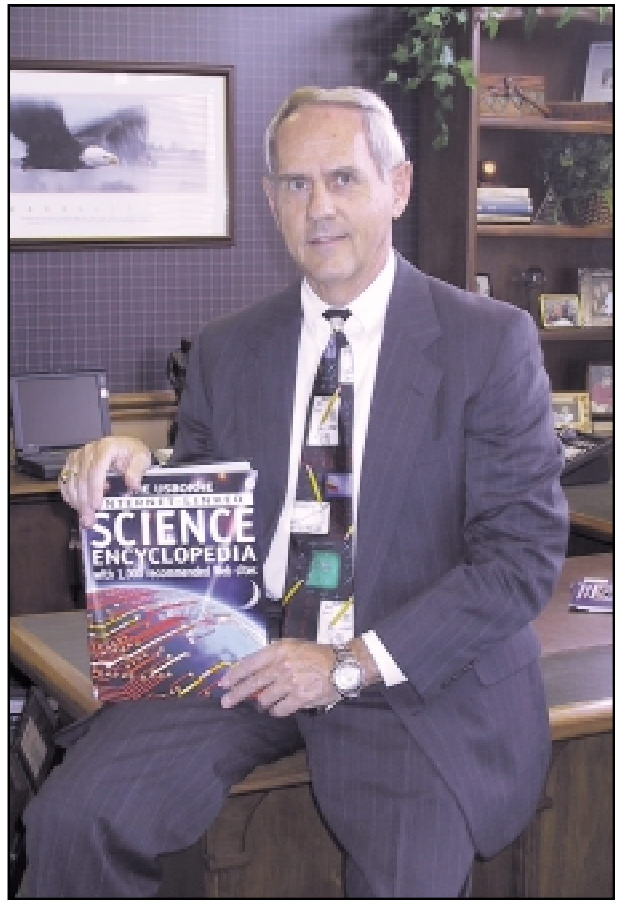
Dear Stockholders and Friends,

Fiscal year 2002 was a very successful year for the Company, a year in which we set many records. Highlights of the year include:

- Revenues increased 17% to $20.6 million
- A record $0.38 earnings per share
- Our stock price doubled during the year, closing at $6.81 at February 28, 2002 versus $3.38 at February 28, 2001
- Home Business Division concluded its most successful year in history, posting record net sales of $13.2 million
- Publishing Division recorded a slight increase in net sales, reversing a three year 15% decline in net sales
- The Company is debt free for the first time in over 20 years
- In January, we purchased for $1.8 million the 80,400 square foot office and warehouse facility in Tulsa, Oklahoma that we occupy, funding the purchase from cash reserves



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

Last year we introduced "The Next Usborne Revolution," non-fiction for the Internet generations, with links to 1,000 fascinating web sites and it was a smashing success. Other publishers are scrambling to catch up, however, we are on the leading edge of educational publishing.

Fiscal year 2003 began with a record setting March as we recorded net sales of $2.0 million, the highest March net sales in our Company's history. In April, we were listed by the Motley Fool (Fool.com) as one of its "Top Under $10 in 2002" stocks. We have already seen an impact as the volume of shares traded the last few weeks has increased significantly.

We are very excited about the future prospects of our Company. We have an excellent product line and the infrastructure in place to handle future sales growth. We are very optimistic about continuing to grow and to enhance shareholder value. We believe that fiscal year 2003 will be the best year in our history.

Cordially yours,

Randall W. White

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

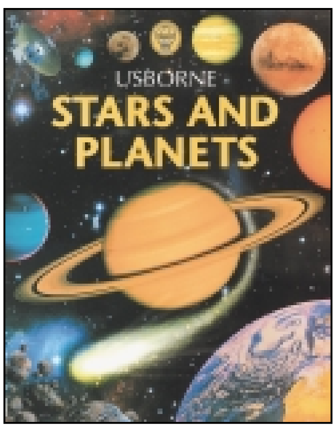
THE COMPANY

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 children's books. The Home Business Division was started during 1989.

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

OUR PRODUCT LINE

USBORNE BOOKS



The principal product of the Company is a line of children's books produced in the United Kingdom by Usborne Publishing Limited. Usborne produces and distributes books in over 85 countries and in more than 70 languages. The Company is the United States trade publisher of these books and presently offers more than 1,100 different titles.

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

USBORNE KID KITS

The Usborne Kid Kits are currently available in 70 different titles, with more in the planning stages. Each Kid Kit highlights an Usborne book by teaming it with specially selected age-appropriate items and/or toys which complement the information contained in the book, thereby reinforcing a child's overall learning experience. Kid Kits are available in a variety of themes including playtime, science, craft and hobby. They provide something for age groups from toddlers to teens. All Kid Kits are attractively packaged in a reusable vinyl bag with handle and Velcro closure. In addition, 18 of these kits are alternatively available in an attractive box package with the book title visible in the box window.

THE HOME BUSINESS DIVISION

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

Kathy Slemp
Vice President
Usborne Books at Home

UBAH was the first multilevel direct selling company in the United States to offer primarily nonfiction educational books for children. There are approximately 5,600 independent sales consultants selling our books in all fifty states. This Division offers the entire Company line of products, including approximately 15% of the line which is exclusive to the Division.

UBAH will hold its Sixth National Convention in June 2002 in Tulsa, Oklahoma. This two-day event will offer training and motivational sessions for the consultants in attendance. It provides an excellent opportunity for consultants to meet their peers and exchange ideas. UBAH provides leadership training for future supervisors to assist them in growing their business and that of their downline. The Recruiting Incentives Program was redesigned in September and has proven to be a success. Recent incentive trips have included Alaska and Costa Rica.

UBAH continues to strive for excellence and creativity in training, recognition and incentive programs in order to sustain the Division's growth.

THE PUBLISHING DIVISION

The Publishing Division began in 1978 when the Company became the United States publisher of the Usborne line of children's books. Today, the Publishing Division serves more than 9,000 clients and utilizes a variety of marketing procedures to insure that our customers' needs are effectively met.

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

Ronald T. McDaniel
National Sales Manager
Publishing Division

Sales to the national chains continues to be of major importance to the Publishing Division. To insure that the Company successfully participates in their growth, we have greatly accelerated our cooperative advertising and other special promotional programs. These activities have already strengthened our relationship with the national chains and we anticipate further positive development in this important area.

Michael L. Puhl
Vice President
Operations

Craig M. White
Vice President
Information Systems

OPERATIONS AND INFORMATION SYSTEMS

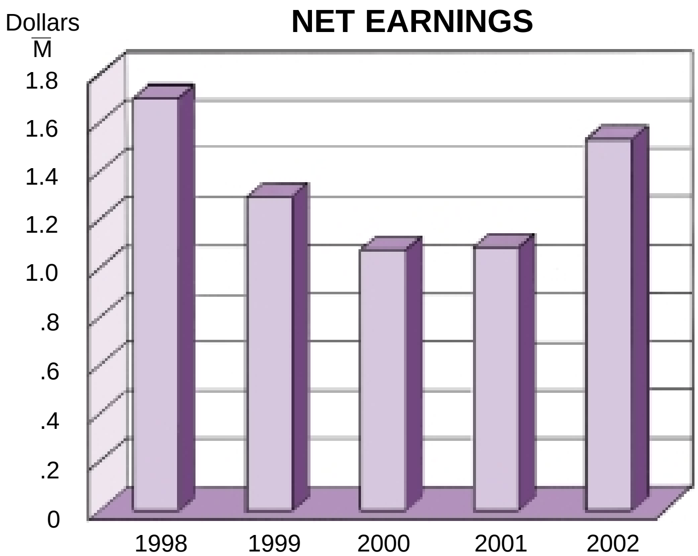
The Company's operations are located in Tulsa, Oklahoma. In January 2002, the Company purchased the facility which previously was leased. This facility contains approximately 9,000 square feet of office space and 71,400 square feet of adjoining warehouse space. At April 1, 2002, the Company had 65 full-time employees and 1 part-time employee.

In-house operations continue to be one of the strengths of EDC's operations. With over 95% of all orders shipped the same day they are received, and with a 98% fill rate, we remain the leader in product delivery in our industry. In an effort to remain the leader, technological improvements continued to be the main focus of the operations staff in fiscal year 2002. We offer personalized web sites for our Usborne Books At Home consultants. These web sites allow individual customers to purchase our products through the Internet in a way which is beneficial to both the individual consultant and the Company. The web sites use a shopping cart arrangement that allows the customer to easily purchase any item in our online catalog. There are over 2,400 of these web sites in current use.

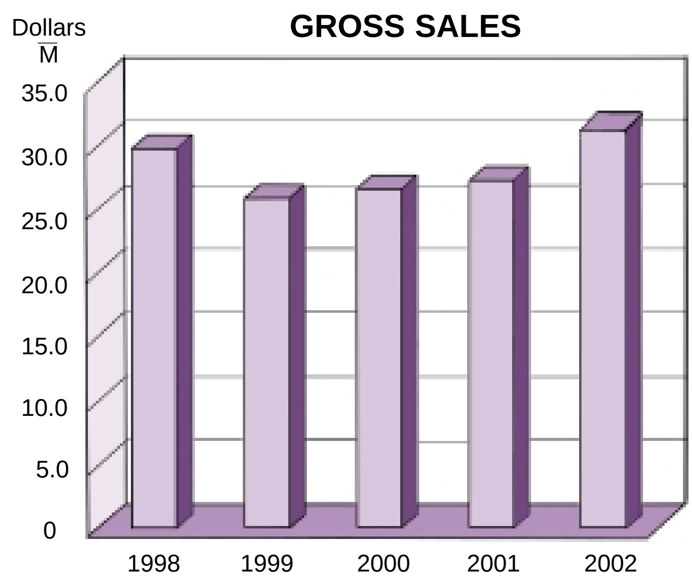
The consultant web sites allow E-shows and E-bookfairs. These features allow an expanded audience to participate in our regular sales routes of homeshows and school bookfairs. The consultant base is extremely enthused with these innovations, and we will continue to work towards methods which make their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

General

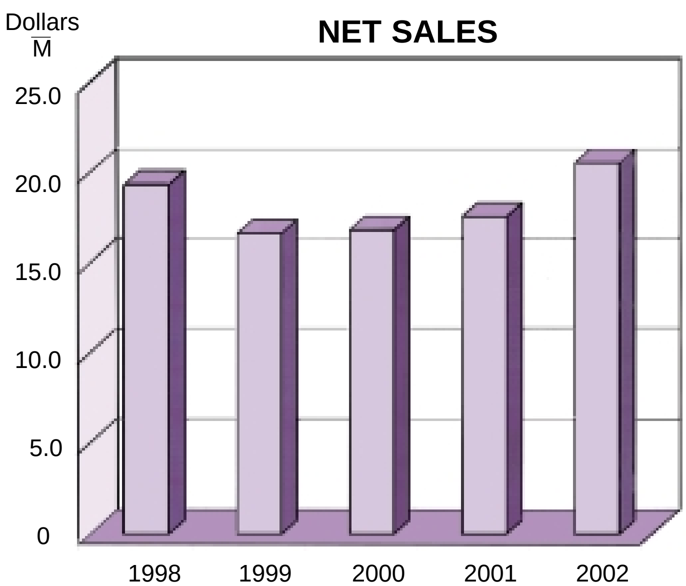
Certain statements contained in this Management's Discussion and Analysis are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate. Actual events and results may be materially different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



EDC had net earnings of $1,531,274 for fiscal year 2002 compared to $1,090,262 for fiscal year 2001, $1,079,028 for fiscal year 2000, $1,297,493 for fiscal year 1999, and $1,704,568 for fiscal year 1998.



Gross sales for fiscal year 2002 were $30,457,695 compared to $27,260,879 in fiscal year 2001, $26,613,943 in fiscal year 2000, $25,889,212 in fiscal year 1999, and $29,764,345 in fiscal year 1998.



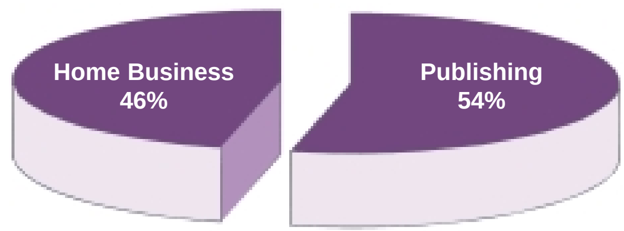
Net sales for fiscal year 2002 were $20,554,451 compared to $17,596,848 for fiscal year 2001, $16,851,261 for fiscal year 2000, $16,671,385 in fiscal year 1999, and $19,343,362 in fiscal year 1998.

2002 NET SALES BY DIVISION

2001 NET SALES BY DIVISION

Net sales from the Company's Home Business Division were $13,192,119 in fiscal year 2002 compared to $10,243,098 in fiscal year 2001, and $8,890,370 in fiscal year 2000. Net sales from the Company's Publishing Division were $7,362,332 in fiscal year 2002 compared to $7,353,750 in fiscal year 2001, and $7,960,891 in fiscal year 2000.

2002 OPERATING PROFIT



2001 OPERATING PROFIT

The Company's cost of sales in fiscal year 2002 was $8,121,522 compared with $7,287,920 in fiscal year 2001 and $6,984,387 in fiscal year 2000. Cost of sales as a percentage of gross sales was 26.7% for both fiscal years 2002 and 2001 and was 26.2% for fiscal year 2000. Cost of sales as a percentage of gross sales will fluctuate depending upon the product mix being sold.

Operating and selling expenses increased 12.8% during fiscal year 2002 when compared with fiscal year 2001. As a percentage of gross sales, these costs were 12.2% for fiscal year 2002 and 12.1% for fiscal year 2001. Contributing to the increase in operating and selling expenses were increased payroll costs and higher freight costs. Increased credit card costs and increased marketing costs in the Home Business Division, the result of increased sales, also contributed to the increase.

Sales commissions increased 30.0% during fiscal year 2002 when compared with fiscal year 2001. As a percentage of gross sales, these costs were 16.0% in fiscal year 2002 and 13.7% in fiscal year 2001. Sales commissions as a percentage of gross sales is determined by the product mix sold and the division that makes the sale. Commission expense in the Publishing Division remained unchanged between fiscal years 2002 and 2001. Commission expense in the Home Business Division increased 30.9%, the result of increased sales and the higher commission structure in the Home Business Division.

General and administrative expenses increased 2.2% in fiscal year 2002 versus fiscal year 2001. As a percentage of gross sales, these expenses were 4.8% in fiscal year 2002 and 5.3% in fiscal year 2001. An increase in materials and supplies contributed to the increase in general and administrative expenses.

Interest expense declined 80.6% in fiscal year 2002 when compared with fiscal year 2001. As a percentage of gross sales, interest expense was 0.07% in fiscal year 2002 and 0.4% in fiscal year 2001. The Company's note payable to the bank was paid off August 29, 2001. This along with lower borrowings during the first six months of fiscal year 2002 and lower interest rates contributed to lower interest expense in fiscal year 2002.

FINANCIAL POSITION

Working capital was $7.5 million for fiscal year end 2002 and $8.1 million at fiscal year end 2001. The net effect of a decrease in inventory, an increase in accounts payable and the elimination of short term bank debt resulted in a decrease in working capital at fiscal year end 2002. Management expects its financial position to remain strong and to increase working capital during the next fiscal year.

Management believes the Company's liquidity at February 28, 2002 is adequate. There are no known demands, commitments, events or uncertainties that would result in a material change in the Company's liquidity during fiscal year 2003. Capital expenditures are expected to be less than $750,000 during fiscal year 2003. These expenditures would consist primarily of software and hardware enhancements to the Company's existing data processing equipment, property improvements and additions to equipment in the warehouse.

W. Curtis Fossett
Controller & Corporate Secretary

Effective June 30, 2001 the Company signed a Second Amendment to the Credit and Security Agreement with State Bank which provides a $3,500,000 line of credit. The line of credit is evidenced by a promissory note in the amount of $3,500,000 payable June 30, 2002. The note bears interest at the Wall Street Journal prime floating rate minus 0.25% payable monthly (4.50% at February 28, 2002). The note is collateralized by substantially all of the assets of the Company. At February 28, 2002, the Company had no borrowings outstanding. Available credit under the revolving credit agreement was $3,500,000 at February 28, 2002.

The Company obtained and uses the credit facility to fund routine operations. Payments are made from current cash flows. The Company plans to renew this facility when it matures on June 30, 2002. The Company believes its borrowing capacity under this line to be adequate for anticipated operating levels.

The Company generated cash from operating activities during fiscal year 2002. Accounts receivable increased during the year as several large orders in the Publishing Division were received in January and February, and the Publishing Division offered special dating terms during the 4th quarter with payment due during the 1st quarter of fiscal year 2003.

Inventory levels declined 11.2% from fiscal year end 2001 to fiscal year end 2002, the result of the timing of deliveries from the Company's principal supplier. The Company continues to monitor inventory levels to ensure that adequate inventory is on hand to support sales as well as to meet the six to eight month resupply requirements of its principal supplier.

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

Cash used in investing activities during fiscal year 2002 was primarily for the acquisition of the Company's office and warehouse facility which previously had been leased. The Company did not incur any debt in this purchase but used cash reserves generated by the increased sales in the Home Business Division.

The short-term bank loan was paid off in August, 2001, using cash generated by increased sales in the Home Business Division.

During the year the Company continued the stock buyback program by purchasing 139,603 shares of its common stock at a cost of $634,752. In addition, the Company paid a dividend of $0.04 per share or $154,175 during the fiscal 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 (the "Company") as of February 28, 2002 and 2001, and the related statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended February 28, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at February 28, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 2002 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 1, 2002

EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
FEBRUARY 28, 2002 AND 2001

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 906,889	$ 268,271
Accounts receivable, less allowances for doubtful accounts and sales returns $184,076 (2002) and $224,346 (2001)	2,040,423	1,478,355
Income tax receivable	-	72,697
Inventories - Net	8,291,950	9,211,942
Prepaid expenses and other assets	218,341	247,126
Deferred income taxes	120,700	97,800
Total current assets	11,578,303	11,376,191
INVENTORIES - Net	683,880	1,004,980
PROPERTY, PLANT AND EQUIPMENT - Net	1,907,615	84,179
	$ 14,169,798	$ 12,465,350

LIABILITIES AND SHAREHOLDERS' EQUITY	2002	2001
CURRENT LIABILITIES:		
Note payable to bank	$ -	$ 1,084,000
Accounts payable	3,380,102	1,703,151
Accrued salaries and commissions	352,756	325,661
Other current liabilities	244,846	118,711
Income tax payable	63,753	-
Total current liabilities	4,041,457	3,231,523
DEFERRED INCOME TAXES	13,000	18,000
COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Common stock, $0.20 par value; Authorized 6,000,000 shares; Issued 5,429,240 shares; Outstanding 3,822,117 (2002) and 3,911,400 (2001) shares	1,085,848	1,085,848
Capital in excess of par value	4,417,507	4,413,627
Retained earnings	9,647,723	8,270,624
	15,151,078	13,770,099
Less treasury stock, at cost	(5,035,737)	(4,554,272)
	10,115,341	9,215,827
	$ 14,169,798	$ 12,465,350

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF EARNINGS
YEARS ENDED FEBRUARY 28, 2002 AND 2001, AND FEBRUARY 29, 2000

	2002	2001	2000
GROSS SALES	$ 30,457,695	$ 27,260,879	$ 26,613,943
Less discounts and allowances	(9,903,244)	(9,664,031)	(9,762,682)
Net sales	20,554,451	17,596,848	16,851,261
COST OF SALES	8,121,522	7,287,920	6,984,387
Gross margin	12,432,929	10,308,928	9,866,874
OPERATING EXPENSES:			
Operating and selling	3,717,465	3,295,164	3,224,442
Sales commissions	4,867,970	3,743,954	3,266,733
General and administrative	1,463,631	1,432,030	1,634,027
Interest	20,343	104,925	45,401
	10,069,409	8,576,073	8,170,603
OTHER INCOME	76,554	37,507	51,757
EARNINGS BEFORE INCOME TAXES	2,440,074	1,770,362	1,748,028
INCOME TAXES	908,800	680,100	669,000
NET EARNINGS	$ 1,531,274	$ 1,090,262	$ 1,079,028
BASIC AND DILUTED EARNINGS PER SHARE:			
Basic	$ 0.40	$ 0.28	$ 0.25
Diluted	$ 0.38	$ 0.27	$ 0.24
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:			
Basic	3,867,221	3,955,527	4,364,608
Diluted	4,061,956	4,042,642	4,426,836

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED FEBRUARY 28, 2002 AND 2001, AND FEBRUARY 29, 2000

	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	Shareholders' Equity
BALANCE, March 1, 1999	5,429,240	$ 1,085,848	$ 4,410,066	$ 6,266,424	555,986	$(1,722,960)	$ 10,039,378
Issuance of treasury stock	-	-	-	-	(200)	600	600
Purchases of treasury stock	-	-	-	-	874,087	(2,516,232)	(2,516,232)
Sales of treasury stock	-	-	-	-	(168,022)	455,946	455,946
Dividends paid ($0.02/share)	-	-	-	(86,311)	-	-	(86,311)
Net earnings	-	-	-	1,079,028	-	-	1,079,028
BALANCE, FEBRUARY 29, 2000	5,429,240	1,085,848	4,410,066	7,259,141	1,261,851	(3,782,646)	8,972,409
Issuance of treasury stock	-	-	-	-	(583)	1,700	1,700
Purchases of treasury stock	-	-	-	-	289,252	(856,215)	(856,215)
Sales of treasury stock	-	-	3,561	-	(32,680)	82,889	86,450
Dividends paid ($0.02/share)	-	-	-	(78,779)	-	-	(78,779)
Net earnings	-	-	-	1,090,262	-	-	1,090,262
BALANCE, FEBRUARY 28, 2001	5,429,240	1,085,848	4,413,627	8,270,624	1,517,840	(4,554,272)	9,215,827
Issuance of treasury stock	-	-	1,327	-	(1,000)	3,023	4,350
Purchases of treasury stock	-	-	-	-	139,603	(634,752)	(634,752)
Sales of treasury stock	-	-	18,480	-	(31,520)	95,812	114,292
Exercise of options ($1.50 - $3.00/ share)	-	-	(15,927)	-	(17,800)	54,452	38,525
Dividends paid ($0.04/share)	-	-	-	(154,175)	-	-	(154,175)
Net earnings	-	-	-	1,531,274	-	-	1,531,274
BALANCE, FEBRUARY 28, 2002	5,429,240	$ 1,085,848	$ 4,417,507	$ 9,647,723	1,607,123	$(5,035,737)	$ 10,115,341

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28, 2002 AND 2001, AND FEBRUARY 29, 2000

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 1,531,274	$ 1,090,262	$ 1,079,028
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	120,738	59,662	299,179
Loss on disposal of property and equipment	-	-	1,199
Deferred income taxes	(27,900)	75,700	(90,000)
Provision for doubtful accounts and sales returns	991,813	1,381,704	984,575
Stock issued for awards	4,350	1,700	600
Changes in assets and liabilities:			
Accounts and income tax receivable	(1,481,184)	(912,302)	(1,107,336)
Inventories	1,241,092	(572,826)	(97,422)
Prepaid expenses and other assets	(26,456)	(26,745)	(349)
Accounts payable, accrued salaries and commissions, and other current liabilities	1,830,181	104,833	554,774
Income tax payable	63,753	(46,923)	46,923
Total adjustments	2,716,387	64,803	592,143
Net cash provided by operating activities	4,247,661	1,155,065	1,671,171
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,888,933)	(58,571)	(43,184)
Net cash used in investing activities	(1,888,933)	(58,571)	(43,184)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on revolving credit agreement	2,347,000	7,703,000	6,899,000
Payments on revolving credit agreement	(3,431,000)	(7,897,000)	(6,377,000)
Cash received from exercise of stock options	38,525	-	-
Cash received from sale of treasury stock	114,292	86,450	455,946
Cash paid to acquire treasury stock	(634,752)	(856,215)	(2,516,232)
Dividends paid	(154,175)	(78,779)	(86,311)
Net cash used in financing activities	(1,720,110)	(1,042,544)	(1,624,597)
NET INCREASE IN CASH AND CASH EQUIVALENTS	638,618	53,950	3,390
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	268,271	214,321	210,931
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 906,889	$ 268,271	$ 214,321
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 26,392	$ 105,348	$ 41,251
Cash paid for income taxes	$ 800,250	$ 724,020	$ 657,000

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Accounts Receivable - Accounts receivable at February 28, 2002 and 2001, include approximately $26,000 and $57,000, respectively, due from directors and related parties of the Company.

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

Property, Plant and Equipment - Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets.

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.

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

Advertising Costs - The Company expenses advertising costs as incurred.

Earnings Per Share - Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is based on the combined weighted average number of common shares outstanding and dilutive potential common shares issuable which include, where appropriate, the assumed exercise of options. In computing diluted EPS the Company has utilized the treasury stock method.

The following reconciles the diluted earnings per share:

	Year Ended February 28, 2002	Year Ended February 28, 2001	Year Ended February 29, 2000
Diluted Earnings Per Share:			
Net earnings applicable to common shareholders	$ 1,531,274	$ 1,090,262	$ 1,079,028
Shares:			
Weighted average shares outstanding - basic	3,867,221	3,955,527	4,364,608
Assumed exercise of options	194,735	87,115	62,228
Weighted average shares outstanding - diluted	4,061,956	4,042,642	4,426,836
Diluted Earnings Per Share	$ 0.38	$ 0.27	$ 0.24

Stock options representing 249,600, and 273,400 of common shares for the years ended 2001 and 2000, respectively, were not included in calculation of diluted earnings per share since the effect was antidilutive. There were no stock options for the year ended 2002 excluded from the diluted earnings per share calculation.

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

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

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

New Accounting Standards - In June 2001 the FASB issued SFAS No. 141, *Business Combinations*. SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, *Business Combinations*, and FASB No. 38, *Accounting for Preacquisition Contingencies for Purchased Enterprises*. All business combinations in the scope of SFAS No. 141 are to be accounted for using one method, the purchase method. The Company adopted SFAS No. 141 effective July 1, 2001, as required; however, the Company has not entered into any business combinations since the effective date of the statement.

Accounting Standards Issued But Not Yet Adopted - In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The Company will adopt SFAS No. 142 in its 2003 financial statements, as required. Since the Company has no material intangible assets or goodwill, management believes adoption of this new standard will have no impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which is effective for fiscal years beginning after December 15, 2001. The Company adopted the provisions of SFAS No. 144 as required on March 1, 2002. This standard had no effect on the Company's financial statements upon adoption.

Reclassifications - Certain prior year amounts have been reclassed to conform with the 2002 presentation.

2. INVENTORIES

Inventories consist of the following:

	February 28, 2002	February 28, 2001
Current:		
Book inventory	$ 8,338,320	$ 9,258,312
Reserve for obsolescence	(46,370)	(46,370)
Inventories net - current	$ 8,291,950	$ 9,211,942
Non-current:		
Book inventory	$ 817,500	$ 1,051,600
Reserve for obsolescence	(133,620)	(46,620)
Inventories net - non-current	$ 683,880	$ 1,004,980

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

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Estimated Useful Lives	February 28, 2002	February 28, 2001
Land	-	$ 250,000	$ -
Building	30 years	1,540,000	-
Machinery and equipment	2 - 5 years	1,439,057	1,349,715
Furniture and fixtures	2 - 5 years	56,814	56,814
Leasehold improvements	2 - 5 years	67,778	67,778
		3,353,649	1,474,307
Less accumulated depreciation and amortization		(1,446,034)	(1,390,128)
		$1,907,615	$ 84,179

4. NOTE PAYABLE

The note payable to bank is under a $3,500,000 revolving credit agreement, with interest payable monthly at prime minus .25% (8.25% at February 28, 2001), collateralized by substantially all assets of the Company, maturing on June 30, 2002. At February 28, 2001, the Company had borrowings of $1,084,000 under the revolving credit agreement. There were no borrowings outstanding under the revolving credit agreement at February 28, 2002. Available credit under the revolving credit agreement was $3,500,000 at February 28, 2002. The agreement contains provisions that require the Company to maintain specified financial ratios, restrict transactions with related parties, prohibit mergers or consolidation, disallow additional debt, and limit the amount of compensation, salaries, investments, capital expenditures and leasing transactions. The Company is in compliance will all restrictive covenants at February 28, 2002. 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, 2002, 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, 2002	Year Ended February 28, 2001	Year Ended February 29, 2000
Note payable to bank:			
Largest amount borrowed	$ 1,112,000	$ 1,733,000	$ 1,369,000
Average amount borrowed	621,613	1,232,000	650,702
Weighted average interest rate	7.36%	9.0%	8.0%

5. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's net deferred tax assets and liabilities as of February 28, 2002 and 2001 are as follows:

	February 28, 2002	February 28, 2001
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	$ 31,600	$ 46,800
Allowance for obsolescence	79,100	46,000
Expenses deducted on the cash basis for income tax purposes	22,800	22,800
Other	3,800	5,000
Deferred tax assets	137,300	120,600
Deferred tax liability - Software development	(16,600)	(22,800)
Deferred tax asset - Net	$ 120,700	$ 97,800
Noncurrent:		
Deferred tax assets:		
Property and equipment	$ -	$ 6,300
Other	3,800	-
Deferred tax assets	3,800	6,300
Deferred tax liabilities:		
Software development	(13,900)	(24,300)
Property and equipment	(2,900)	-
Deferred tax liability	(16,800)	(24,300)
Deferred tax liability - Net	$ (13,000)	$ (18,000)

Management has determined that no valuation allowance is necessary to reduce the deferred tax assets as it is more likely than not that such assets are realizable.

The components of income tax expense are as follows:

	Year Ended February 28, 2002	Year Ended February 28, 2001	Year Ended February 29, 2000
Current:			
Federal	$ 796,200	$ 513,800	$ 645,200
State	140,500	90,600	113,800
	936,700	604,400	759,000
Deferred:			
Federal	(23,700)	64,300	(76,500)
State	(4,200)	11,400	(13,500)
	(27,900)	75,700	(90,000)
Total income tax expense	$ 908,800	$ 680,100	$ 669,000

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

	Year Ended February 28, 2002	Year Ended February 28, 2001	Year Ended February 29, 2000
Tax expense at federal statutory rate	$ 830,000	$ 602,000	$ 594,000
State income tax, net of federal tax benefit	96,000	72,000	70,000
Other	(17,200)	6,100	5,000
	$ 908,800	$ 680,100	$ 669,000

6. EMPLOYEE BENEFIT PLAN

The Company has a profit sharing plan which incorporates the provisions of Section 401(k) of the Internal Revenue Code. The 401(k) plan covers substantially all employees meeting specific age and length of service requirements. Matching contributions from the Company are discretionary and amounted to $52,258, $40,557 and $33,477 in fiscal years 2002, 2001, and 2000, respectively.

7. COMMITMENTS

The Company leased its office and warehouse facilities under a noncancelable operating lease until January 2002. On January 7, 2002, the Company purchased its leased office and warehouse facilities for $1,790,000 and simultaneously terminated its lease. Total rent expense related to these facilities was $204,000 in fiscal 2002, $240,000 in fiscal 2001, and $232,980 in fiscal 2000.

At February 28, 2002, the Company had outstanding commitments to purchase inventory from its primary vendor totaling approximately $4,559,000.

8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

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

Options granted under the Incentive Plan vest at date of grant and are exercisable up to ten years from the date of grant. The exercise price on options granted is equal to the market price at the date of grant. Options outstanding at February 28, 2002 expire beginning in April 2003 through January 2012.

A summary of the status of the Company's Incentive Plan as of February 28, 2002 and 2001, and February 29, 2000, and changes during the years then ended is presented below:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	599,600	$ 3.17	507,400	$ 3.42	490,000	$ 3.51
Granted	10,000	5.50	136,000	2.28	40,000	2.50
Exercised/canceled	(19,000)	(2.28)	(43,800)	(3.30)	(22,600)	(3.77)
Outstanding at End of Year	590,600	$ 3.24	599,600	$ 3.17	507,400	$ 3.42

The following table summarizes information about stock options outstanding at February 28, 2002:

Range of Exercise Prices	Number Outstanding at February 28, 2002	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1.375 - $1.50	74,500	1	$1.40
$1.51 - $2.50	146,000	8	2.26
$2.51 - $3.13	111,700	3	3.11
$3.81	15,000	6	3.81
$4.00	98,200	6	4.00
$4.63	135,200	6	4.63
$5.50	10,000	10	5.50
	590,600		

All options outstanding are exercisable at February 28, 2002.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its Incentive Plan. Accordingly, no compensation cost has been recognized for its Incentive Plan. Had compensation cost for the Company's Incentive Plan been determined based on the fair value at the grant dates for awards under the Incentive Plan consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended February 28, 2002 and 2001, and February 29, 2000 would have been reduced to the pro forma amounts indicated below:

	2002	2001	2000
Net earnings - as reported	$ 1,531,274	$ 1,090,262	$ 1,079,028
Net earnings - pro forma	$ 1,526,164	$ 923,805	$ 1,038,582
Earnings per share - as reported:			
Basic	$ 0.40	$ 0.28	$ 0.25
Diluted	$ 0.38	$ 0.27	$ 0.24
Earnings per share - pro forma:			
Basic	$ 0.39	$ 0.23	$ 0.24
Diluted	$ 0.38	$ 0.23	$ 0.24

The fair value of options granted under the Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for options granted in 2002: no dividend yield, expected volatility of 35.60%, risk free interest rate of 1.98%, and expected life of one year; the following assumptions were used for options granted in 2001: no dividend yield, expected volatility of 84%, risk free interest rates between 5.13% and 6.16%, and expected lives of ten years; the following assumptions were used for options granted in 2000: no dividend yield, expected volatility of 45%, risk free interest rate of 5.7%, and expected lives of ten years.

9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 2002 and 2001, and February 29, 2000:

	Net Sales	Gross Margin	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2002					
First quarter	$ 4,800,600	$ 2,827,800	$ 369,500	$ 0.09	$ 0.09
Second quarter	5,108,400	3,000,300	423,800	0.11	0.11
Third quarter	6,007,900	3,772,700	485,000	0.13	0.12
Fourth quarter	4,637,551	2,832,129	252,974	0.07	0.06
Total year	$ 20,554,451	$ 12,432,929	$ 1,531,274	$ 0.40	$ 0.38
2001					
First quarter	$ 4,250,400	$ 2,453,000	$ 276,100	$ 0.07	$ 0.07
Second quarter	4,414,600	2,464,300	352,700	0.09	0.09
Third quarter	5,245,600	3,180,300	381,900	0.10	0.10
Fourth quarter	3,686,248	2,211,328	79,562	0.02	0.01
Total year	$ 17,596,848	$ 10,308,928	$ 1,090,262	$ 0.28	$ 0.27
2000					
First quarter	$ 4,122,100	$ 2,395,600	$ 290,300	$ 0.06	$ 0.06
Second quarter	4,202,500	2,397,400	313,600	0.07	0.07
Third quarter	5,012,800	3,029,400	419,800	0.10	0.10
Fourth quarter	3,513,861	2,044,474	55,328	0.02	0.01
Total year	$ 16,851,261	$ 9,866,874	$ 1,079,028	$ 0.25	$ 0.24

During the fourth quarter of fiscal years 2001 and 2000, the Company corrected the depreciation calculated on certain property and equipment, which resulted in a decrease and an increase, respectively, in depreciation expense of approximately $30,000.

10. BUSINESS SEGMENTS

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

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

Information by industry segment for the years ended February 28, 2002 and 2001, and February 29, 2000 is set forth below:

	Publishing	UBAH	Other	Total
2002				
Net sales	$ 7,362,332	$ 13,192,119	$ -	$ 20,554,451
Earnings (loss) before income taxes	2,579,082	2,845,712	(2,984,720)	2,440,074
2001				
Net sales	$ 7,353,750	$ 10,243,098	$ -	$ 17,596,848
Earnings (loss) before income taxes	2,577,593	2,234,031	(3,041,262)	1,770,362
2000				
Net sales	$ 7,960,891	$ 8,890,370	$ -	$ 16,851,261
Earnings (loss) before income taxes	2,811,887	2,181,300	(3,245,159)	1,748,028

* * * * * *

DIRECTORS

Robert D. Berryhill
Private Investor

G. Dean Cosgrove
Independent Consultant

James F. Lewis
Chief Executive Officer (Retired) – The Lewis Companies

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

OFFICERS

Randall W. White
Chairman, President and
Chief Executive Officer

Michael L. Puhl
Vice President - Operations

Craig M. White
Vice President - Information Systems

W. Curtis Fossett
Controller and Corporate Secretary

CORPORATE DATA

Notice of Annual Meeting
July 2, 2002
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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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