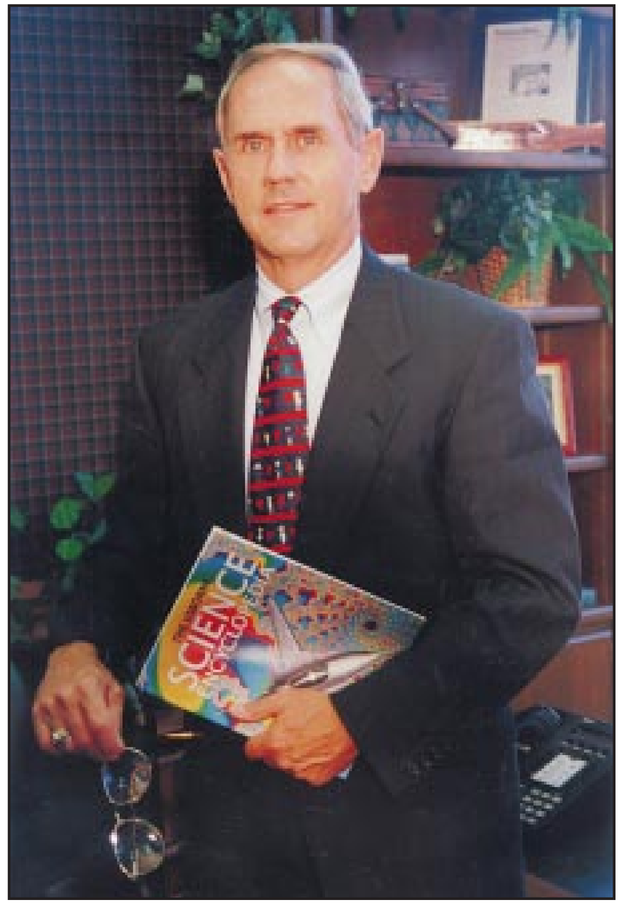
Dear Fellow Shareholders,

Fiscal Year 1998 was quite an eventful year at Educational Development Corporation. During the year we experienced a very nice increase in sales through our Publishing Division to retail outlets, but experienced a decline in sales through our Home Business Division. The decline in sales in the Home Business Division, over half of which was in the first quarter, was primarily due to a reduction in the compensation structure, which was not well received by the field sales force. The compensation structure was enhanced in June 1997 and the downturn was slowed. During February, March and April 1998, retail sales in the Home Business Division posted a gain over the previous year. The lower sales volume in fiscal year 1998 allowed the Company to effectively implement numerous cost saving programs during the year which resulted in improved profit margins. With the implementation of new technology and refinement of existing technology, the Company has made a dramatic improvement in operating efficiency while reducing our work force 35%. Today we have a state-of-the-art order processing and fulfillment system. Additional improvements and enhancements are scheduled for implementation during fiscal year 1999.

The improvement in operations is also reflected in our cash flow. Debt has been reduced to under $1,000,000, and we expect that to be liquidated during fiscal year 1999. Additionally, the Board of Directors approved an increase in the annual dividend to $0.02 per share to shareholders of record August 1, 1998.



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

The Company continues to be nationally recognized as a leader in the industry. In the November 3, 1997 issue of *Forbes*, we were ranked number 104 in their list of "the 200 Best Small Companies in America." *Wealth Building Magazine's* September/October 1997 issue included our Home Business Division as one of the 142 proven direct selling companies.

Due to the improved efficiency and profit margins, the Company implemented on May 1, 1998 an additional enhancement to the compensation program to accelerate growth in the Home Business Division. The new program creates an additional level of compensation and is designed to encourage participation at all levels of the organization. Initial response has been extremely encouraging and indicates a revitalization of the field sales force. The excitement and reception to the compensation program is a key factor in returning to our historic growth level.

Yes, it has been quite an eventful year at Educational Development Corporation. One that has instilled confidence in our operating capacity and our ability to achieve sales growth at historic levels.

Cordially yours,

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

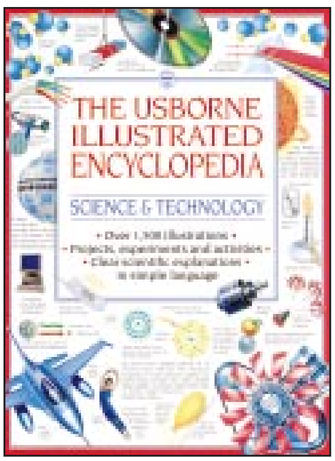
THE COMPANY

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 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 shows in individual homes and through book fairs, fund raisers and direct sales. This division also sells the books to school and public libraries. The Company's Publishing Division markets the books to retail book stores, toy stores, specialty stores and other retail outlets throughout the United States.

OUR PRODUCT LINE

USBORNE BOOKS



The principal product of the Company is a line of children's books produced in the United Kingdom by Usborne Publishing Limited. Usborne produces and distributes books in over 50 countries and in more than 50 languages. The Company is the United States distributor of these books and presently offers more than 900 different titles.

Usborne books are fascinating, lavishly illustrated books written with humor, surprise and drama. They incorporate activities and puzzles to challenge a child's observation skills and intelligence. Their superb printing quality 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. The books are printed on acid free paper.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 books have received numerous awards. ***The Great Animal Search*** was recently chosen by *Learning Magazine* for its Teachers' Choice Awards. "Dr. Toy's 100 Best Children's Products" Awards Program selected seven of our titles during 1997 in addition to twelve titles which they selected for their 1996 awards.

USBORNE KID KITS

The Usborne Kid Kits are currently available in 52 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 playtime, science, craft and hobby themes. They provide something for all age groups from toddlers to teens. All Kid Kits are attractively packaged in a reusable vinyl bag with handle and Velcro closure.

CD-ROMS AND PUZZLES

The Company offers several different CD-ROMS, such as Puzzle Castle, Frog Prince and Noah's Ark. Our product line also includes several jigsaw puzzles for children of all ages.

THE HOME BUSINESS DIVISION

Kathy Plecinski, Vice President
Usborne Books at Home

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

Usborne Books at Home was the first multilevel direct selling company in the United States to offer primarily nonfiction educational books for children. There are approximately 4,000 independent sales consultants selling our books in all fifty states. Seventy-six titles are exclusive to this Division. Consultants also market the rest of the Company's product line of books, Kid Kits, CD-ROMS and puzzles.

Fund raising is a major market in the United States. The Company recognized this as a viable market opportunity and developed a program to meet the criteria and requirements of this market. Consumers realize that prices reflect a large profit for the organization which is holding the fund raiser. The Usborne "Hotshots" series is the perfect fund raising product. The Company has put together a group of titles to appeal to all ages from preschool to adult. This is still a new market for the Company but Management believes it has great potential.

Usborne Books at Home will hold its second National Convention in July 1998. This three-day event will offer training and motivational sessions for the consultants in attendance. It is a great opportunity for consultants to meet their peers and exchange ideas. The Home Business Division also participates in many training seminars held throughout the country. Usborne Books at Home was featured in a recent issue of *Wealth Building Magazine* as one of the "142 Proven Direct Sales Firms." In the Spring of 1998, the Home Business Division was also featured in "Better Parenting," a nationally aired television program.

THE PUBLISHING DIVISION

The Publishing Division began in 1978 when the Company became the United States publisher of the Usborne line of children's books. This Division currently markets its products through commissioned sales representatives, trade and specialty wholesalers and our inside telesales group. Our inside sales staff has been recognized as one of the most successful in the publishing industry. The publication and distribution of the bi-annual catalog is the primary tool used to disseminate product information.

Recently the Division added a marketing assistant which has increased visibility through the systematic submission of new titles for literary reviews and free publicity.

The Publishing Division has approximately 12,000 retail accounts which range in category from book, school supply and museum to toy and gift. Many of the Company's titles are carried by large retail chains as well as smaller independent stores.

The Publishing Division continues to grow despite a downturn in juvenile paperback sales. Juvenile paperback sales for 1997 were down 18.6% while the Publishing Division's sales were up 9.4%. The increased focus on educational children's books as well as the growing home schooling market have contributed to growth in both the book and school supply markets. The Kid Kit product line has allowed the Publishing Division to gain market share in the gift, toy and museum areas. Improved marketing strategies combined with the influx of new books and Kid Kits should help the Publishing Division sustain healthy growth.

Kent D. Hughes, National Sales Manager - Publishing Division

OPERATIONS

Mike Puhl, Manager of Operations

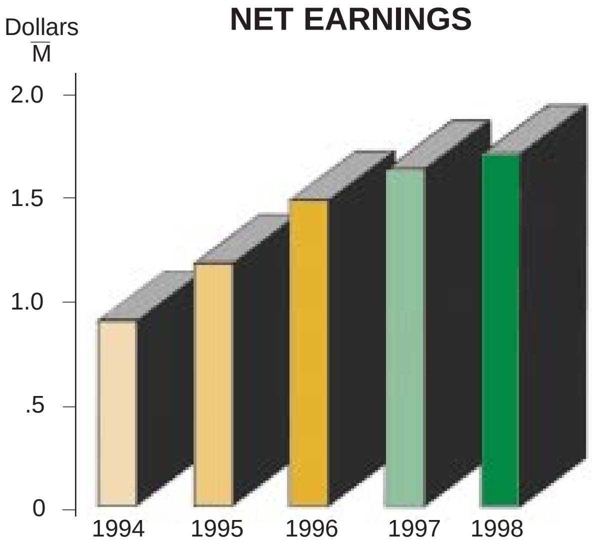
The Company's operations are located in Tulsa, Oklahoma. The Company leases approximately 9,000 square feet of office space and 71,000 square feet of adjoining warehouse space. At May 1, 1998 the Company had 75 full-time employees and 4 part-time employees.

There have been many significant improvements in operating efficiencies during fiscal year 1998. Orders for the Publishing Division can be submitted using Electronic Data Interchange ("EDI"). The Home Business Division offers a software program enabling consultants with personal computers to calculate their orders with ease and accuracy. A state-of-the-art flow rack distribution system in the warehouse combined with improved efficiencies in the order entry operations have enabled the Company to ship most orders the same day they are received. The parcel manifest system has recently been improved, utilizing bar coding on the packages, to further increase efficiency.

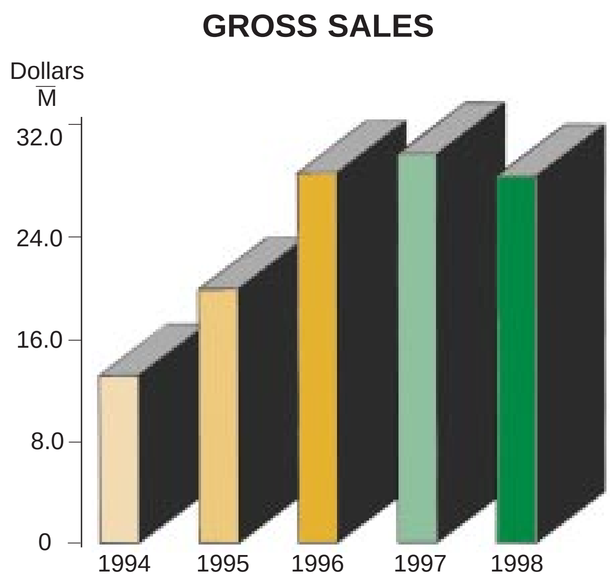
The Company is evaluating new systems in packaging to streamline the shipping process. Future plans include the use of EDI by the Home Business Division's consultants to submit orders.

General

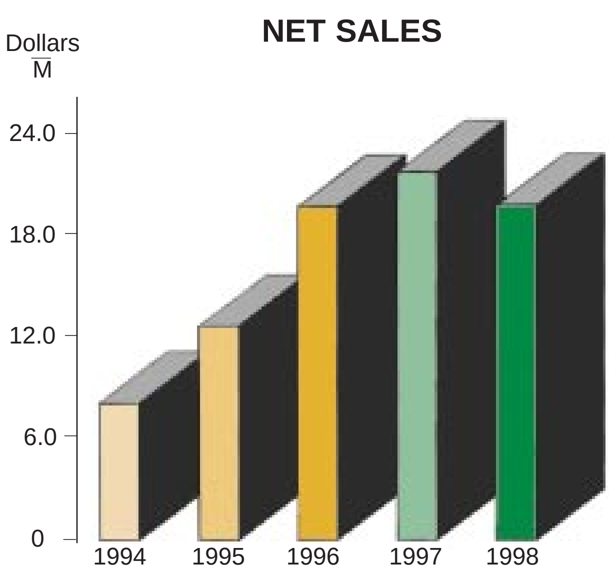
Certain statements contained in this Management's Discussion and Analysis are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate. Actual events and results may materially differ 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 $1,704,568 for fiscal year 1998 compared to $1,630,088 for fiscal year 1997, $1,478,714 for fiscal year 1996, $1,171,786 for fiscal year 1995 and $893,651 for fiscal year 1994.

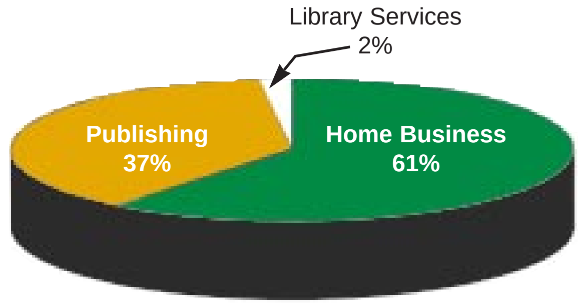


Gross sales for fiscal year 1998 were $29,764,345 compared to $31,547,007 in fiscal year 1997, $30,039,963 in fiscal year 1996, $20,616,152 in fiscal year 1995 and $13,586,636 in fiscal year 1994.



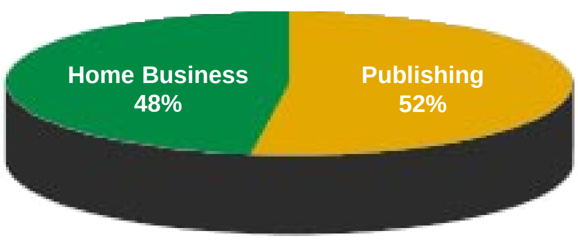
Net sales for fiscal year 1998 were $19,343,362 compared to $21,239,507 in fiscal year 1997, $19,253,467 in fiscal year 1996, $12,353,257 in fiscal year 1995, and $7,916,527 in fiscal year 1994.

1998 NET SALES BY DIVISION

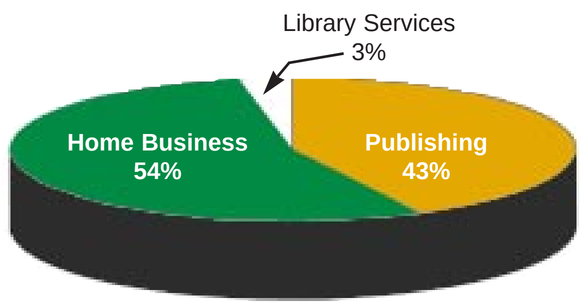


1997 NET SALES BY DIVISION

Net sales from the Company's Home Business Division were $10,739,300 in fiscal year 1998, compared to $12,932,200 in fiscal year 1997, and $9,516,000 in fiscal year 1996. Net sales from the Company's Publishing Division were $8,604,100 in fiscal year 1998, compared to $7,864,900 in fiscal year 1997, and $8,191,100 in fiscal year 1996. 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. In July, 1996 the Company transferred responsibility of sales to school and public libraries from the Library Division to the Home Business Division.



1998 OPERATING PROFIT



1997 OPERATING PROFIT

The Company’s cost of sales in fiscal year 1998 was $7,771,311 compared to $8,396,060 for fiscal year 1997 and $8,155,725 for fiscal year 1996. Cost of sales as a percentage of gross sales was 26.1% in fiscal year 1998 compared with 26.6% in fiscal year 1997 and 27.2% in fiscal year 1996. Cost of sales as a percentage of gross sales will fluctuate depending upon the product mix being sold.

Operating and selling expenses decreased 12.7% over the previous year. As a percentage of gross sales, these expenses were 11.4% in fiscal year 1998, 12.3% in fiscal year 1997 and 10.5% in fiscal year 1996. Reduced sales incentives and credit card fees in the Home Business Division contributed to the decrease in operating and selling expenses.

Sales commissions decreased 19.2% 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 a higher commission structure and this Division’s lower sales resulted in the decrease in commission expense. As a percentage of gross sales, commission expenses were 12.8%, 14.9% and 12.7% for fiscal years 1998, 1997 and 1996, respectively.

General and administrative expenses increased 17.4% in fiscal year 1998 over fiscal year 1997. Increased payroll and benefit costs 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 decreased 54.7% in fiscal year 1998 versus fiscal year 1997. This decrease was due primarily to decreased borrowing levels throughout fiscal year 1998.

FINANCIAL POSITION

W. Curtis Fossett
Controller & Corporate Secretary

Working capital increased 28.8% to $9.6 million at fiscal year end 1998 over fiscal year end 1997. Reductions in payables and short-term bank debt and an increase in inventories were the main 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 1999 and to have increased working capital at fiscal year end 1999.

Management believes the Company's liquidity at February 28, 1998 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 1999. Capital expenditures are expected to be less than $750,000 in fiscal year 1999. 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, 1997 the Company signed a First Amendment to Restated 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, 1998. The note bears interest at the Wall Street Journal prime floating rate payable monthly (8.50% at February 28, 1998). The note is collateralized by substantially all of the assets of the Company. At February 28, 1998, the Company had available $2,624,000 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, 1998. The Company believes its borrowing capacity under this line to be adequate for the next several years.

The Company generated cash from operating activities during fiscal year 1998. Accounts receivable increased slightly in fiscal year 1998, the result of increased sales in the Publishing Division. The Company continued its emphasis on collection efforts and tightening of credit controls. The Company plans to continue to maximize its collection efforts in order to maintain cash flows.

Inventories experienced a small increase during fiscal year 1998. This is the result of adding approximately 30 new titles and also adding new components for several new Kid Kits. The Company continues to monitor its inventory levels to ensure that adequate levels are 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 will increase moderately each year as new titles are added to the product line.

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

Other current liabilities decreased in fiscal year 1998 as a direct result of product which was shipped during fiscal year 1998 but for which payment was received in fiscal year 1997. The revenue for these products was recognized in fiscal year 1998 when the product was shipped.

Cash used in investing activities during fiscal year 1998 was primarily for additional computer equipment.

The Company was able to pay down the bank promissory note during fiscal year 1998 due to improved cash flows during the year.

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, 1998 and 1997, and the related statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended February 28, 1998. 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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 1998 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

May 8, 1998
Tulsa, Oklahoma

EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
FEBRUARY 28, 1998 AND 1997

	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 171,549	$ 82,153
Accounts receivable, less allowances for doubtful accounts and sales returns	2,128,012	2,032,688
Inventories - Net	10,402,230	10,048,457
Prepaid expenses and other assets	95,679	70,301
Income taxes receivable	51,092	124,092
Deferred income taxes	153,300	159,200
Total current assets	13,001,862	12,516,891
PROPERTY AND EQUIPMENT - Net	595,638	848,478
	$13,597,500	$ 13,365,369
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable to bank	$ 876,000	$ 2,010,000
Accounts payable	2,096,770	2,305,067
Accrued salaries and commissions	259,760	214,198
Other current liabilities	203,765	563,059
Total current liabilities	3,436,295	5,092,324
DEFERRED INCOME TAXES	95,000	–
SHAREHOLDERS' EQUITY:		
Common stock, $0.20 par value; Authorized 6,000,000 shares; Issued 5,424,240 shares; Outstanding 5,232,138 (1998) and 5,200,697 (1997) shares	1,084,848	1,084,848
Capital in excess of par value	4,403,566	4,403,242
Retained earnings	5,070,823	3,418,431
	10,559,237	8,906,521
Less treasury stock, at cost	(493,032)	(633,476)
	10,066,205	8,273,045
	$13,597,500	$13,365,369

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF EARNINGS

YEARS ENDED FEBRUARY 28, 1998 AND 1997, AND FEBRUARY 29, 1996

	1998	1997	1996
GROSS SALES	$ 29,764,345	$ 31,547,007	$ 30,039,963
Less discounts and allowances	(10,420,983)	(10,307,500)	(10,786,496)
Net sales	19,343,362	21,239,507	19,253,467
COST OF SALES	7,771,311	8,396,060	8,155,725
Gross margin	11,572,051	12,843,447	11,097,742
OPERATING EXPENSES:			
Operating and selling	3,389,317	3,883,438	3,138,851
Sales commissions	3,797,145	4,699,279	3,824,500
General and administrative	1,543,348	1,315,012	920,786
Interest	156,149	344,966	297,849
	8,885,959	10,242,695	8,181,986
OTHER INCOME	127,376	33,436	2,279
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,813,468	2,634,188	2,918,035
INCOME TAXES	1,108,900	1,004,100	1,112,700
EARNINGS FROM CONTINUING OPERATIONS	1,704,568	1,630,088	1,805,335
DISCONTINUED OPERATIONS, NET OF TAX:			
Loss from operations	–	–	(25,637)
Loss on disposal	–	–	(300,984)
	–	–	(326,621)
NET EARNINGS	$ 1,704,568	$ 1,630,088	$ 1,478,714
BASIC AND DILUTED EARNINGS PER SHARE:			
Basic:			
Earnings from continuing operations	$ 0.33	$ 0.31	$ 0.40
Discontinued operations	–	–	(0.07)
Net earnings	$ 0.33	$ 0.31	$ 0.33
Diluted:			
Earnings from continuing operations	$ 0.32	$ 0.31	$ 0.34
Discontinued operations	–	–	(0.06)
Net earnings	$ 0.32	$ 0.31	$ 0.28
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:			
Basic	5,216,076	5,214,264	4,553,658
Diluted	5,338,188	5,353,938	5,338,834

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 1998 AND 1997, AND FEBRUARY 29, 1996

	Common Stock (par value $.20 per share)				Treasury Stock		
	Number of Shares Issued	Amount	Capital in Excess of Par Value	Retained Earnings	Number of Shares	Amount	Share-holders' Equity
BALANCE, MARCH 1, 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
Issuance of treasury stock	–	–	324	–	(700)	2,069	2,393
Purchase of treasury stock	–	–	–	–	15,900	(85,364)	(85,364)
Sales of treasury stock	–	–	–	–	(46,641)	223,739	223,739
Dividends paid	–	–	–	(52,176)	–	–	(52,176)
Net earnings	–	–	–	1,704,568	–	–	1,704,568
BALANCE, FEBRUARY 28, 1998	5,424,240	$ 1,084,848	$ 4,403,566	$ 5,070,823	192,102	$ (493,032)	$10,066,205

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28, 1998 AND 1997, AND FEBRUARY 29, 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 1,704,568	$ 1,630,088	$ 1,478,714
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	296,803	252,113	126,697
Deferred income taxes	100,900	9,100	88,700
Provision for doubtful accounts and sales returns	862,900	1,225,000	1,250,900
Recovery of obsolete inventory reserve	(150,913)	–	–
Stock issued for awards	2,393	4,251	–
Changes in assets and liabilities:			
Accounts and income taxes receivable	(885,224)	(273,973)	(2,450,713)
Inventories	(202,860)	1,951,416	(5,106,474)
Prepaid expenses and other assets	(25,378)	44,462	(36,815)
Accounts payable and accrued expenses	(522,029)	(787,856)	320,979
Total adjustments	(523,408)	2,424,513	(5,806,726)
Net cash provided by (used in) operating activities	1,181,160	4,054,601	(4,328,012)
CASH FLOWS FROM INVESTING ACTIVITIES -			
Purchases of property and equipment	(43,963)	(275,639)	(577,847)
Net cash used in investing activities	(43,963)	(275,639)	(577,847)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	8,484,900	7,130,000	11,820,000
Payments under revolving credit agreement	(9,618,900)	(10,940,000)	(7,000,000)
Principal payments on capital lease obligations	–	–	(7,673)
Cash received from exercise of stock options	–	14,000	64,952
Cash received from sale of stock	223,739	125,958	70,493
Cash paid to acquire treasury stock	(85,364)	(242,730)	(154,875)
Dividends paid	(52,176)	–	–
Net cash provided by (used in) financing activities	(1,047,801)	(3,912,772)	4,792,897
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	89,396	(133,810)	(112,962)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,153	215,963	328,925
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 171,549	$ 82,153	$ 215,963
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 164,519	$ 368,051	$ 264,462
Cash paid for income taxes	$ 935,000	$ 766,769	$ 1,259,022

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 1998 AND 1997, AND FEBRUARY 29, 1996

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 was 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. Estimated useful lives range from two to five years.

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

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

Advertising Costs - The Company expenses advertising costs as incurred.

Earnings Per Share - Earnings per share are computed using the weighted average number of common shares outstanding during the year. The Company has applied the provisions of Statement of Financial Accounting Standards No. 128 "Earnings Per Share" to all periods presented.

The following reconciles the diluted earnings per share:

	Year Ended		
	February 28, 1998	**February 28, 1997**	**February 29, 1996**
Diluted Earnings Per Share:			
Net earnings applicable to common shareholders and assumed conversions	$ 1,704,568	$ 1,630,088	$ 1,478,714
Shares:			
Weighted average shares outstanding - Basic	5,216,076	5,214,264	4,553,658
Assumed exercise of options	122,112	139,674	785,176
	5,338,188	5,353,938	5,338,834
Diluted earnings per share:			
Earnings from continuing operations	$ 0.32	$ 0.31	$ 0.34
Discontinued operations	$ –	$ –	$ (0.06)
Net earnings	$ 0.32	$ 0.31	$ 0.28

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 - The Company reviews the value of long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future cash flows.

Stock-Based Compensation - The Company has adopted the disclosure standards of Statement of Financial Accounting Standards ("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 in accounting for its stock-based employee compensation arrangements.

New Accounting Standards - The Company plans to adopt the provisions of SFAS No. 130, "Reporting Comprehensive Income" in its 1999 fiscal year. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The Company currently does not have any items of other comprehensive income.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was issued in June, 1997. This statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131, effective for fiscal years beginning after December 15, 1997, requires comparative information for previous years to be restated to comply with SFAS No. 131's reporting requirements. The Company currently does not expect adoption of this statement to have a material effect on financial statement presentation or related footnote disclosures.

Reclassifications - Reclassifications were made to certain 1996 and 1997 balances to conform with the 1998 presentation.

2. DISCONTINUED OPERATIONS

Effective February 29, 1996, the Company discontinued its School Division. Accordingly, the operating results of the School Division, which were not material, are segregated and reported as discontinued operations in the accompanying statement of earnings for the year ended February 29, 1996.

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:

	February 28, 1998	February 28, 1997
Book inventory	$ 10,552,417	$ 10,349,557
Reserve for obsolescence	(150,187)	(301,100)
	$ 10,402,230	$ 10,048,457

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	February 28, 1998	February 28, 1997
Computer equipment	$ 777,699	$ 757,982
Warehouse and office equipment	441,954	438,325
Furniture, fixtures and other	101,335	98,065
	1,320,988	1,294,372
Less accumulated depreciation and amortization	(725,350)	(445,894)
	$ 595,638	$ 848,478

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 $296,803, $252,113, and $126,697 for the fiscal years ended February 28, 1998, 1997, and February 29, 1996, respectively.

5. NOTE PAYABLE

At February 28, 1998 and 1997, the note payable to bank was under a $3,500,000 and $9,000,000 revolving credit agreement, respectively, with interest payable monthly at prime (8.50% and 8.25% at February 28, 1998 and 1997, respectively), collateralized by substantially all assets of the Company. The revolving credit agreement matures on June 30, 1998. At February 28, 1998, the Company had available credit of $2,624,000 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 or has obtained waivers for all restrictive 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, 1998, the highest amount of short-term borrowings, the average amount of borrowings under these short-term notes, and the weighted average interest rates are as follows:

	Year Ended February 28, 1998	Year Ended February 28, 1997	Year Ended February 29, 1996
Note payable to bank:			
Largest amount borrowed	$2,860,000	$5,850,000	$5,820,000
Average amount borrowed	1,766,813	4,061,250	3,183,333
Weighted average interest rate	8.5 %	8.5 %	9.4 %

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 assets and liabilities as of February 28, 1998 and 1997 are as follows:

	February 28, 1998	February 28, 1997
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	$ 55,300	$ 35,200
Inventories	59,500	118,000
Expenses deducted on the cash basis for income tax purposes	23,400	13,600
Change in accounting method	15,100	–
	153,300	166,800
Deferred tax liability -		
Property and equipment	–	(7,600)
Net deferred tax asset	$ 153,300	$ 159,200
Noncurrent:		
Deferred tax asset -		
Change in accounting method	$ 15,100	$ –
Deferred tax liability -		
Property and equipment	(110,100)	–
Net deferred tax liability	$ (95,000)	$ –

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 February 28, 1998	Year Ended February 28, 1997	Year Ended February 29, 1996
Income tax expense on continuing operations:			
Current:			
Federal	$ 856,900	$ 845,800	$ 916,300
State	151,100	149,200	161,700
	1,008,000	995,000	1,078,000
Deferred:			
Federal	85,800	7,700	29,500
State	15,100	1,400	5,200
	100,900	9,100	34,700
	1,108,900	1,004,100	1,112,700
Income tax benefit on discontinued operations:			
From operations	–	–	(16,000)
Loss on disposal	–	–	(169,000)
Total income tax expense	$ 1,108,900	$ 1,004,100	$ 927,700

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

	Year Ended		
	February 28, 1998	**February 28, 1997**	**February 29, 1996**
Tax expense at Federal statutory rate	$ 957,000	$ 896,000	$ 992,000
State income tax, net of Federal tax benefit	116,000	105,000	114,700
Other	35,900	3,100	6,000
	$1,108,900	$ 1,004,100	$ 1,112,700

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 $27,113, $31,457, and $30,118 in fiscal years 1998, 1997, and 1996, 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 of $225,960 at February 28, 1998 are payable during the year ended February 28, 1999.

Total rent expense was approximately $225,960, $219,000, and $185,000 for the fiscal years ended 1998, 1997, and 1996, respectively.

At February 28, 1998, the Company had outstanding commitments to purchase inventory from its primary vendor totaling approximately $1,860,000.

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 $0.20. 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.

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, 1998 expire in 2003 through 2007.

A summary of the status of the Company's Incentive Plan as of February 28, 1998, February 28, 1997, and February 29, 1996 and changes during the years ended on those dates is presented below:

	1998		1997		1996	
	Shares	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at Beginning of Year	309,800	$3.79	206,000	$2.55	906,000	$1.00
Granted	140,600	4.03	117,400	6.00	10,000	6.25
Exercised/Canceled	(121,900)	(6.02)	(13,600)	(4.01)	(710,000)	(0.62)
Outstanding at End of Year	328,500	$3.06	309,800	$3.79	206,000	$2.55

The following table summarizes information about stock options outstanding at February 28, 1998:

Range of Exercise Prices	**Number Outstanding at February 28, 1998**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$1.375-$1.50	84,000	5	$1.41
$3.13	106,000	6	3.13
$4.00	138,500	9	4.00
	328,500	8	$3.06

All options outstanding are exercisable at February 28, 1998.

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 earnings and earnings per share for the years ended February 28, 1998 and 1997 would have been reduced to the pro forma amounts indicated below:

	1998	**1997**
Net earnings - as reported	$ 1,704,568	$ 1,630,088
Net earnings - pro forma	$ 1,636,618	$ 1,375,088
Earnings per share - as reported:		
Basic	$ 0.33	$ 0.31
Diluted	$ 0.32	$ 0.31
Earnings per share - pro forma:		
Basic	$ 0.31	$ 0.26
Diluted	$ 0.31	$ 0.26

The fair value of options granted under the Incentive Plan were estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for options granted in fiscal 1998: no dividend yield, expected volatility of 54%, risk free interest rate of 6.2% and expected lives of four years. The following weighted average assumptions were used in fiscal 1997: no dividend yield, expected volatility of 76%, risk free interest rate of 6% and expected lives of four years. The use of the fair value method of SFAS No. 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-$0.625. During August 1992, 40,000 of these options were exercised at an option price of $0.625 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, 1998 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
1996	$ 105,000	$ 60,000	$ (38,000)	$ 127,000
1997	127,000	60,000	(95,100)	91,900
1998	91,900	60,000	(10,200)	141,700

Sales returns:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1996	$ 101,000	$1,190,900	$(1,190,900)	$ 101,000
1997	101,000	1,165,000	(1,165,000)	101,000
1998	101,000	802,900	(802,900)	101,000

Inventory valuation:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1996	$ 301,100	$ –	$ –	$ 301,100
1997	301,100	–	–	301,100
1998	301,100	–	150,913	150,187

Charges to certain expense accounts in continuing operations for each of the three years in the period ended February 28, 1998 are shown below:

	Year Ended February 28, 1998	Year Ended February 28, 1997	Year Ended February 29, 1996
Maintenance and repairs	$30,919	$34,435	$48,199
Taxes other than payroll and income taxes	30,093	20,805	12,143
Advertising costs	83,865	84,501	170,573

11. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 1998 and 1997:

Year Ended February 28, 1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$4,660,400	$5,266,600	$5,559,100	$3,857,262
Gross Profit	$2,794,500	$3,021,600	$3,395,700	$2,360,251
Net Earnings	$ 463,900	$ 480,800	$ 561,000	$ 198,868
Earnings Per Share:				
Basic	$ 0.09	$ 0.09	$ 0.11	$ 0.04
Diluted	$ 0.09	$ 0.09	$ 0.10	$ 0.04
Weighted Average Number of Common and Common Equivalent Shares Outstanding:				
Basic	5,199,050	5,216,942	5,223,942	5,224,373
Diluted	5,311,310	5,336,927	5,363,886	5,340,628

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:				
Basic	$ 0.06	$ 0.07	$ 0.13	$ 0.06
Diluted	$ 0.06	$ 0.07	$ 0.12	$ 0.06
Weighted Average Number of Common and Common Equivalent Shares Outstanding:				
Basic	5,217,967	5,221,631	5,218,208	5,199,251
Diluted	5,373,763	5,354,880	5,344,697	5,342,411

* * * * * *

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 23, 1998
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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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