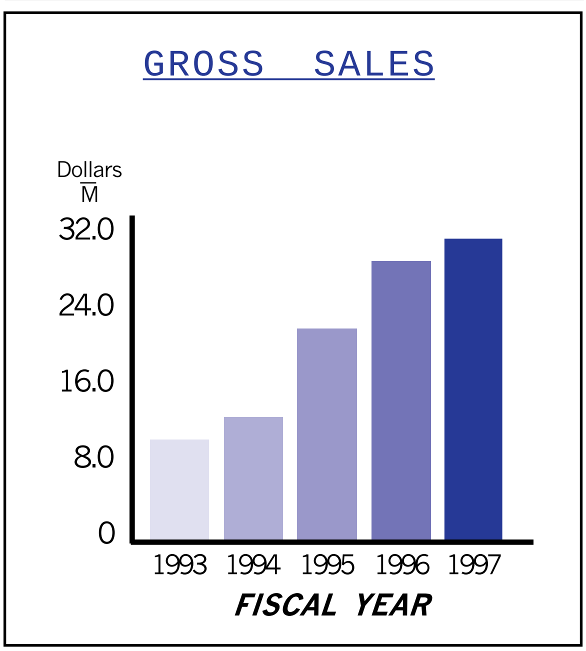
▲ Educational Development Corporation
◆ Nasdaq Stock Market Total Return Index
■ Nasdaq Non-Financial Stock Index

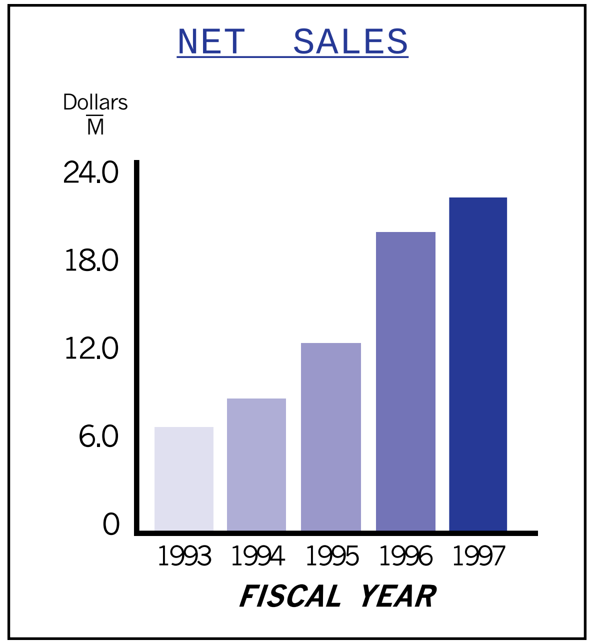
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 materially differ 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 $1,630,088 for fiscal year 1997 compared to $1,478,714 for fiscal year 1996, $1,171,786 for fiscal year 1995, $893,651 for fiscal year 1994 and $564,499 for fiscal year 1993.

Gross sales for fiscal year 1997 were $31,547,007 compared to $30,039,963 in fiscal year 1996, $20,616,152 in fiscal year 1995, $13,586,636 in fiscal year 1994 and $10,810,427 in fiscal year 1993.

Net sales for fiscal year 1997 were $21,239,507 compared to $19,253,467 in fiscal year 1996, $12,353,257 in fiscal year 1995, $7,916,527 in fiscal year 1994 and $6,225,751 in fiscal year 1993.

Net sales from the Company's Home Business Division were $12,932,200 in fiscal year 1997, compared to $9,516,000 in fiscal year 1996 and $4,425,200 in fiscal year 1995. Net sales from the Company's Publishing Division were $7,864,900 in fiscal year 1997 compared to $8,191,100 in fiscal year 1996 and $6,502,100 in fiscal year 1995. Net sales from the Company's Library Services Division were $442,400 in fiscal year 1997 compared to $1,546,400 in fiscal year 1996 and $1,426,000 in fiscal year 1995. In July, 1996 the Company transferred responsibility of sales to school and public libraries from the Library Division to the Home Business Division.

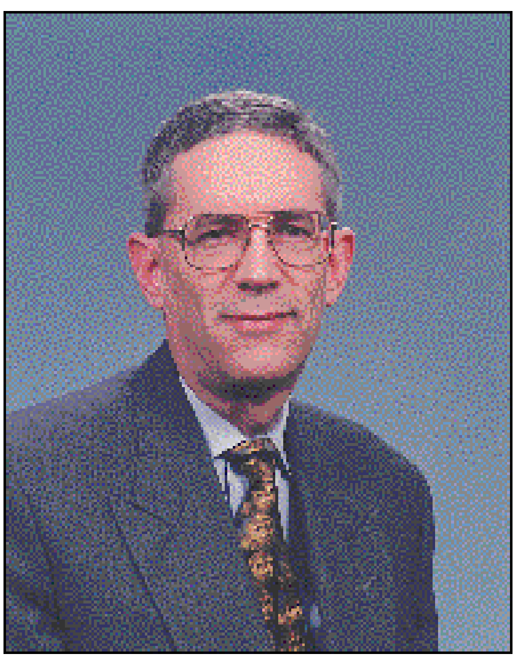
The Company's cost of sales in fiscal year 1997 was $8,396,060 compared to $8,155,725 for fiscal year 1996 and $5,587,402 for fiscal year 1995. Cost of sales as a percentage of gross sales was 26.6% in fiscal year 1997 compared with 27.2% in fiscal year 1996 and 27.1% in fiscal year 1995. Cost of sales as a percentage of gross sales will fluctuate depending upon the product mix being sold.

Operating and selling expenses increased 23.7% over the previous year. As a percentage of gross sales, these expenses were 12.3% in fiscal year 1997, 10.5% in fiscal year 1996 and 11.1% in fiscal year 1995. Increased sales incentives and credit card fees, both in the Home Business Division, contributed to the increase in operating and selling expenses.

Sales commissions increased 22.9% over the previous year. Sales commissions as a percentage of gross sales will vary depending upon the division making the sale and the product being sold. The Home Business Division has the higher commission structure and this Division's higher sales resulted in the increase in commission expense. As a percentage of gross sales, these expenses were 14.9%, 12.7% and 9.2% for fiscal years 1997, 1996 and 1995 respectively.

General and administrative expenses increased 42.8% in fiscal year 1997 over fiscal year 1996. Increased depreciation expense on new computer equipment and the addition of staff contributed to this increase. General and administrative expenses are not always directly affected by sales, so comparison of these expenses as a percentage of gross sales can be misleading.

Interest expense increased 15.8% in fiscal year 1997 versus fiscal year 1996. This increase was due primarily to increased borrowing levels throughout fiscal year 1997.



W. Curtis Fossett, Controller & Corporate Secretary

FINANCIAL POSITION

Working capital increased 25% to $7.4 million at fiscal year end 1997 over fiscal year end 1996. A reduction in payables and short term bank debt, partially offset by reduced inventory and receivables were the principal contributors to the increase in working capital. The Company pays interest on its bank promissory note monthly from current cash flows. Management expects its financial position to continue to improve during fiscal year 1998 and to have increased working capital at fiscal year end 1998.

Management believes the Company's liquidity at February 28, 1997, 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 1998. Capital expenditures are expected to be less than $750,000 in fiscal year 1998. 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, 1996 the Company signed a Restated Credit and Security Agreement with State Bank which provides a $9,000,000 line of credit. The line of credit is evidenced by a promissory note in the amount of $9,000,000 payable June 30, 1997. The note bears interest at the Wall Street Journal prime floating rate payable monthly (8.25% at February 28, 1997). The note is collateralized by substantially all of the assets of the Company. The Company utilizes this line of credit primarily to fund routine operations. At February 28, 1997 the Company had available $6,990,000 under this credit agreement.

The Company obtained and uses the credit facility to fund routine operations. Payments are made from current cash flows. The Company is negotiating to renew this facility when it matures June 30, 1997. The Company believes its borrowing capacity under this line to be adequate for the next several years.

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 as of February 28, 1997 and February 29, 1996, and the related statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended February 28, 1997. 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 generally accepted auditing standards. 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, 1997 and February 29, 1996, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 1997 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

May 2, 1997
Tulsa, Oklahoma

EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
FEBRUARY 28, 1997 and FEBRUARY 29, 1996

	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 82,153	$ 215,963
Accounts receivable, less allowances for doubtful accounts and sales returns	2,032,688	2,755,484
Inventories - Net	10,048,457	11,999,873
Prepaid expenses	55,697	109,661
Income taxes receivable	124,092	352,323
Deferred income taxes	159,200	168,300
Total current assets	12,502,287	15,601,604
PROPERTY AND EQUIPMENT - Net	848,478	815,362
OTHER ASSETS - Net	14,604	5,102
	$13,365,369	$16,422,068
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable to bank	$ 2,010,000	$ 5,820,000
Accounts payable	2,305,067	3,215,691
Accrued salaries and commissions	214,198	270,864
Other current liabilities	563,059	383,625
Total current liabilities	5,092,324	9,690,180
COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Common stock, $.20 par value; Authorized 6,000,000 shares; Issued 5,424,240 and 5,398,240 shares; Outstanding 5,200,697 and 5,191,498 shares	1,084,848	1,079,648
Capital in excess of par value	4,403,242	4,391,339
Retained earnings	3,418,431	1,788,343
	8,906,521	7,259,330
Less treasury stock, at cost	(633,476)	(527,442)
	8,273,045	6,731,888
	$13,365,369	$16,422,068

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF EARNINGS
YEARS ENDED FEBRUARY 28, 1997, FEBRUARY 29, 1996 AND FEBRUARY 28, 1995

	1997	1996	1995
GROSS SALES	**$31,547,007**	$30,039,963	$20,616,152
Less discounts and allowances	**(10,307,500)**	(10,786,496)	(8,262,895)
Net sales	**21,239,507**	19,253,467	12,353,257
COST OF SALES	**8,396,060**	8,155,725	5,587,402
Gross margin	**12,843,447**	11,097,742	6,765,855
OPERATING EXPENSES:			
Operating and selling	**3,883,438**	3,138,851	2,289,725
Sales commissions	**4,699,279**	3,824,500	1,899,317
General and administrative	**1,315,012**	920,786	764,351
Interest	**344,966**	297,849	9,952
	10,242,695	8,181,986	4,963,345
OTHER INCOME	**33,436**	2,279	59,137
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**2,634,188**	2,918,035	1,861,647
INCOME TAXES	**1,004,100**	1,112,700	698,000
EARNINGS FROM CONTINUING OPERATIONS	**1,630,088**	1,805,335	1,163,647
DISCONTINUED OPERATIONS, NET OF TAX:			
Earnings (loss) from operations	**—**	(25,637)	8,139
Loss on disposal	**—**	(300,984)	—
	—	(326,621)	8,139
NET EARNINGS	**$ 1,630,088**	$ 1,478,714	$ 1,171,786
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE:			
Primary and fully diluted:			
Earnings from continuing operations	**$ 0.31**	$ 0.34	$ 0.22
Discontinued operations	**—**	(0.06)	—
Net earnings	**$ 0.31**	$ 0.28	$ 0.22
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING - Primary and fully diluted	**5,353,938**	5,338,834	5,223,490

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 1997, FEBRUARY 29, 1996 AND FEBRUARY 28, 1995

	Common Stock (par value $.20 per share)			Retained	Treasury Stock		
	Number of Shares Issued	Amount	Capital in Excess of Par Value	Earnings (Accumulated Deficit)	Number of Shares	Amount	Shareholders' Equity
BALANCE, MARCH 1, 1994	2,329,120	$ 465,824	$4,449,767	$ (862,157)	96,299	$ (84,076)	$3,969,358
Exercise of options at $1.875/share	10,000	2,000	16,750	–	–	–	18,750
Exercise of options at $0.625/share	5,000	1,000	2,125	–	–	–	3,125
Sales of treasury stock	–	–	100,483	–	(10,426)	9,102	109,585
Net earnings	–	–	–	1,171,786	–	–	1,171,786
BALANCE, FEBRUARY 28, 1995	2,344,120	468,824	4,569,125	309,629	85,873	(74,974)	5,272,604
Exercise of options at $6.25/share	25,000	5,000	151,250	–	–	–	156,250
Exercise of options at $3.00/share	5,000	1,000	14,000	–	–	–	15,000
Exercise of options at $2.75/share	30,000	6,000	76,500	–	–	–	82,500
Exercise of options at $1.875/share	15,000	3,000	25,125	–	–	–	28,125
Exercise of options at $1.25/share	15,000	3,000	15,750	–	–	–	18,750
Exercise of options at $0.50/share	265,000	53,000	79,500	–	–	–	132,500
Issuance of treasury stock	–	–	(87)	–	(100)	87	–
Purchase of treasury stock	–	–	–	–	22,575	(523,048)	(523,048)
Sales of treasury stock	–	–	–	–	(4,977)	70,493	70,493
Net earnings	–	–	–	1,478,714	–	–	1,478,714
Effect of two-for-one stock split (Note 9)	2,699,120	539,824	(539,824)	–	103,371	–	–
BALANCE, FEBRUARY 29, 1996	5,398,240	1,079,648	4,391,339	1,788,343	206,742	(527,442)	6,731,888
Exercise of options at $0.25/share	20,000	4,000	1,000	–	–	–	5,000
Exercise of options at $1.50/share	6,000	1,200	7,800	–	–	–	9,000
Issuance of treasury stock	–	–	3,103	–	(3,840)	10,738	13,841
Purchase of treasury stock	–	–	–	–	32,975	(242,730)	(242,730)
Sales of treasury stock	–	–	–	–	(12,334)	125,958	125,958
Net earnings	–	–	–	1,630,088	–	–	1,630,088
BALANCE, FEBRUARY 28, 1997	5,424,240	$1,084,848	$4,403,242	$3,418,431	223,543	$(633,476)	$8,273,045

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28, 1997, FEBRUARY 29, 1996 AND FEBRUARY 28, 1995

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	**$1,630,088**	$ 1,478,714	$1,171,786
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	**252,113**	126,697	147,431
Deferred income taxes	**9,100**	88,700	(113,000)
Provision for doubtful accounts and sales returns	**1,225,000**	1,250,900	1,143,500
Provision for obsolete inventories	**–**	–	118,100
Stock issued for awards	**4,251**	–	–
Changes in assets and liabilities:			
Accounts and income taxes receivable	**(273,973)**	(2,450,713)	(1,567,653)
Inventories	**1,951,416**	(5,106,474)	(3,320,267)
Prepaid expenses and other assets	**44,462**	(36,815)	(111,285)
Accounts payable and accrued expenses	**(787,856)**	320,979	1,964,348
Total adjustments	**2,424,513**	(5,806,726)	(1,738,826)
Net cash provided by (used in) operating activities	**4,054,601**	(4,328,012)	(567,040)
CASH FLOWS FROM INVESTING ACTIVITIES -			
Purchases of property and equipment	**(275,639)**	(577,847)	(273,129)
Net cash used in investing activities	**(275,639)**	(577,847)	(273,129)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	**7,130,000**	11,820,000	2,040,000
Payments under revolving credit agreement	**(10,940,000)**	(7,000,000)	(1,040,000)
Principal payments on capital lease obligations	**–**	(7,673)	(40,925)
Cash received from exercise of stock options	**14,000**	64,952	21,875
Cash received from sale of stock	**125,958**	70,493	109,585
Cash paid to acquire treasury stock	**(242,730)**	(154,875)	–
Net cash provided by (used in) financing activities	**(3,912,772)**	4,792,897	1,090,535
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(133,810)**	(112,962)	250,366
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**215,963**	328,925	78,559
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 82,153**	$ 215,963	$ 328,925
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	**$ 368,051**	$ 264,462	$ 7,691
Cash paid for income taxes	**$ 766,769**	$ 1,259,022	$ 836,500

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 1997, FEBRUARY 29, 1996 AND FEBRUARY 28, 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business **-** Educational Development Corporation (the "Company") distributes books and publications through its Publishing and Home Business Divisions. In July 1996, the Company's Library Division ceased operations and responsibility for sales to this market segment were taken over by the Home Business Division. The Company is the United States ("U.S.") distributor of books and related matters, published primarily in England, 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

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.

Income Taxes **-** The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," ("SFAS No. 109"). SFAS No. 109 requires that deferred income taxes are recorded for temporary differences between the financial reporting and tax basis 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, allowances for returns are recorded based on prior experience.

Advertising Costs **-** The Company expenses advertising costs as incurred.

Earnings Per Common and Common Equivalent Share **-** The computation of earnings per common and common equivalent share is based on the weighted average shares of common stock outstanding and, when the effect is dilutive, common stock equivalents attributable to stock options and stock warrants.

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 average maturities.

Long-Lived Asset Impairment **-** Effective March 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of," ("SFAS No. 121"). SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 also requires that assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The adoption of SFAS No. 121 did not have an effect on the Company's financial statements.

Stock-Based Compensation- In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." SFAS No. 123 establishes a fair value method and disclosure standards for stock-based employee compensation arrangements, such as stock purchase plans and stock options. It also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees, requiring that such transactions be accounted for based on fair value. As allowed by SFAS No. 123, the Company will continue to follow the provisions of Accounting Principles Board Opinion No. 25 and related interpretations for its stock-based employee compensation arrangements.

New Accounting Standard- In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings per Share". SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and requires restatement of all prior-period EPS data presented. This statement is effective for financial statements for periods ending after December 15, 1997. The Company does not anticipate that adoption of this standard will have a significant effect on its financial statements.

Reclassifications- Reclassifications were made to 1995 and 1996 balances to conform with the 1997 presentation.

2. DISCONTINUED OPERATIONS

Effective February 29, 1996, the Company discontinued its School Division. The remaining assets of this division were written off at February 29, 1996. Accordingly, the operating results of the School Division are segregated and reported as discontinued operations in the accompanying statements of earnings for the years ended February 29, 1996 and February 28, 1995.

The condensed statements of operations relating to the discontinued School Division operations for each of the years ended February 29, 1996 and February 28, 1995, are presented below:

	Year Ended	
	Feb. 29, 1996	**Feb. 28, 1995**
Gross sales	$ 43,085	$ 136,521
Less discounts and allowances	(5,030)	(9,871)
Net sales	38,055	126,650
Cost of sales	8,271	(41,852)
Gross margin	46,326	84,798
Operating expenses	(87,963)	(114,659)
Loss before income taxes	(41,637)	(29,861)
Income tax benefit	16,000	38,000
Earnings (loss) from operations	$ (25,637)	$ 8,139

The estimated loss on disposal of $300,984, which is net of income tax benefits of $169,000, includes the write-off of inventory, supplies and other assets.

3. INVENTORIES

Inventories consist of the following:

	Feb. 28, 1997	Feb. 29, 1996
Book inventory	$10,349,557	$12,300,973
Reserve for obsolescence	(301,100)	(301,100)
	$10,048,457	$11,999,873

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Feb. 28, 1997	Feb. 29, 1996
Computer equipment	$ 757,982	$ 733,036
Warehouse and office equipment	438,325	337,111
Furniture, fixtures and other	98,065	86,267
	1,294,372	1,156,414
Less accumulated depreciation and amortization	(445,894)	(341,052)
	$ 848,478	$ 815,362

During the year ended February 28, 1997, the Company acquired a vehicle with a cost of $9,590 through the issuance of 3,390 shares of treasury stock.

Depreciation expense was $252,113, $126,697 and $109,086 for the fiscal years ended 1997, 1996, and 1995, respectively.

5. NOTE PAYABLE

At February 28, 1997 and February 29, 1996, the note payable to bank was under a $9,000,000 and $6,000,000 revolving credit agreement, respectively, with interest payable monthly at prime and prime plus 0.5% (8.25 and 8.75%, respectively), collateralized by substantially all assets of the Company. The revolving credit agreement matures on June 30, 1997. At February 28, 1997, the Company had available credit of $6,990,000 under the revolving credit agreement. The agreement contains provisions that require the maintenance of specified financial ratios, restrict transactions with related parties, prohibit mergers or consolidation, prohibit declaration of dividends, disallow additional debt, and limit the amount of compensation, salaries, investments, capital expenditures and leasing transactions. The Company is in compliance with all restrictive financial covenants. 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, 1997, 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		
	Feb. 28, 1997	Feb. 29, 1996	Feb. 28, 1995
Notes payable to bank:			
Largest amount borrowed	$5,850,000	$5,820,000	$1,000,000
Average amount borrowed	4,061,250	3,183,333	199,714
Weighted average interest rate	8.5%	9.4%	8.4%

6. 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 asset as of February 28, 1997 and February 29, 1996 are as follows:

	Feb. 28, 1997	Feb. 29, 1996
Deferred tax assets:		
Allowance for doubtful accounts	$ 35,200	$ 50,300
Inventories	118,000	118,000
Expenses deducted on the cash basis for income tax purposes	13,600	—
	166,800	168,300
Deferred tax liability - Property and equipment	(7,600)	--
Net deferred tax asset	$ 159,200	$ 168,300

Management has determined that no valuation allowance is necessary to reduce the value of 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		
	Feb. 28, 1997	Feb. 29, 1996	Feb. 28, 1995
Income tax expense on continuing operations:			
Current:			
Federal	$ 845,800	$ 916,300	$ 655,400
State	149,200	161,700	115,600
	995,000	1,078,000	771,000
Deferred:			
Federal	7,700	29,500	(62,100)
State	1,400	5,200	(10,900)
	9,100	34,700	(73,000)
	1,004,100	1,112,700	698,000
Income tax benefit on discontinued operations:			
From operations	--	(16,000)	(38,000)
Loss on disposal	--	(169,000)	--
Total income tax expense	$1,004,100	$ 927,700	$ 660,000

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

	Year Ended		
	Feb. 28, 1997	Feb. 29, 1996	Feb. 28, 1995
Tax expense at Federal statutory rate	$ 896,000	$ 992,000	$ 633,000
State income tax, net of Federal tax benefit	105,000	114,700	74,000
Other	3,100	6,000	(9,000)
	$ 1,004,100	$ 1,112,700	$ 698,000

7. 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 $31,457, $30,118, and $24,558 in fiscal years 1997, 1996, and 1995, respectively.

8. COMMITMENTS

The Company leases its office and warehouse facilities under a noncancelable operating lease which expires in February 1999. Future minimum rental commitments at February 28, 1997 are payable as follows:

Year	
1998	$ 225,960
1999	225,960
Total minimum lease payments	$ 451,920

Total rent expense was approximately $219,000, $185,000, and $119,000 for the fiscal years ended 1997, 1996, and 1995, respectively.

At February 28, 1997, the Company had outstanding commitments to purchase inventory from its primary vendor totaling approximately $1,072,000.

9. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

On December 20, 1995, the Company's Board of Directors declared a two-for-one split of the Company's common stock in the form of a stock dividend for shareholders of record as of April 1, 1996. On March 13, 1996, in a special meeting of the stockholders, an increase in the number of authorized shares from 3,000,000 to 6,000,000 was approved. A total of 2,699,120 shares of common stock were issued in connection with the split related to shares outstanding at February 29, 1996. The stated par value of each share was not changed from $.20. A total of $539,824 was reclassified from the Company's capital in excess of par value account to the Company's common stock account. Earnings per share, weighted average shares of common stock outstanding and the stock option information for all periods presented reflect the stock split.

In October 1981, the Board of Directors adopted an Incentive Stock Option Plan which expired in 1991; accordingly, no additional options will be granted under the 1981 Plan.

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

Options granted under either of the two Incentive Stock Option Plans, collectively the "Incentive Plan," are exercisable up to ten years from the date of grant. Options outstanding at February 28, 1997 expire in 2001 through 2006.

A summary of the status of the Company's Incentive Plan as of February 28, 1997, February 29, 1996 and February 28, 1995 and changes during the years ended on those dates is presented below:

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	206,000	$ 2.55	906,000	$ 1.00	780,000	$ 0.56
Granted	117,400	6.00	10,000	6.25	156,000	3.13
Exercised/Canceled	(13,600)	(4.01)	(710,000)	(0.62)	(30,000)	(0.73)
Outstanding at End of Year	309,800	$ 3.79	206,000	$ 2.55	906,000	$ 1.00

The following table summarizes information about stock options outstanding at February 28, 1997:

Range of Exercise Prices	Number Outstanding at February 28, 1997	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1.375-$1.50	84,000	6	$ 1.41
$3.13	106,000	7	3.13
$6.00-$6.25	119,800	9	6.02
	309,800	8	$ 3.79

All options outstanding are exercisable at February 28, 1997.

The Company applies Accounting Principals Board 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 of SFAS No. 123, the Company's net income and earnings per share for the year ended February 28, 1997 would have been reduced to the pro forma amounts indicated below:

	1997
Net earnings - as reported	$1,630,088
Net earnings - pro forma	$1,375,088
Earnings per share - as reported	$ 0.31
Earnings per share - pro forma	$ 0.26

The fair value of options granted under the Incentive Plan during the year ended February 28, 1997 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used: no dividend yield, expected volatility of 76%, risk free interest rate of 6% and expected lives of 4 years. The use of the fair value method of SFAS N0. 123 would not have had a significant impact on reported net earnings and earnings per share for the year ended February 29, 1996.

Of the 710,000 option shares exercised in fiscal 1996, 660,000 shares with a total option price of $368,173 were exercised by the transfer to the Company of 28,596 outstanding shares held by the option holders.

Additionally, at February 1992, options to purchase 80,000 shares of the Company's common stock were outstanding. These options were issued to directors and a stockholder who were not officers of the Company at exercise prices of $0.25-$.625. During August 1992, 40,000 of these options were exercised at an option price of $.625 per share, and the Company simultaneously reacquired the common stock issued at a net cost to the Company of $7,500. During February 1996, 20,000 of these options were exercised at an option price of $0.25. The remaining 20,000 of these options were exercised at an option price of $0.25 in March 1996.

10. SUPPLEMENTARY INFORMATION

The activity in the allowances for doubtful accounts receivable, sales returns and inventory valuation for each of the three years in the period ended February 28, 1997 is as follows:

Doubtful accounts receivable:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1995	$ 75,000	$ 58,000	$ (28,000)	$ 105,000
1996	105,000	60,000	(38,000)	127,000
1997	127,000	60,000	(95,100)	91,900

Sales returns:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1995	$ 66,000	$1,085,500	$(1,050,500)	$ 101,000
1996	101,000	1,190,900	(1,190,900)	101,000
1997	101,000	1,165,000	(1,165,000)	101,000

Inventory valuation:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1995	$183,000	$ 118,100	$ —	$ 301,100
1996	301,100	––	––	301,100
1997	301,100	––	––	301,100

Charges to certain expense accounts in continuing operations for each of the three years in the period ended February 28, 1997 are shown below:

	Year Ended		
	Feb. 28, 1997	Feb. 29, 1996	Feb. 28, 1995
Maintenance and repairs	$ 34,435	$ 48,199	$ 24,545
Taxes other than payroll and income taxes	20,805	12,143	10,553
Advertising costs	84,501	170,573	107,565

11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 1997 and February 29, 1996:

Year Ended February 28, 1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 5,685,100	$ 5,029,700	$ 6,279,200	$ 4,245,507
Gross Profit	$ 3,396,200	$ 3,001,700	$ 3,923,400	$ 2,522,147
Net Earnings	$ 303,100	$ 357,700	$ 655,100	$ 314,188
Earnings Per Share - Net Earnings	$ 0.06	$ 0.07	$ 0.12	$ 0.06

Year Ended February 29, 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 3,985,100	$ 4,711,200	$ 5,905,300	$4,651,867
Gross Profit	$ 2,299,300	$ 2,691,100	$ 3,546,400	$2,560,942
Earnings from Continuing Operations	$ 434,900	$ 549,700	$ 553,400	$ 267,335
Discontinued Operations, Net	(4,200)	(9,900)	(10,500)	(302,021)
Net Earnings (Loss)	$ 430,700	$ 539,800	$ 542,900	$ (34,686)
Earnings Per Share:				
Earnings fom Continuing Operations	$ 0.08	$ 0.10	$ 0.10	$ 0.06
Discontinued Operations	––	––	—	(0.06)
Net Earnings	$ 0.08	$ 0.10	$ 0.10	$ ––

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

W. Curtis Fossett
Controller and Corporate Secretary

CORPORATE DATA

Notice of Annual Meeting
July 24, 1997
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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