

Educational Development Corporation

2012

Annual Report



Financial Highlights

Fiscal Years ended February 29 (28)

Financial Information

2012

2011

Net revenues	\$ 26,273,300	\$ 27,243,200
Earnings before income taxes	\$ 2,277,700	\$ 1,870,200
Net earnings	\$ 1,420,900	\$ 1,168,200

Earnings per share:

Basic	\$ 0.36	\$ 0.30
Diluted	\$ 0.36	\$ 0.30

Capital expenditures	\$ 76,100	\$ 19,600
Total assets	\$ 18,011,400	\$ 18,705,000
Shareholders' equity	\$ 14,217,600	\$ 14,658,500

Common Stock

Shares outstanding at year end	3,913,183	3,905,898
Cash dividends paid	\$ 0.48	\$ 0.51
Book value at year end	\$ 3.63	\$ 3.75
Market price range		
High	\$ 6.90	\$ 7.00
Low	\$ 3.80	\$ 5.15
Market price at year end	\$ 4.96	\$ 6.50

Business Segments

Net Revenues

Publishing	\$ 10,981,100	\$ 9,829,400
Usborne Books & More	\$ 15,292,200	\$ 17,413,800

Total	\$ 26,273,300	\$ 27,243,200
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Letter From The President

Dear Shareholders,

Our fiscal year ending February 29 was one filled with many challenges, but also many highlights. The Publishing Division, which sells to retail outlets, continued its record-setting performance with a 12% increase over the previous year and a 36% increase over the past three years. This gain was accomplished by recording an 18.7% sales increase to large national chains and wholesale accounts, primarily due to the increased penetration of our bestselling series, including Sticker Dolly Dressing, this during a time when retail outlets are fighting for survival against Internet competition.

We are now in our fourth year of integrating the acquisition of Kane Miller Books, our award-winning publisher of multicultural children's books from around the world. Kane Miller has been an excellent addition to our existing Usborne Books product line and marketing programs. In fact, several Kane Miller titles were among EDC's bestsellers, with Everyone Poops leading the way with lifetime sales now totalling over 1,000,000 copies. The Kane Miller line continues to do very well with a 37% increase over last year and a 147% increase since acquisition. Kane Miller sales continue to show strong growth, with a 24 % increase during the first three months of FY 2013.

The Home Business division has registered a sales decline for the past five years and has been significantly impacted by school and library budget cuts, prompting an increased emphasis on bookfairs, grants and most recently, fundraising. Fundraising has been a successful strategy, and we expect this to have an even larger impact this year. The Home Business division has received significant attention and investment in attempt to restore historical growth levels. New management was added a year ago, and incentives and rewards have been upgraded to meet market challenges and competition. While we are not yet able to declare total success, we have recorded four consecutive months of sales increases for the first time in six years. Operational changes were made to support the sales force, and we are optimistic these changes will be the catalyst for future growth.

A year-end highlight was the announcement of Usborne Publishing as the UK 2012 Children's Publisher of the Year. This award, granted by The Bookseller in the U.K., is one of the most prestigious in the publishing industry. Usborne Publishing was selected over the children's divisions of some of the world's top, including Random House, Harper Collins, Dorling Kindersley, Penguin, Simon & Schuster, and Scholastic. EDC Publishing has been a partner and co-publisher of Usborne books for over thirty years, and we are extremely proud that Usborne Publishing has earned this recognition, clearly establishing Usborne as the premier line of non-fiction children's books in the marketplace.

EDC has recognized and acknowledged a shift in consumer purchasing preferences, and while it has not yet significantly impacted children's book sales, we anticipate an acceleration in e-books and enhanced e-books in the marketplace. EDC has invested in Demibooks, which was founded by a team of experienced engineers, designers, and creative professionals, whose expertise spans digital media and mobile devices, as well as user experience design and software development. The publishing platform, Demibooks' Composer (patent pending), helps publishers, authors and illustrators design and create richly interactive book apps right on the iPad. Demibooks provides the technology and services that publishers and authors need to bring interactive books to market through a variety of channels including the App Store and the Demibooks Storytime reader app. We currently have developed and published six enhanced e-books through Storytime and expect that product line to grow.

We have an excellent leadership team in place and award-winning product lines with an eye towards the future. We are excited about the prospects for fiscal year 2013.

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

Cordially yours,

A handwritten signature in dark ink that reads "Randall White". The signature is fluid and cursive, with a large initial 'R'.

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

About Us

Since 1965, Educational Development Corporation has been committed to literacy, learning, and innovation. From the development of curriculum materials in the early years, to the creation of the Publishing Division in 1978, the Home Business Division launch in 1989, the acquisition of Kane Miller Book Publishers in 2008, and the 2011 investment in Demibooks, this commitment has fueled company growth and development.

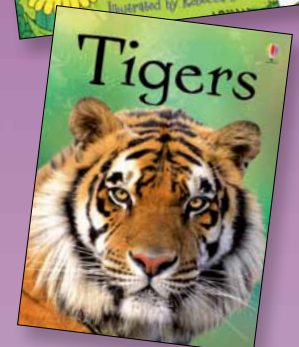
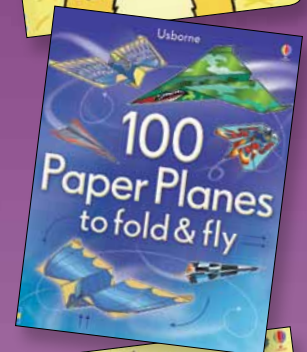
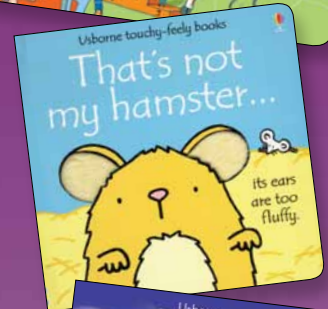
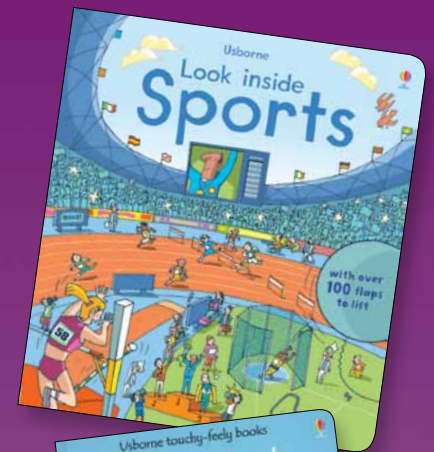
EDC is proud to be the United States publisher of Usborne Books. Originating in the United Kingdom, Usborne Books offers over 1,400 of the best non-fiction books for children and young adults. Kane Miller's line of international picture books and fiction is a perfect complement, and with Demibooks enhanced picture book apps and Storytime reader, the market is covered – past, present and future.

EDC's Home Business Division's independent sales consultants represent Usborne Books, Kane Miller Books and Storytime (together, Usborne Books & More) at home parties and book fairs, and through direct and online sales. In addition, they represent all three lines to schools and libraries, offering one-on-one sales opportunities, fundraisers, matching grant programs and more, reinforcing the company's support of literacy and education. EDC's Publishing Division markets and sells to book stores, gift stores, museums stores and specialty outlets throughout the United States, solidifying EDC's strong presence in the marketplace.

Operations

Headquartered in Tulsa, Oklahoma, the EDC home office and adjacent 100,000 square foot warehouse provide for a streamlined operational and management workflow. The warehouse's six hundred-foot-long flow-rack system expedites order fulfillment and delivery, with over 95% of orders receiving same-day turnaround.

Personalized consultant websites and IMN weekly newsletters, together with OrderPro (our proprietary software), a new e-commerce site, and a strong and growing social media presence, add to the success and sustainability of the Usborne Books & More Home Business Division.



Our Product Lines

Usborne Books are produced and created in the United Kingdom by Usborne Publishing Limited. Sold in over 85 countries in more than 75 languages, Usborne Books have long been recognized as the benchmark of non-fiction children's books. As the United States publisher of Usborne Books, EDC offers a wide-range of titles and subjects to customers, and with the nationwide implementation of Common Core standards, is more than ready to meet the opportunities in the changing school market. Kane Miller Books, an award-winning publisher of children's picture books and fiction from around the world, is based in San Diego, California. Kane Miller Books offers EDC the flexibility to respond to market needs, publishing books that meet the demands of the sales force and its customers. Together with Demibooks Storytime, those books can now be published and delivered in e-book form as well as traditional print, serving the needs of all customers.

Usborne Books

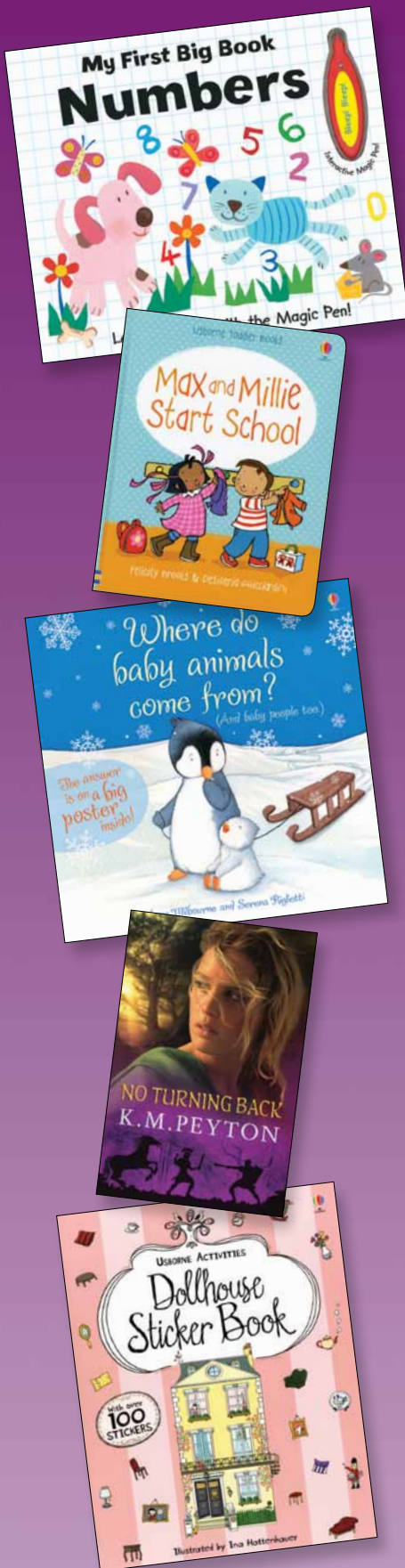
With subjects ranging from history to art, horses to ballet, sticker books to pop-ups, math dictionaries to first readers and baby bath books, every child's age, stage, subject and interest can be matched with an Usborne Book. Highly illustrated, easy to pore over and dip into and written with humor, drama and intelligence, Usborne books enrich children's interests, helping them discover a myriad of subjects with ease and success. There are internet linked reference books, stroller books, encyclopedias, historical fiction and more, all with accessible, vibrant, distinctive design and mass commercial appeal.

Kane Miller Books

Kane Miller searches the world for great picture books and fiction that enrich the lives and imagination of the children who read them. With art and text that combine to bring the world closer to children, sharing stories and ideas while exploring differences, Kane Miller Books offer a window to other countries, cultures and communities – including those in the U.S.

Recognitions

EDC is pleased and proud to announce that Usborne Publishing has been named the UK 2012 Children's Publisher of the Year. Among other awards in 2011, Usborne Books were Parents Choice Recommended Award winners, and Kane Miller books were recognized with a *Boston Globe - Horn Book* honor and were named to the *USBBY Best International Booklist* and the *Bank Street College of Education Best Books of the Year* list.



The Home Business Division

Usborne Books & More (UBAM), our Home Business Division, markets our product lines through a network of over 7,000 independent sales consultants.

The sales consultants offer our products in various venues including home shows, direct sales, book fairs, Internet sales, fundraisers, and sales to schools and public libraries. EDC Educational Services, a sub-division of UBAM, markets the product line to schools and libraries through independent Educational Consultants. This allows additional opportunities for the sales consultants. Although there are several ways to sell, home shows continue to be the base of our business, providing a source of constant income and business growth, increasing the networking base and providing sales opportunity leads for additional marketing avenues.

Consultants have individual UBAM websites available to market their business and to set up home shows and book fairs via the Internet. In this technological age, UBAM is also using Facebook, LinkedIn and Twitter to promote the business opportunity. Reach for the Stars!!, a pledge-based reading incentive program, has proven its success with hundreds of thousands of dollars in cash and books distributed to the participating schools and organizations. This last year, we expanded our reach with the immensely successful Cards for a Cause Fundraisers program.

Usborne Books & More strives for excellence and creativity in training, recognition and incentive programs to encourage growth. UBAM will hold its 16th National Convention in June, 2012, in Tulsa, Oklahoma. This three-day event offers an excellent opportunity for consultants to meet their peers, exchange ideas and learn how to build their business at all levels. It also allows the Home Office to award and recognize national achievement. The Home Office also sponsors an Advanced Leadership Retreat for UBAM Supervisors, providing the tools to build their business quickly and efficiently.

Independent consultants also have the opportunity to earn additional prizes and incentives throughout the year, including an incentive travel trip which can be earned working part-time on a steady basis. Recent trips include a trip to Aruba in September, 2011, and a trip to Vancouver and Victoria, British Columbia, in April, 2012. Our upcoming trip is a Western Mediterranean Cruise in May, 2013.



Todd R. White
Educational Services
Manager



Heather Cobb
National Sales
Manager



Pat Wright
Consultant Services
Manager



Jeanie Crone
Vice President
Publishing



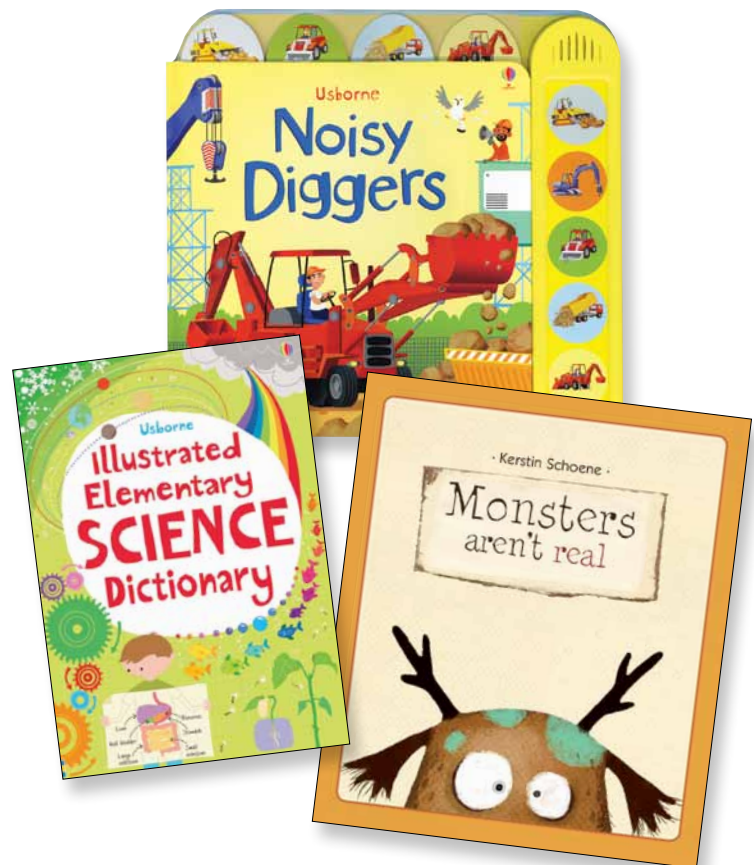
Kira Lynn
Editor
Kane/Miller

The Publishing Division

In Fiscal 2012 EDC enjoyed an increase of 12.2% in net sales in the Publishing Division. Net sales were recorded at ten million, nine hundred eighty-one thousand dollars. Sales to the large national chains and wholesalers increased by 18.7%, due in large part, to the increased penetration of some of our bestselling series, such as *Sticker Dolly Dressing*.

While the traditional book trade business continues to be challenging, the toy and gift markets continue to grow. In fiscal 2011, the toy and gift segment represented 58% of the Publishing Division's total net sales. In fiscal 2012 that segment grew to 62% of total net sales. EDC maintains a continued presence at important national trade shows such as Toy Fair, New York Gift Show, San Francisco Gift Show, Los Angeles Gift Show, Atlanta Gift Show, and the Museum Store Association Show.

The corporate decision, taken in February 2012, to cease supplying internet retailers will undoubtedly impact the Publishing Division's future net sales. It is hoped that, ultimately, this decision will be offset by greater sales for the corporation as a whole. The Publishing Division will continue to maintain the marketing efforts that have proven successful in the past, in all areas of our business.



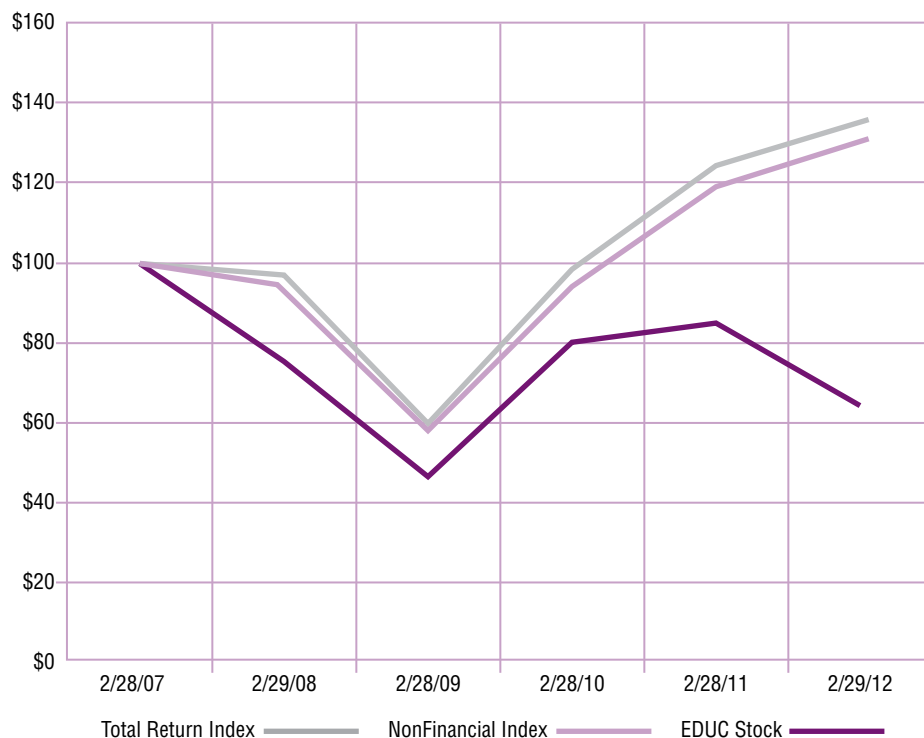
STOCK PRICES AND DIVIDENDS PAID

Fiscal Year	Stock Prices		Cash Dividend Paid
	High	Low	
2012	\$ 6.90	\$ 3.80	\$ 0.48
2011	\$ 7.00	\$ 5.15	\$ 0.54
2010	\$ 6.48	\$ 3.10	\$ 0.67
2009	\$ 6.80	\$ 3.11	\$ 0.80
2008	\$ 8.58	\$ 5.19	\$ 0.22

PERFORMANCE GRAPH COMPARISON OF THE FIVE-YEAR CUMULATIVE RETURN

Among the Company, Nasdaq Stock Market Total Return Index
and Nasdaq Non-Financial Stock Index

The following graph compares the cumulative total return of our common stock for the 5-year period ending February 29, 2012, against the cumulative total return of the Nasdaq Stock Market Total Return Index and the Nasdaq Non-Financial Stock Index. The graph and table assume \$100 was invested on February 28, 2007, and that all dividends were reinvested.



CUMULATIVE TOTAL RETURN

Cumulative Value of \$100 Investment, through February 29 (28),

	2007	2008	2009	2010	2011	2012
EDC Stock:	100.00	74.41	46.74	79.63	84.86	63.97
Nasdaq Stock Market Total Return Index:	100.00	92.83	57.89	94.03	118.66	129.72
Nasdaq Non-Financial Stock Index:	100.00	96.18	59.33	98.57	124.82	135.51



Craig M. White
Vice President
Information systems



Marilyn Pinney
Controller & Corporate
Secretary

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 29, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission file number: 0-4957

EDUCATIONAL DEVELOPMENT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

73-0750007

(I.R.S. Employer
Identification No.)

10302 East 55th Place, Tulsa, Oklahoma

(Address of principal executive offices)

74146-6515

(Zip Code)

Registrant's telephone number, including area code (918) 622-4522

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.20 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐

No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐

No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒

No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ☐

No ☒

The aggregate market value of the voting shares held by non-affiliates of the registrant at the price at which the common stock was last sold on August 31, 2011, on the NASDAQ Stock Market, LLC was \$ \$20,222,600.

As of May 23, 2012, 3,913,023 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for fiscal year 2012 relating to our Annual Meeting of Shareholders to be held on July 19, 2012 are incorporated by reference into Part III of this Report on Form 10-K.

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Part I

FORWARD LOOKING STATEMENTS

This report contains statements that are forward-looking. You should read the following discussion in connection with our financial statements, including the notes to those statements, included in this document. These forward-looking statements are not historical facts but are expectations or projections based on certain assumptions and analyses made by our senior management in light of their experience and perception of historical trends, current conditions, expected future developments and other factors. Actual events and results may be materially different from anticipated results described in such statements. As used in this Annual Report on Form 10-K, the terms “EDC,” “we,” “our” or “us” mean Educational Development Corporation, a Delaware corporation, unless the context indicates otherwise.

Our ability to achieve such results is subject to certain risks and uncertainties which are not currently known to us. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

Item 1. BUSINESS

(a) General Development of Business

Educational Development Corporation (“EDC”) is the exclusive United States trade publisher of the line of educational children’s books produced in the United Kingdom by Usborne Publishing Limited (“Usborne”). We were incorporated on August 23, 1965. Our fiscal years end on February 29 (28).

We also own Kane/Miller Book Publishers; award-winning publishers of International children’s books.

Our company motto is “The future of our world depends on the education of our children. EDC delivers educational excellence one book at a time. We provide economic opportunity while fostering strong family values. We touch the lives of children for a lifetime.”

(b) Financial Information about Industry Segments

While selling children’s books is our only line of business, we sell them through two divisions:

- Home Business Division (“Usborne Books and More” or “UBAM”) - This division distributes books nationwide through independent consultants who hold book showings in individual homes, and through book fairs, direct sales and Internet sales. The UBAM Consultants also distribute these titles to school and public libraries.
- Publishing Division (“Publishing”) – This division markets books to bookstores (including major national chains), toy stores, specialty stores, museums and other retail outlets throughout the country.

Percent Net Revenues by Division

	2012	2011
Publishing	42%	36%
UBAM	58%	64%
Total revenues	100%	100%

(c) Narrative Description of Business

Products

As the sole United States trade publisher of the Usborne line of books, we offer over 1,500 different titles. Many are interactive in nature, including our Touchy-Feely board books, jigsaw puzzle books, activity and flashcards, adventure and search books, art books, sticker books and foreign language books. The majority of the titles published by Kane/Miller Book Publishers originally were published in other countries in their native languages.

We have a broad line of 'internet-linked' books which allow readers to expand their educational experience by referring them to relevant non-Usborne websites. Our books include science and math titles, as well as chapter books and novels. We continually introduce new titles across all lines of our products.

UBAM markets the books through commissioned consultants using a combination of direct sales, home parties, book fairs and the Internet. The division had approximately 6,100 consultants in 50 states at February 29, 2012.

Publishing markets through commissioned trade representatives who call on book, toy, specialty stores and other retail outlets, as well as through in-house marketing by telephone to the trade. This division markets to approximately 5,000 book, toy and specialty stores. Significant orders totaling 40% of the Publishing Division's sales have been received from major book chains.

Seasonality

Sales for both divisions are greatest during the fall due to the holiday season.

Competition

We face competition on two fronts for our UBAM Division from several other larger direct selling companies - for sales and consultants. However, no other direct selling company exclusively sells children's books. Our school and library market faces competition from Scholastic Books for the book fair market.

Publishing faces strong competition from large U.S. and international companies. Historically, this division's sales are approximately 1.0% of industry sales of juvenile paperbacks.

Employees

As of April 1, 2012, 69 full-time and 2 part-time employees worked at our Tulsa and San Diego facilities; about half of those are in the assembly/distribution warehouse. We believe our relations with our employees are good.

Company Reports

Our annual and quarterly reports (Forms 10-K and 10-Q), current Form 8-K reports and amendments to those reports filed with the SEC are available for download from the Investor Relations portion of our Internet website at www.edcpub.com.

Item 1A. RISK FACTORS

We are a smaller reporting company and are not required to provide this information.

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

We are located at 10302 E. 55th Pl., Tulsa, Oklahoma. These facilities are owned by us and contain approximately 105,000 square feet of office and warehouse space. All product distributions are made from this warehouse. We believe that our operating facility meets both present and future capacity needs.

We lease 11,400 square feet of additional warehouse space two blocks from our main facilities. This space is located at 5432 S. 103rd E. Ave., Tulsa, Oklahoma, and is used to store longer-term inventory requirements.

We also lease a small office in San Diego, California which houses Kane/Miller Book Publishers.

Item 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

None

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of EDC is traded on the NASDAQ Stock Market, LLC (symbol--EDUC). The high and low quarterly common stock quotations for fiscal years 2012 and 2011, as reported by the National Association of Securities Dealers, Inc., were as follows:

Period	2012		2011	
	High	Low	High	Low
1st Qtr	6.90	4.18	7.00	5.97
2nd Qtr	5.81	5.00	5.96	5.15
3rd Qtr	5.70	3.80	7.00	5.48
4th Qtr	5.40	4.75	7.00	6.25

The number of shareholders of record of EDC's common stock at March 9, 2012 was 672.

During fiscal year 2012, we paid quarterly dividends totaling \$0.48 per share as follows: \$0.12 per share dividend on March 18, 2011, \$0.12 per share dividend on June 17, 2011, \$0.12 per share dividend on September 16, 2011, and \$0.12 per share dividend on December 16, 2011. An additional \$0.12 per share dividend was declared on February 29, 2012 and was paid during fiscal year 2013 to shareholders of record on March 9, 2012. Per share dividends paid during fiscal year 2011 totaled \$0.51.

The following table shows repurchases of our common stock which we made during the fourth quarter of fiscal year 2012.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total # of Shares Purchased	Average Price Paid per Share	Total # of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum # of Shares that May be Repurchased under the Plan
December 1 - 31, 2011	10	\$ 5.00	10	360,109
January 1 - 31, 2012	0	-	0	360,109
February 1 - 29, 2012	0	-	0	360,109
Total	10	\$ 5.00	10	

(1) In April 2008 the Board of Directors authorized us to purchase up to 500,000 additional shares of our common stock under a plan initiated in 1998. This plan has no expiration date.

Item 6. SELECTED FINANCIAL DATA

We are a smaller reporting company and are not required to provide this information.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MD&A contains statements that are forward-looking and include numerous risks which you should carefully consider. Additional risks and uncertainties may also materially and adversely affect our business. You should read the following discussion in connection with our financial statements, including the notes to those statements, included in this document. Our fiscal years end on February 29 (28).

Management Summary

Educational Development Corporation is the sole distributor in the United States of the Usborne line of children's books. We operate two separate divisions, Publishing and Usborne Books and More ("UBAM"), to sell these books. Our Corporate headquarters, including the distribution facility for both divisions, is located in Tulsa, Oklahoma.

These two divisions each have their own customer base. The Publishing Division markets its products on a wholesale basis to various retail accounts. The UBAM Division markets its products to individual consumers as well as to school and public libraries through direct-selling consultants.

Publishing Division

The Publishing Division operates in a market that is highly competitive, with a large number of companies engaged in the selling of books. The most recent annual sales data indicate sales in the book industry were approximately \$11.7 billion for calendar year 2010. Sales in the trade industry, defined as wholesale sales to retailers, were approximately \$5.3 billion for calendar year 2010.

The Publishing Division's customer base includes national book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. To reach these markets, the Publishing Division utilizes a combination of commissioned sales representatives located throughout the country and a commissioned inside sales group located in our headquarters. The Vice President of the Publishing Division manages sales to the national chains.

Publishing Division Sales by Market Type

	FY 2012	FY 2011
National chain stores	40%	38%
All other	60%	62%
Total net sales	100%	100%

The Publishing Division uses a variety of methods to attract potential new customers and maintain current customers. Company personnel attend many of the national trade shows held by the book selling industry each year, allowing us to make contact with potential buyers who may be unfamiliar with our books. We actively target the national chains through joint promotional efforts and institutional advertising in trade publications. The Publishing Division also participates with certain customers in a cooperative advertising allowance program, under which we pay back up to 2% of the net sales to that customer. Our products are then featured in promotions, such as catalogs, offered by the vendor.

We may also acquire, for a fee, an end cap position in a bookstore (our products are placed on the end of a shelf), which in the publishing industry is considered an advantageous location in the bookstore. The costs of these promotions have been classified as reductions in revenue in the statements of earnings.

The Publishing Division's in-house telesales group targets the smaller independent book and gift store market. Our semi-annual, full-color, 160-page catalogs, are mailed to over 5,000 customers and potential customers. We also offer two display racks to assist stores in displaying our products.

Net Revenues for Publishing Division

	FY 2012	FY 2011
Net Revenues	<u>\$ 10,981,100</u>	<u>\$ 9,829,400</u>

Publishing Division's net revenues increased \$1,151,700 in fiscal year 2012 from fiscal year 2011, or 11.7%. Net revenues were up 21.9% for smaller retail stores, 18.0% for national chain stores and 6.6% for inside sales.

Usborne Books and More ("UBAM") Division

The UBAM Division is a multi-level direct selling organization that markets its products through independent sales representatives ("consultants") located throughout the United States. The customer base of UBAM consists of individual purchasers, as well as school and public libraries. Revenues are generated through home shows, direct sales, Internet sales, book fairs and contracts with school and public libraries.

An important factor in the continued growth of the UBAM Division is the addition of new sales consultants and the retention of existing consultants. Current active consultants recruit new sales consultants. UBAM makes it easy to recruit by providing low-cost signing kits. For one month, kits containing sample products and supplies were free to new recruits when a minimum dollar home show was submitted by the new recruit. UBAM provides an extensive handbook that is a valuable tool in explaining the various programs to the new recruit.

Consultants During Year

	FY 2012	FY 2011
New Sales Representatives	4,300	4,100
Active Sales Representatives End of Fiscal Year	6,100	6,200

The UBAM Division presently has six levels of sales representatives:

- Consultants
- Team Leaders
- Senior Team Leaders
- Executive Team Leaders
- Senior Executive Team Leaders
- Directors

Upon signing up, each individual is considered a consultant. Consultants receive commissions from each sale they make; the commission rate being determined by the marketing program under which the sale is made. In addition, consultants receive a monthly sales bonus once their sales reach an established monthly goal. Consultants who recruit other consultants and meet certain established criteria are eligible to become team leaders. Upon reaching this level, they receive monthly override payments based upon the sales of their downline groups.

Once team leaders reach certain established criteria, they become senior team leaders and are eligible to earn promotion bonuses on their consultants. Once senior team leaders reach certain established criteria, they become executive team leaders, senior executive team leaders or directors. Executive team leaders and higher may receive an additional monthly override payment based upon the sales of their downline groups.

Percent of Net Revenues by UBAM Marketing Program

	FY 2012	FY 2011
Home Shows	32%	33%
Direct Sales	2%	2%
School & Library	43%	42%
Internet	12%	13%
Fund Raisers	3%	-
Transportation Revenue	8%	10%
Totals	100%	100%

Number of Orders by UBAM Marketing Program

	FY 2012	FY 2011
Home Shows	19,200	24,100
Direct Sales	3,300	4,200
School & Library	11,000	12,500
Internet	34,600	41,700
Fund Raisers	900	-
	69,000	82,500

Net revenues from home shows declined 21% or \$880,100 during fiscal year 2012. This was primarily due to 21% fewer orders placed during the period. Consultants contact individuals ("hostesses") to hold book shows in their homes. The consultant assists the hostess in setting up the details for the show and makes a presentation at the show and takes orders for the books. The hostess earns free books based upon the total sales at the show. Customer specials are available for customers when they order a selected amount. Additionally, home shows provide an excellent opportunity for recruiting new consultants.

Net revenues from direct sales decreased 11% or \$30,000 during fiscal year 2012. This resulted from a 23% decrease in the number of orders placed during the year, offset by a 15% increase in average sales per order. Direct sales are sales without a hostess being involved.

The UBAM Division offers many promotions (customer specials) throughout the year. These promotions offer the customer the opportunity to purchase selected items at a discount if the customer meets the defined criteria. The discounts under these promotions are recorded in discounts and allowances.

The school and library marketing program, including book fairs, decreased 10% or \$548,300 during fiscal year 2012. The number of orders placed during the year were down 11% while the per-order average increased 1%.

School and library sales are restricted to consultants who have received additional, specialized training which allows them to sell to schools and libraries. The UBAM consultant is the only source that a library or school has for library-bound Usborne books and for most Kane/Miller titles. They are not available through any of the school supply distribution companies.

This program includes our book fairs. Book fairs can be held with almost any organization as the sponsor. The consultant provides promotional materials to acquaint parents with the books. Parents turn in their orders at a designated time. The book fair program generates free books for the sponsoring organization. UBAM also has a *Reach for the Stars* fundraiser program. This is a pledge-based reading incentive program that provides cash and books to the organization and books for the children.

Internet sales were down 15% or \$248,900 during fiscal year 2012. Consultants utilize in-house-developed and hosted web sites in their businesses for a nominal annual fee. They can customize the web sites to their own particular needs or they can maintain the generic site. Orders are transmitted to us through a shopping cart arrangement and the consultant receives sales credit and commission on the sales.

A fund-raising program, Cards for a Cause, was added during the second quarter of the fiscal year, generating \$364,800 in sales its inaugural year. Organizations sell variety boxes of greeting-type cards and keep a portion of the proceeds to help support themselves and their related causes.

The cost of free books provided under the various UBAM marketing programs is recorded as operating and selling expense in the statements of earnings.

While there are many, UBAM continues to be the only multi-level company in the United States exclusively selling books. We believe this is a fertile market with excellent opportunities for continued growth. The keys to future growth in the UBAM Division are recruiting and retaining consultants.

(1-2) Liquidity and Capital Resources

EDC has a history of profitability and positive cash flow. We can continue to grow with minimal additional capital requirements. Our primary source of cash is generated from operations. Our primary uses of cash are to pay dividends, acquire treasury stock, and purchase property and equipment. If needed, we would utilize our bank credit facility to meet our short-term cash requirements.

We expect our ongoing cash flow to continue to exceed cash required to operate the business. Consequently, we expect short-term borrowings to continue to remain at a minimum.

During fiscal year 2012, we experienced a positive cash flow from operations of \$783,900. Cash flow from net earnings of \$1,420,900 was increased due to the provision for doubtful accounts and sales returns of \$874,800, a decrease in inventories of \$201,100 and a \$40,400 increase in net income tax payable offset by an increase in accounts receivable of \$1,373,500, a decrease in current liabilities of \$469,000, and a \$6,200 increase in prepaid expenses and other assets.

Cash used in investing activities was \$326,100 due to a \$250,000 payment for our initial investment in Demibooks and \$76,100 for capital expenditures. We estimate that cash used in investing activities for fiscal year 2013 will be less than \$200,000. This would consist of software and hardware enhancements to our existing data processing equipment, property improvements and additional warehouse equipment.

Cash used in financing activities was \$1,685,900 which was primarily due to dividend payments of \$1,870,200, \$75,000 notes payable paid, and \$214,300 paid to acquire treasury stock. These were offset by cash received of \$250,000 from borrowings under our revolving credit agreement and \$223,600 from the sale of treasury stock. In September 2002, the Board of Directors authorized paying a minimum annual cash dividend of 20% of net earnings. In fiscal years 2012 and 2011, we paid 132% and 170%, respectively, of net earnings as a cash dividend.

Our Board of Directors adopted a stock repurchase plan in which we may purchase up to an additional 500,000 shares as market conditions warrant. Management believes the stock is undervalued and when stock becomes available at an attractive price, we can utilize free cash flow to repurchase shares. Management believes this enhances the value to the remaining stockholders and that these repurchases will have no adverse effect on our short-term and long-term liquidity.

(3) Results of Operations

Earnings as a Percent of Net Revenues		
	FY 2012	FY 2011
Net revenues	100.0%	100.0%
Cost of sales	40.2%	37.8%
Gross margin	59.8%	62.2%
Operating expenses:		
Operating and selling	25.5%	26.0%
Sales commissions	18.5%	20.4%
General and administrative	7.5%	8.7%
Casualty loss	0.0%	0.7%
Total operating expenses	51.5%	55.8%
Other income	0.4%	0.5%
Earnings before income taxes	8.7%	6.9%
Income taxes	3.3%	2.6%
Net earnings	5.4%	4.3%

Fiscal Year 2012 Compared with Fiscal Year 2011

The following presents an overview of our results of operations for years ended February 29, 2012 and February 28, 2011. We had earnings before income taxes of \$2,277,700 for fiscal year 2012 compared with \$1,870,200 for fiscal year 2011.

<u>Revenues</u>			
	FY 2012	FY 2011	\$ Change
Gross sales	\$ 40,906,200	\$ 39,630,700	\$ 1,275,500
Less discounts & allowances	(15,592,000)	(13,657,600)	(1,934,400)
Transportation revenue	959,100	1,270,100	(311,000)
Net revenues	<u>\$ 26,273,300</u>	<u>\$ 27,243,200</u>	<u>\$ (969,900)</u>

The UBAM Division's gross sales decreased 6.2% or \$1,189,700 during FY 2012 when compared with FY 2011. This decrease is attributable to lower sales in the home party, direct sales, school and library/book fair, and the internet markets. Average sales per order for this division were up 3.7%, while the overall number of orders was down 16.4% due to reductions in each of those markets. The Publishing Division's gross sales increased 12.1% or \$2,465,200 during FY 2012 when compared with FY 2011.

The Publishing Division's discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAM Division due to the different customer markets that each division targets. The Publishing Division's discounts and allowances were \$11,956,400 in fiscal year 2012 and \$10,646,500 in fiscal year 2011. To be competitive with other wholesale book distributors, the Publishing Division sells at discounts between 48% and 55% of the retail price, based upon the quantity of books ordered and the dollar amount of the order. The Publishing Division's discounts and allowances were 52.2% of Publishing's gross sales in fiscal year 2012 and 52.1% in fiscal year 2011.

The UBAM Division's discounts and allowances were \$3,635,600 in fiscal year 2012 and \$3,011,100 in fiscal year 2011. Most sales in the UBAM Division are at retail. As a part of the UBAM Division's marketing programs, discounts between 40% and 50% of retail are offered on selected items at various times throughout the year. The discounts and allowances in the UBAM Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAM Division's discounts and allowances were 20.2% of UBAM's gross sales in fiscal year 2012 and 15.7% in fiscal year 2011.

Transportation revenues decreased \$311,000 in fiscal year 2012, primarily due to the decrease in UBAM sales during the year.

Expenses

	FY 2012	FY 2011	\$ Change
Cost of sales	\$ 10,549,000	\$ 10,284,700	\$ 264,300
Operating and selling	6,710,400	7,077,200	(366,800)
Sales commissions	4,855,200	5,568,600	(713,400)
General and administrative	1,972,500	2,380,600	(408,100)
Casualty loss	-	188,500	(188,500)
Total	<u>\$ 24,087,100</u>	<u>\$ 25,499,600</u>	<u>\$ (1,412,500)</u>

Cost of sales increased 2.6% in fiscal year 2012 when compared with fiscal year 2011. Our cost of products is 25% to 34% of the gross sales price, depending upon the product. In comparing the percentage change in gross sales with the percentage change in cost of goods, consideration must be given to the mix of products sold. Approximately 73% of our products come from one vendor, where the cost of the products is a fixed percentage of the retail price.

Cost of sales is the inventory cost of product sold (including the cost of the product itself and inbound freight charges). Operating and selling expenses include purchasing and receiving, inspection, warehousing, and other costs of our distribution network. These costs totaled \$1,274,100 in FY 2012 and \$1,135,100 in FY 2011. When comparing our gross margins with the gross margins of other companies, note that we do not include the costs of our distribution network in our cost of sales.

In addition to costs associated with our distribution network (noted above), operating and selling costs include expenses of the Publishing Division, the UBAM Division and the order entry and customer service functions. Operating and selling expenses as a percentage of gross sales were 16.4% for fiscal year 2012 and 17.9% for fiscal year 2011.

Sales commissions in the Publishing Division increased \$32,100 for the fiscal year ended 2012. Sales commissions for this division fluctuate depending upon the amount of sales made to our "house accounts," which are our largest customers and do not have any commission expense associated with them, and sales made by the Company's outside sales representatives. Publishing Division sales commissions are paid on net sales and were 2.1% in both fiscal years 2012 and 2011.

Sales commissions in the UBAM Division decreased \$745,500. UBAM Division sales commissions are paid on retail sales and were 39.5% for fiscal year 2012 and 39.6% for fiscal year 2011. The fluctuation in the percentages of commission expense to retail sales is the result of the type of sale. Home shows, book fairs, school and library sales and direct sales have different commission rates. Also contributing to the fluctuations in the percentages is the payment of overrides and bonuses, both dependent on consultants' monthly sales and downline sales. The decrease in sales commissions is the result of lower sales in the UBAM Division.

General and administrative expenses include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses as a percentage of gross sales were 4.8% for fiscal year 2012 and 6.0% for fiscal year 2011.

The tax provision for fiscal year 2012 was \$856,800. The effective rate for fiscal year 2012 was 37.6% and for fiscal year 2011 was 37.5%. Our effective tax rate is higher than the Federal statutory rate due to state income taxes.

Contractual Obligations

We are a smaller reporting company and are not required to provide this information.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to our valuation of inventory, allowance for uncollectable accounts receivable, allowance for sales returns, long-lived assets and deferred income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may materially differ from these estimates under different assumptions or conditions. Historically, however, actual results have not differed materially from those determined using required estimates. Our significant accounting policies are described in the notes accompanying the financial statements included elsewhere in this report. However, we consider the following accounting policies to be more significantly dependent on the use of estimates and assumptions.

Stock-Based Compensation

We account for stock-based compensation whereby share-based payment transactions with employees, such as stock options and restricted stock, are measured at estimated fair value at date of grant and recognized as compensation expense.

Revenue Recognition

Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAM Division's sales are paid at the time the product is shipped. These sales accounted for 58% of net revenues in fiscal year 2012 and 64% of net revenues in fiscal year 2011.

Estimated allowances for sales returns are recorded as sales are recognized and recorded. Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores. The damages occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers. Transportation revenue, the amount billed to the customer for shipping the product, is recorded when products are shipped. Management has estimated and included a reserve for sales returns of \$100,000 as of both February 29, 2012 and February 28, 2011.

Allowance for Doubtful Accounts

We maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. An estimate of uncollectable amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, customers' financial conditions and current economic trends. Management has estimated allowance for doubtful accounts of \$456,300 and \$462,800 as of February 29, 2012 and February 28, 2011, respectively.

Inventory

Management continually estimates and calculates the amount of non-current inventory. The inventory arises due to occasional purchases of book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of our primary supplier. Noncurrent inventory was estimated by management using the current year turnover ratio by title. All inventory in excess of 2 S years of anticipated sales was classified as noncurrent inventory. Noncurrent inventory balances were \$888,000 and \$903,000 at February 29, 2012 and February 28, 2011, respectively.

Inventories are presented net of a valuation allowance. Management has estimated and included a valuation allowance for both current and noncurrent inventory. This allowance is based on management's identification of slow moving inventory on hand. Management has estimated a valuation allowance for both current and noncurrent inventory of \$365,000 and \$330,700 as of February 29, 2012 and February 28, 2011, respectively.

Our product line contains approximately 1,500 titles, each with different rates of sale, depending upon the nature and popularity of the title. Almost all of our product line is saleable as the books are not topical in nature and remain current in content today as well as in the future. Most of our products are printed in Europe, China, Singapore, India, Malaysia and Dubai resulting in a three to four-month lead-time to have a title reprinted and delivered to us.

Our principal supplier, based in England, imposes minimum order requirements before reprinting a title. At the current time we must reorder 6,500 or more of a title in order to get a solo print run. If we order less than 6,500 of a title, then we normally share a print run with the supplier's other customers, which can result in more lengthy delays to receive the ordered title. Anticipating customer preferences and purchasing habits requires historical analysis of similar titles in the same series. We then place the initial order or re-order based upon this analysis.

These factors and historical analysis have led Management to determine that 2 S years represents a reasonable estimate of the normal operating cycle for our products.

New Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. We have reviewed the recently issued pronouncements and concluded that the recently issued accounting standards are not applicable to us.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company and are not required to provide this information.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 begins at page 23.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A(T). CONTROLS AND PROCEDURES

An evaluation was performed of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of February 29, 2012. This evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and our Controller/Corporate Secretary (Principal Financial and Accounting Officer).

Based on that evaluation, these officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to them, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported in accordance within the time periods specified in Securities and Exchange Commission rules and forms. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events.

During the fourth fiscal quarter of the fiscal year covered by this report on Form 10-K, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934 (the "Exchange Act"). Under the supervision and with the participation of our management, including our President and our Controller, we evaluated the effectiveness of our internal control over financial reporting based on the framework in INTERNAL CONTROL-INTEGRATED FRAMEWORK issued by the Committee of Sponsoring Organizations of the Treadway Commission. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under that framework and applicable SEC rules, our management concluded that our internal control over financial reporting was effective as of February 29, 2012.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors

The information required by this Item 10 is furnished by incorporation by reference to the information under the caption "Election of Directors" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 19, 2012.

(b) Identification of Executive Officers

Information regarding our executive officers required by Item 401 of Regulation S-K is presented in Item 1 hereof under the subcaption "Executive Officers" as permitted by General Instruction G (3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K.

(c) Compliance with Section 16 (a) of the Exchange Act

The information required by this Item 10 is furnished by incorporation by reference to the information under the caption "Section 16 (a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 19, 2012.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is furnished by incorporation by reference to the information under the caption "Executive Compensation" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 19, 2012.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is furnished by incorporation by reference to the information under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Compensation Plans" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 19, 2012.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

Item 14. PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

The information required by this Item 14 is furnished by incorporation by reference to the information under the caption "Independent Registered Public Accountants" in our definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 19, 2012.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	21
<u>Balance Sheets - February 29, 2012 and February 28, 2011</u>	22
<u>Statements of Earnings - Years ended February 29, 2012 and February 28, 2011</u>	23
<u>Statements of Shareholders' Equity -Years ended February 29, 2012 and February 28, 2011</u>	24
<u>Statements of Cash Flows - Years ended February 29, 2012 and February 28, 2011</u>	25
<u>Notes to Financial Statements</u>	26-34

Schedules have been omitted as such information is either not required or is included in the financial statements.

2. Exhibits

- 3.1 Restated Certificate of Incorporation dated April 26, 1968 and Certificate of Amendment thereto dated June 21, 1968 are incorporated herein by reference to Exhibit 1 to Registration Statement on Form 10-K (File No. 0-4957).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation dated August 27, 1977 is incorporated herein by reference to Exhibit 20.1 to Form 10-K for fiscal year ended February 28, 1981 (File No. 0-4957).
- 3.3 By-Laws as amended are incorporated herein by reference to Exhibit 20.2 to Form 10-K for fiscal year ended February 28, 1981 (File No. 0-4957).
- 3.4 Certificate of Amendment of Restated Certificate of Incorporation dated November 17, 1986 is incorporated herein by reference to exhibit 3.3 to Form 10-K for fiscal year ended February 28, 1987 (File No. 0-4957).
- 3.5 Certificate of Amendment of Restated Certificate of Incorporation dated March 22, 1996 is incorporated herein by reference to Exhibit 3.4 to Form 10-K for fiscal year ended February 28, 1997 (File No. 0-4957).
- 3.6 Certificate of Amendment of Restated Certificate of Incorporation dated July 15, 2002 is incorporated herein by reference to Exhibit 10.30 to Form 10-K dated February 28, 2003 (File No. 0-4957).
- 4.1 Specimens of Common Stock Certificates are incorporated herein by reference to Exhibits 3.1 and 3.2 to Registration Statement on Form 10-K (File No. 0-4957) filed June 29, 1970.

- 10.1 Usborne Agreement-Contractual agreement by and between the Company and Usborne Publishing Limited dated November 25, 1988 is incorporated herein by reference to Exhibit 10.12 to Form 10-K dated February 28, 1989 (File No. 0-4957).
- 10.2 Party Plan-Contractual agreement by and between the Company and Usborne Publishing Limited dated March 14, 1989 is incorporated herein by reference to Exhibit 10.13 to Form 10-K dated February 28, 1989 (File No. 0-4957).
- 10.3 Amendment dated January 1, 1992 to Usborne Agreement - Contractual agreement by and between the Company and Usborne Publishing Limited is incorporated herein by reference to Exhibit 10.13 to Form 10-K dated February 29, 1992 (File No. 0-4957).
- 10.4 Educational Development Corporation 1992 Incentive Stock Option Plan is incorporated herein by reference to Exhibit 4(c) to Registration Statement on Form S-8 (File No. 33-60188).
- 10.5 Restated Loan Agreement dated June 30, 1999 between the Company and State Bank & Trust, N.A., Tulsa, OK, is incorporated herein by reference to Exhibit 10.24 to Form 10-K dated February 29, 2000 (File No. 0-4957).
- 10.6 Educational Development Corporation 2002 Incentive Stock Option Plan is incorporated herein by reference to Exhibit A to definitive proxy statement on Schedule 14A dated May 23, 2002 (File No. 0-4957).
- 10.7 Amendment dated November 12, 2002 to Usborne Agreement – Contractual agreement by and between we and Usborne Publishing Limited is incorporated herein by reference to Exhibit 10.24 to Form 10-K dated February 28, 2003 (File No. 0-4957).
- 10.8 Employment Agreement between Randall W. White and the Company dated February 28, 2004.
- 10.9 Fifth Amendment dated June 30, 2004 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.10 Sixth Amendment dated June 30, 2005 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.11 Seventh Amendment dated September 2, 2005 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.12 Eighth Amendment dated June 30, 2006 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.13 Ninth Amendment dated June 30, 2007 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.14 Tenth Amendment dated June 30, 2008 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.15 Eleventh Amendment dated June 30, 2009 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.16 Twelfth Amendment dated June 30, 2010 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- 10.17 Thirteenth Amendment dated June 30, 2011 to Restated Loan Agreement between the Company and Arvest Bank, Tulsa, OK.
- *23.1 Consent of Independent Registered Public Accounting Firm.
- *31.1 Certification of the Chief Executive Officer of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of the Controller and Corporate Secretary (Principal Financial and Accounting Officer) of Educational Development Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1 Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed Herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(b) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EDUCATIONAL DEVELOPMENT CORPORATION

Date: May 25, 2012 By /s/ Marilyn Pinney
Marilyn Pinney
Controller and Corporate Secretary
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: May 25, 2012 /s/ Randall W. White
Randall W. White
Chairman of the Board
President, Treasurer and
Director

May 25, 2012 /s/ John A. Clerico
John A. Clerico, Director

May 25, 2012 /s/ Ronald McDaniel
Ronald McDaniel, Director

May 25, 2012 /s/ Kara Gae Neal
Kara Gae Neal, Director

May 25, 2012 /s/ Marilyn Pinney
Marilyn Pinney
Controller and Corporate Secretary
(Principal Financial and Accounting Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 29, 2012 and February 28, 2011, and the related statements of earnings, shareholders' equity and cash flows for each of the two years in the period ended February 29, 2012. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Educational Development Corporation as of February 29, 2012 and February 28, 2011, and the results of its operations and its cash flows for each of the two years in the period ended February 29, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ HOGANTAYLOR LLP
Tulsa, Oklahoma
May 25, 2012

EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
AS OF FEBRUARY 29 (28),

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 760,100	\$ 1,988,200
Accounts receivable, less allowance for doubtful accounts and sales returns \$556,300 (2012) and \$562,800 (2011)	3,575,000	3,076,300
Inventories—Net	9,854,000	10,010,100
Prepaid expenses and other assets	277,100	315,500
Deferred income taxes	379,800	367,700
Total current assets	14,846,000	15,757,800
INVENTORIES—Net	548,000	593,000
PROPERTY, PLANT AND EQUIPMENT—Net	2,000,400	2,042,400
INVESTMENT IN NONMARETABLE EQUITY SECURITIES	250,000	-
OTHER ASSETS	301,100	256,500
DEFERRED INCOME TAXES	65,900	55,300
TOTAL	<u>\$ 18,011,400</u>	<u>\$ 18,705,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,793,900	\$ 2,407,900
Line of credit, current portion	250,000	-
Accrued salaries and commissions	436,700	398,700
Current maturities of long-term debt	-	75,000
Income taxes payable	64,200	23,800
Dividends payable	469,600	468,700
Other current liabilities	779,400	672,400
Total current liabilities	3,793,800	4,046,500
COMMITMENTS (Note 7)		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.20 par value; Authorized 8,000,000 shares; Issued 6,041,040		
Outstanding 3,913,183 (2012) and 3,905,898 (2011) shares	1,208,200	1,208,200
Capital in excess of par value	8,548,000	8,548,000
Retained earnings	16,124,900	16,575,100
	25,881,100	26,331,300
Less treasury stock, at cost	(11,663,500)	(11,672,800)
	14,217,600	14,658,500
TOTAL	<u>\$ 18,011,400</u>	<u>\$ 18,705,000</u>

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF EARNINGS
FOR THE YEARS ENDED FEBRUARY 29 (28),

	<u>2012</u>	<u>2011</u>
GROSS SALES	\$ 40,906,200	\$ 39,630,700
Less discounts and allowances	(15,592,000)	(13,657,600)
Transportation revenue	<u>959,100</u>	<u>1,270,100</u>
NET REVENUES	26,273,300	27,243,200
COST OF SALES	<u>10,549,000</u>	<u>10,284,700</u>
Gross margin	<u>15,724,300</u>	<u>16,958,500</u>
OPERATING EXPENSES:		
Operating and selling	6,710,400	7,077,200
Sales commissions	4,855,200	5,568,600
General and administrative	1,972,500	2,380,600
Casualty loss	-	188,500
Total operating expenses	<u>13,538,100</u>	<u>15,214,900</u>
OTHER INCOME	<u>91,500</u>	<u>126,600</u>
EARNINGS BEFORE INCOME TAXES	2,277,700	1,870,200
INCOME TAXES	856,800	702,000
NET EARNINGS	<u>\$ 1,420,900</u>	<u>\$ 1,168,200</u>
BASIC AND DILUTED EARNINGS PER SHARE:		
Basic	<u>\$ 0.36</u>	<u>\$ 0.30</u>
Diluted	<u>\$ 0.36</u>	<u>\$ 0.30</u>
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:		
Basic	<u>3,898,145</u>	<u>3,887,895</u>
Diluted	<u>3,898,793</u>	<u>3,890,384</u>

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 29 (28),

	Common Stock (par value \$0.20 per share)		Capital in	Retained	Treasury Stock		Shareholde rs' Equity
	Number of				Number of		
	Shares	Amount	Excess of	Earnings	Shares	Amount	
	Issued		Par Value				
BALANCE—March 1, 2010	6,039,040	\$ 1,207,800	\$ 8,544,000	\$ 17,391,700	2,152,010	\$ (11,721,400)	\$ 15,422,100
Purchases of treasury stock	-	-	-	-	29,393	(191,000)	(191,000)
Sales of treasury stock	-	-	-	-	(46,262)	239,600	239,600
Dividends declared (\$0.12/share)	-	-	-	(468,700)	-	-	(468,700)
Dividends paid (\$0.39/share)	-	-	-	(1,516,100)	-	-	(1,516,100)
Exercise of options at \$2.1875	2,000	400	4,000	-	-	-	4,400
Net earnings	-	-	-	1,168,200	-	-	1,168,200
BALANCE—February 28, 2011	6,041,040	1,208,200	\$ 8,548,000	16,575,100	2,135,141	(11,672,800)	14,658,500
Purchases of treasury stock	-	-	-	-	36,731	(214,300)	(214,300)
Sales of treasury stock	-	-	-	-	(44,015)	223,600	223,600
Dividends declared (\$0.12/share)	-	-	-	(469,600)	-	-	(469,600)
Dividends paid (\$0.36/share)	-	-	-	(1,401,500)	-	-	(1,401,500)
Net earnings	-	-	-	1,420,900	-	-	1,420,900
BALANCE—February 29, 2012	6,041,040	\$ 1,208,200	\$ 8,548,000	\$ 16,124,900	2,127,857	(11,663,500)	\$ 14,217,600

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 29 (28),

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 1,420,900	\$ 1,168,200
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	118,100	124,700
Deferred income taxes	(22,700)	(105,700)
Provision for doubtful accounts and sales returns	874,800	1,619,600
Changes in assets and liabilities:		
Accounts receivable	(1,373,500)	(1,390,400)
Inventories, net	201,100	1,341,200
Prepaid expenses and other assets	(6,200)	(131,100)
Accounts payable, accrued salaries and commissions, and other current liabilities	(469,000)	157,100
Income tax payable	40,400	31,800
Total adjustments	(637,000)	1,647,200
Net cash provided by operating activities	<u>783,900</u>	<u>2,815,400</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in nonmarketable equity securities	(250,000)	-
Purchases of property, plant and equipment	(76,100)	(19,600)
Net cash used in investing activities	<u>(326,100)</u>	<u>(19,600)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(75,000)	(75,000)
Cash received from exercise of stock options	-	4,400
Cash received from sale of treasury stock	223,600	239,600
Cash paid to acquire treasury stock	(214,300)	(191,000)
Borrowings under revolving credit agreement	250,000	-
Dividends paid	(1,870,200)	(1,982,500)
Net cash used in financing activities	<u>(1,685,900)</u>	<u>(2,004,500)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,228,100)	791,300
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR	1,988,200	1,196,900
CASH AND CASH EQUIVALENTS—END OF YEAR	<u>\$ 760,100</u>	<u>\$ 1,988,200</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
		\$
Cash paid for interest	\$ 3,700	-
Cash paid for income taxes	<u>\$ 839,100</u>	<u>\$ 742,700</u>

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 29, 2012 AND FEBRUARY 28, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—We distribute books and publications through our Publishing and Usborne Books and More (“UBAM”) Divisions to book, toy and gift stores, libraries and home educators located throughout the United States (“U.S.”). We are the sole U.S. distributor of books and related items, which are published by an England-based publishing company, Usborne, our primary supplier. We are also in the direct publishing market through our ownership of Kane/Miller Publishers.

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

Business Concentration—A significant portion of our inventory purchases are concentrated with an England-based publishing company. Purchases from this company were approximately \$8.3 million for the year ended February 29, 2012 and \$7.3 million for the year ended February 28, 2011. Total inventory purchases for those same periods were approximately \$11.4 million and \$10.3 million, respectively.

Cash and Cash Equivalents—Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. All of our non-interest bearing cash balances were fully insured at February 29, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits. The majority of payments due from banks for third party credit card transactions process within two business days. Amounts due are classified as cash and cash equivalents at February 29, 2012 and February 28, 2011.

Accounts Receivable—Accounts receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment within thirty days from the invoice date. Trade accounts are stated at the amount management expects to collect from outstanding balances. Delinquency fees are not assessed. Payments of accounts receivable are allocated to the specific invoices identified on the customers’ remittance advice. Accounts receivable are carried at original invoice amount less an estimated reserve made for returns and discounts based on quarterly review of historical rates of returns and expected discounts to be taken. The carrying amount of accounts receivable is reduced, if needed, by a valuation allowance that reflects management’s best estimate of the amounts that will not be collected.

Management periodically reviews accounts receivable balances and, based on an assessment of historical bad debts, current customer receivable balances, age of customer receivable balances, customers’ financial conditions and current economic trends, estimates the portion, if any, of the balance that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation account based on its assessment of the current status of the individual accounts. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Recoveries of trade receivables previously written off are recorded when received.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined using the FIFO method. We present a portion of our inventory as a noncurrent asset. Occasionally we purchase book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of our primary supplier. These excess quantities are included in noncurrent inventory. We estimate noncurrent inventory using the current year turnover ratio by title. All inventory in excess of 2½ years of anticipated sales is classified as noncurrent inventory.

Inventories are presented net of a valuation allowance. Management has estimated and included an allowance for slow moving inventory for both current and noncurrent inventory. This allowance is based on management’s analysis of inventory on hand at February 29, 2012 and February 28, 2011.

Property, Plant and Equipment—Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives, as follows:

Buliding	30 years
Machinery and equipment	3 - 10 years
Furniture and fixtures	3 years

Income Taxes—We account for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and the tax basis of assets and liabilities using the current tax laws and rates. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts more likely than not expected to be realized.

Revenue Recognition—Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAM Division’s sales are paid at the time the product is shipped. These sales accounted for 58% of net revenues in FY 2012 and 64% of net revenues in FY 2011.

Estimated allowances for sales returns are recorded as sales are recognized and recorded. Management uses a moving average calculation to estimate the allowance for sales returns. We are not responsible for product damaged in transit. Damaged returns are primarily from the retail stores related to damages which occur in the stores, not in shipping to the stores. It is industry practice to accept returns from wholesale customers. Management has estimated and included a reserve for sales returns of \$100,000 as of February 29, 2012 and February 28, 2011.

Transportation revenue, the amount billed to the customer for shipping the product, is recorded when products are shipped.

Advertising Costs—Advertising costs are expensed as incurred. Advertising expenses, included in selling and operating expenses in the statements of earnings, were \$219,900 and \$162,800 for the years ending February 29, 2012 and February 28, 2011, respectively.

Shipping and Handling Costs— We classify shipping and handling costs as operating and selling expenses in the statements of earnings. Shipping and handling costs were \$2,289,700 and \$2,320,300 for the years ending February 29, 2012 and February 28, 2011, respectively.

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 we have utilized the treasury stock method.

The following reconciles the diluted earnings per share:

	Year Ended February 29 (28),	
	2012	2011
Diluted Earnings Per Share:		
Net earnings applicable to common shareholders	\$ 1,420,900	\$ 1,168,200
Shares:		
Weighted average shares outstanding—basic	3,898,145	3,887,895
Assumed exercise of options	648	2,489
Weighted average shares outstanding—diluted	3,898,793	3,890,384
Diluted Earnings Per Share	\$ 0.36	\$ 0.30

There were no stock options for the fiscal years ended February 29, 2012 and February 28, 2011 excluded from the diluted earnings per share calculation.

Fair Value of Financial Instruments—For cash and cash equivalents, accounts receivable, and accounts payable, the carrying amount approximates fair value because of the short maturity of those instruments.

Long-Lived Asset Impairment— We review the value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on estimated future cash flows. No impairment was noted as a result of such review during the years ended February 29, 2012 and February 28, 2011.

Stock-Based Compensation—Share-based payment transactions with employees, such as stock options and restricted stock, are measured at estimated fair value at date of grant and recognized as compensation expense.

New accounting pronouncements—The Financial Accounting Standards Board (“FASB”) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. We have reviewed the recently issued pronouncements and concluded that the recently issued accounting standards are not applicable to us.

2. INVENTORIES

Inventories consist of the following:

	February 29 (28),	
	2012	2011
Current:		
Book inventory	\$ 9,879,000	\$ 10,030,800
Inventory valuation allowance	(25,000)	(20,700)
Inventories net—current	\$ 9,854,000	\$ 10,010,100
Noncurrent:		
Book inventory	\$ 888,000	\$ 903,000
Inventory valuation allowance	(340,000)	(310,000)
Inventories net—noncurrent	\$ 548,000	\$ 593,000

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	February 29 (28),	
	2012	2011
Land	\$ 250,000	\$ 250,000
Building	2,124,700	2,124,700
Machinery and equipment	2,258,600	2,182,500
Furniture and fixtures	74,100	74,100
	<u>4,707,400</u>	<u>4,631,300</u>
Less accumulated depreciation	(2,707,000)	(2,588,900)
	<u>\$ 2,000,400</u>	<u>\$ 2,042,400</u>

4. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising our net deferred tax assets and liabilities as of February 29 (28) are as follows:

	2012	2011
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	\$ 173,600	\$ 176,000
Inventory overhead capitalization	78,500	77,300
Allowance for slow moving inventory	9,500	7,600
Allowance for sales returns	38,000	38,000
Accruals	<u>80,200</u>	<u>68,800</u>
	<u>379,800</u>	<u>367,700</u>
Deferred tax asset-Net	<u>\$ 379,800</u>	<u>\$ 367,700</u>
Noncurrent:		
Deferred tax assets:		
Allowance for slow moving inventory	\$ 129,200	\$ 117,800
	<u>129,200</u>	<u>117,800</u>
Deferred tax liabilities:		
Property, plant and equipment	<u>(63,300)</u>	<u>(62,500)</u>
	<u>(63,300)</u>	<u>(62,500)</u>
Deferred tax asset-Net	<u>\$ 65,900</u>	<u>\$ 55,300</u>

Management has determined that no valuation allowance is necessary to reduce the carrying 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:

	February 29 (28),	
	2012	2011
Current:		
Federal	\$ 737,500	\$ 676,900
State	142,000	130,800
	<u>879,500</u>	<u>807,700</u>
Deferred:		
Federal	(19,100)	(88,900)
State	(3,600)	(16,800)
	<u>(22,700)</u>	<u>(105,700)</u>
Total income tax expense	<u>\$ 856,800</u>	<u>\$ 702,000</u>

The following reconciles our expected income tax expense utilizing statutory tax rates to the actual tax expense:

	February 29 (28),	
	2012	2011
Tax expense at federal statutory rate	\$ 774,400	\$ 635,900
State income tax—net of federal tax benefit	89,800	73,700
Other	(7,400)	(7,600)
Total income tax expense	<u>\$ 856,800</u>	<u>\$ 702,000</u>

We file our tax returns in the US and certain state jurisdictions. We are no longer subject to income tax examinations by tax authorities for fiscal years before 2009. We are not currently the subject of any income tax examinations by any tax authorities.

Based upon a review of our income tax filing positions, we believe that our positions would be sustained upon an audit and do not anticipate any adjustments that would result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded. We classify interest and penalties associated with income taxes as a component of income tax expense on the statement of earnings.

5. EMPLOYEE BENEFIT PLAN

We have a profit sharing plan that 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 are discretionary and amounted to \$74,400 and \$73,400 in the fiscal years ended February 29, 2012 and February 28, 2011, respectively.

6. DEBT

We have a \$2,500,000 revolving credit agreement, with interest payable monthly at the greater of (a) prime rate minus 0.75% or (b) 4.00%. At February 29, 2012, the rate in effect was 4.00%, collateralized by substantially all of our assets and maturing on June 30, 2012.

We had \$250,000 in borrowings outstanding on the above revolving credit agreement at February 29, 2012 and no borrowings outstanding at February 28, 2011. Available credit under the revolving credit agreement was \$2,250,000 at February 29, 2012. This agreement also contains a provision for our use of the Bank's letters of credit. The Bank agrees to issue, or obtain issuance of commercial or stand-by letters of credit provided that no letters of credit will have an expiry date later than June 30, 2012 and that the sum of the line of credit plus the letters of credit would not exceed the borrowing base in effect at the time. The agreement contains provisions that require us 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. We intend to renew the bank agreement or obtain other financing upon maturity.

7. COMMITMENTS

At February 29, 2012, we had outstanding purchase commitments for inventory totaling approximately \$3,859,700.

Rent expense for the year ended February 29, 2012 was \$81,200. The following table provides a summary of our future lease obligations as of February 29, 2012:

	Total	2013	2014	2015
Total lease payments due	\$ 20,700	\$ 10,500	\$ 5,100	\$ 5,100

8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

The Board of Directors adopted the 1992 Incentive Stock Option Plan (the "1992 Plan") in June of 1992, which authorized us to grant up to 1,000,000 stock options. The 1992 Plan expired in June of 2002 upon which the Board of Directors adopted the 2002 Stock Option Plan (the "2002 Plan"). The 2002 Plan also authorized us to grant up to 1,000,000 stock options.

Options granted under the 1992 Plan and 2002 Plan (collectively the "Incentive Plans") vest at date of grant and are exercisable up to ten years from the date of grant. The exercise price on options granted is equal to the market price at the date of grant. Options outstanding at February 29, 2012 expire beginning in March 2014 through December 2019.

A summary of the status of our Incentive Plans as of February 29, 2012 and February 28, 2011, and changes during the years then ended is presented below:

	February 29, 2012		February 28, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	16,000	\$ 5.55	18,000	\$ 5.17
Exercised/canceled	-	-	(2,000)	2.19
Outstanding at End of Year	16,000	\$ 5.55	16,000	\$ 5.55

The following table summarizes information about stock options outstanding at February 29, 2012:

Weighted Average Exercise Price	Number Outstanding at February 29, 2012	Weighted Average Remaining Contractual Life (Years)
\$ 5.25	15,000	7.8
\$ 10.00	1,000	2.0
	<u>16,000</u>	

All options outstanding are exercisable at February 29, 2012.

9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 29, 2012 and February 28, 2011.

	Net Revenues	Gross Margin	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2012					
First quarter	\$ 6,264,400	\$ 3,824,000	\$ 300,200	\$ 0.08	\$ 0.08
Second quarter	5,437,100	3,036,700	126,200	0.03	0.03
Third quarter	8,690,400	5,283,600	724,900	0.19	0.19
Fourth quarter	5,881,400	3,580,000	269,600	0.06	0.06
Total year	<u>\$ 26,273,300</u>	<u>\$ 15,724,300</u>	<u>\$ 1,420,900</u>	<u>\$ 0.36</u>	<u>\$ 0.36</u>
2011					
First quarter	\$ 6,295,400	\$ 3,974,200	\$ 188,200	\$ 0.05	\$ 0.05
Second quarter	5,750,400	3,387,200	190,200	0.05	0.05
Third quarter	9,484,600	6,006,000	776,900	0.20	0.20
Fourth quarter	5,712,800	3,591,100	12,900	0.00	0.00
Total year	<u>\$ 27,243,200</u>	<u>\$ 16,958,500</u>	<u>\$ 1,168,200</u>	<u>\$ 0.30</u>	<u>\$ 0.30</u>

10. BUSINESS SEGMENTS

We have two reportable segments: Publishing and Usborne Books and More (“UBAM”) which 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 stores and museums, through commissioned sales representatives, trade and specialty wholesalers and an internal telesales group.
- UBAM markets its product line through a nationwide network of independent sales consultants using a combination of direct sales, home shows and book fairs. The UBAM 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. We evaluate segment performance based on earnings (loss) before income taxes of the segments, which is defined as segment net sales reduced by direct cost of sales and direct expenses. Corporate expenses, depreciation, interest expense and income taxes are not allocated to the segments, but are listed in the “other” column. Corporate expenses include the executive department, accounting department, information services department, general office management and building facilities management. Our assets and liabilities are not allocated on a segment basis.

Information by industry segment for the years ended February 29, 2012 and February 28, 2011 is set forth below:

NET REVENUES

	2012	2011
Publishing	\$ 10,981,100	\$ 9,829,400
UBAM	\$ 15,292,200	\$ 17,413,800
Other	\$ -	\$ -
Total	<u>\$ 26,273,300</u>	<u>\$ 27,243,200</u>

EARNINGS (LOSS) BEFORE INCOME TAXES

	2012	2011
Publishing	\$ 3,635,100	\$ 3,204,400
UBAM	\$ 2,582,500	\$ 3,262,700
Other	\$ (3,939,900)	\$ (4,596,900)
Total	<u>\$ 2,277,700</u>	<u>\$ 1,870,200</u>

11. STOCK REPURCHASE PLAN

In April 2008, the Board of Directors authorized us to purchase up to an additional 500,000 shares of our common stock under the plan initiated in 1998. This plan has no expiration date. During fiscal year 2012, we purchased 36,731 shares of common stock at an average price of \$5.83 per share totaling approximately \$214,300. The maximum number of shares that may be repurchased in the future is 360,109.

12. CASUALTY LOSS

During fiscal year ended February 28, 2011, we determined that amounts paid to a third party for travel deposits had not been used to reserve travel for the Company. As a result of this, we had to pay approximately \$188,500 in additional travel expenses, which was reported in operating expenses as a casualty loss for fiscal year ended February 28, 2011.

13. RECEIVABLE FROM CUSTOMER IN BANKRUPTCY

At February 28, 2011, we had a receivable in the amount of \$364,500 due from a customer who has filed for protection from its creditors under Chapter 11 of the Bankruptcy Reform Act of 1978 ("Act"). In July 2011, the debtor announced plans to sell itself to a group of liquidators. It had been unable to secure further financing to satisfy the claims of its creditors. At February 29, 2012, this receivable remains \$364,500, of which, \$340,000 is reserved.

14. STOCK PURCHASE AGREEMENT

On October 13, 2011, we signed a Stock Purchase Agreement to acquire an 11% position with Demibooks, Inc for an initial investment of \$250,000. We have accounted for this investment using the cost method, as reflected on the balance sheet under 'investment in nonmarketable equity securities'. Demibooks provides a publishing platform for interactive books. Their Demibooks® Composer product is a code-free way for publishers and self-published authors and illustrators to create interactive books for the iPad on the device itself. We will utilize the Composer platform to create our proprietary interactive products. The Stock Purchase Agreement allows for an additional \$250,000 investment, resulting in a total position of 18%, upon the completion of specified milestones.

15. SUBSEQUENT EVENT

On March 16, 2012, we paid the previously declared \$0.12 dividend per share to shareholders of record as of March 9, 2012.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements No. 33-60188 and 333-100659 of Educational Development Corporation on Form S-8 of our report dated May 25, 2012, appearing in this Annual Report on Form 10-K of Educational Development Corporation for the year ended February 29, 2012.

/s/ HoganTaylor LLP

Tulsa, Oklahoma
May 25, 2012

Exhibit 31.1

CERTIFICATION

I, Randall W. White, certify that:

1. I have reviewed this Annual Report on Form 10-K of Educational Development Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 25, 2012

/s/ Randall W. White

Chairman of the Board, President
and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Marilyn Pinney, certify that:

1. I have reviewed this Annual Report on Form 10-K of Educational Development Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - e. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - f. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 25, 2012

/s/ Marilyn Pinney
Controller and Corporate Secretary
(Principal Financial and Accounting Officer)

Exhibit 32.1

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

In connection with the Annual Report of Educational Development Corporation (the “Company”) on Form 10-K for the period ending February 29, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 25, 2012

By /s/ Randall W. White
Randall W. White
President and Chief Executive Officer

Date: May 25, 2012

By /s/ Marilyn Pinney
Marilyn Pinney
Controller and Corporate Secretary
(Principal Financial and Accounting Officer)

DIRECTORS

John A. Clerico

Co-founder and Chairman
ChartMark Investments, Inc.

Ronald T. McDaniel

Retired V.P. Sales
Educational Development Corporation

Kara Gae Neal

Former Superintendent and CEO
Tulsa Technology Center

Randall W. White

Chairman, President and
Chief Executive Officer – EDC

OFFICERS

Randall W. White

Chairman, President and
Chief Executive Officer

Marilyn Pinney

Controller and Corporate Secretary

Craig M. White

Vice President - Information Systems

CORPORATE DATA

Notice of Annual Meeting

July 19, 2012, 10:00 a.m.
Educational Development Corporation
Executive Conference Room
10302 E. 55th Place
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:

Randall W. White, President
Educational Development Corporation
10302 E. 55th Place
Tulsa, Oklahoma 74146-6515

Transfer Agent

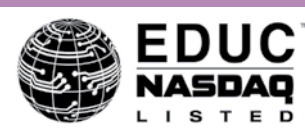
American Stock Transfer and Trust Company
New York, New York

Auditors

HoganTaylor LLP
Tulsa, Oklahoma

Corporate Offices

10302 E. 55th Place
Tulsa, Oklahoma 74146-6515
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