Dear Fellow Shareholders,

As EDC approaches the new millennium, there is considerable excitement. We have over 110 outstanding new titles to sell in fiscal year 2000 as well as our great backlist.

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

We begin our new fiscal year with the utmost confidence in our products, our operations, and our future. We have endured a two year decline in sales, but have maintained cash flow and profitability. We are near completion in our Y2K compliance and now have full attention on our marketing programs. During the past fiscal year, significant enhancements were implemented in the Home Business Division. The compensation program for the field sales force was improved, and now is competitive with industry leaders. We have made significant enhancements to our website to better serve our customers and our home-based business division. These enhancements are an investment in our marketing programs as they provide an invaluable aid to the field sales force. The internet technology is a major piece of our marketing strategy. This investment is already paying off as recruiting is up significantly in the first quarter of the current fiscal year. The sales force is energized, motivated and consequently, we expect the sales in Usborne Books At Home to show an improvement during fiscal year 2000. The Publishing Division has been restructured with large key accounts reassigned to our in-house marketing staff. We expect these changes to have a positive impact on sales volume.

We have outstanding, award-winning products and additional products in the development stages. We expect to launch our new CD-ROM based reading and phonics program in the fall of 1999 and are very excited about the prospects for this program.

With the full support of our Management and Board of Directors, we continue to purchase stock under the buy-back program. Since announcing the program in July 1997, the Company has repurchased nearly 700,000 shares and will continue to purchase the stock at the current price level.

We are confident in our products, our operating capacity and our ability to restore sales growth to historic levels.

Cordially yours,

Randall W. White

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

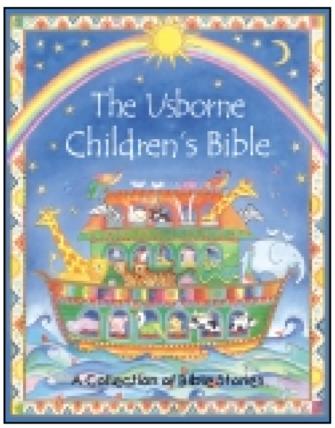
THE COMPANY

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

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

OUR PRODUCT LINE

USBORNE BOOKS



The principal product of the Company is a line of children's books produced in the United Kingdom by Usborne Publishing Limited. Usborne produces and distributes books in over 50 countries and in more than 50 languages. The Company is the United States distributor of these books and presently offers more than 1000 different titles.

Usborne books are fascinating, lavishly illustrated books written with humor, surprise and drama. They incorporate activities and puzzles to challenge a child's observation skills and intelligence. Their superb printing quality on acid free paper and exceptionally well-produced graphics, high ratio of pictures to text, short magazine-like format and unique detail set Usborne Books apart from all other books. There is a wide range of subjects covering hobbies, history, science, nature, foreign language, parent's guides and much more. Usborne books appeal to all ages, infants to adults, with prices to suit everyone.

Usborne books have again received numerous awards. The Children's Book Council selected ***My Town*** as a "1999 Notable Children's Trade Book in the Field of Social Studies." EDC also is very pleased to have received two 1998 "Dr. Toy's Best Classic Toys" awards, as well as three "Dr. Toy's Best Children's Products" awards. In addition, The Parents' Choice Foundation recognized 11 new titles.

USBORNE KID KITS

The Usborne Kid Kits are currently available in 59 different titles, with more in the planning stages. Each Kid Kit highlights an Usborne book by teaming it with specially selected age-appropriate items and/or toys which complement the information contained in the book, thereby reinforcing a child's overall learning experience. Kid Kits are available in playtime, science, craft and hobby themes. They provide something for age groups from toddlers to teens. All Kid Kits are attractively packaged in a reusable vinyl bag with handle and Velcro closure.

CD-ROMS AND PUZZLES

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

Kathy Plecinski
Vice President
Usborne Books at Home

THE HOME BUSINESS DIVISION

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

Usborne Books at Home was the first multilevel direct selling company in the United States to offer primarily nonfiction educational books for children. There are approximately 3,400 independent sales consultants selling our books in all fifty states. Eighty-one titles are exclusive to this Division. Consultants also market the rest of the Company's product line of books, Kid Kits, CD-ROMS and puzzles.

Usborne Books at Home will hold its Third National Convention in June 1999 in Tulsa, Oklahoma. This three-day event will offer training and motivational sessions for the consultants in attendance. It is a great opportunity for consultants to meet their peers and exchange ideas. The Home Business Division also participates in many training seminars held throughout the country. Usborne Books at Home has been featured in *Wealth Building Magazine* as one of the "142 Proven Direct Sales Firms." The Home Business Division has also been featured in "Better Parenting," a nationally aired television program.

THE PUBLISHING DIVISION

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

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

During the last year the Publishing Division has experienced a 9.4% decline in net sales due to changing market conditions. National chains increasingly dominate the bookstore market, which in turn has resulted in fewer independent stores. Independent store closings have resulted in fewer sales. EDC has restructured sales and marketing coverage on the national chains in order to increase market share. Independent toy retailers have also experienced increased competition from national discount chains, which has resulted in lower sales in this market segment as well.

An increase in the number of front list titles will increase sales opportunities in the new fiscal year, as well as the refocused sales and marketing strategies. The gift market has considerable potential for EDC, and as a result EDC has increased its gift trade show schedule by 50%.

Kent D. Hughes
National Sales Manager
Publishing Division

OPERATIONS

The Company's operations are located in Tulsa, Oklahoma. The Company leases approximately 9,000 square feet of office space and 71,000 square feet of adjoining warehouse space. At May 1, 1999 the Company had 69 full-time employees and 2 part-time employees.

Michael L. Puhl
Vice President - Operations

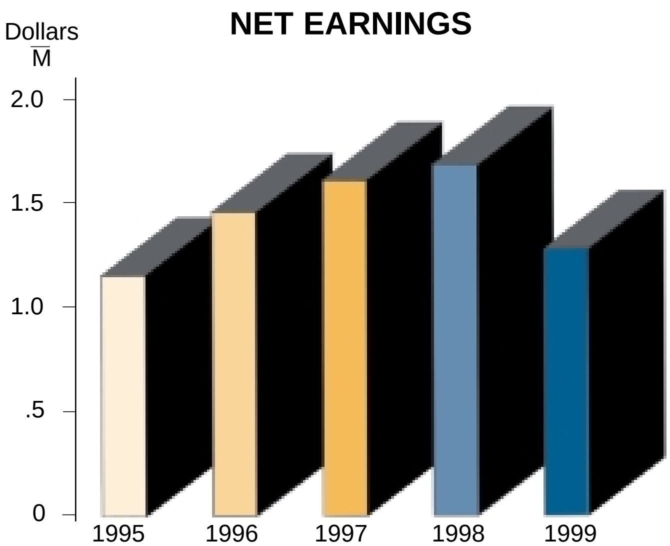
Fiscal year 1999 has been a year of technological improvements for EDC. Our web page has been a positive addition to our information flow to our consultants. They can view our on-line catalog, check product availability, and review their monthly sales figures to help them manage their business. Our consultants can track their shipments through a link to the UPS tracking system, allowing them to know exactly where their shipments are. A message board was installed for consultants to ask for assistance from other consultants, as well as a chat room. These innovations have improved our ability to train and inform our field sales force by providing better and more timely information.

Other completed projects include an improved invoice format, increased pick line capacity, and upgraded packaging to reduce damages.

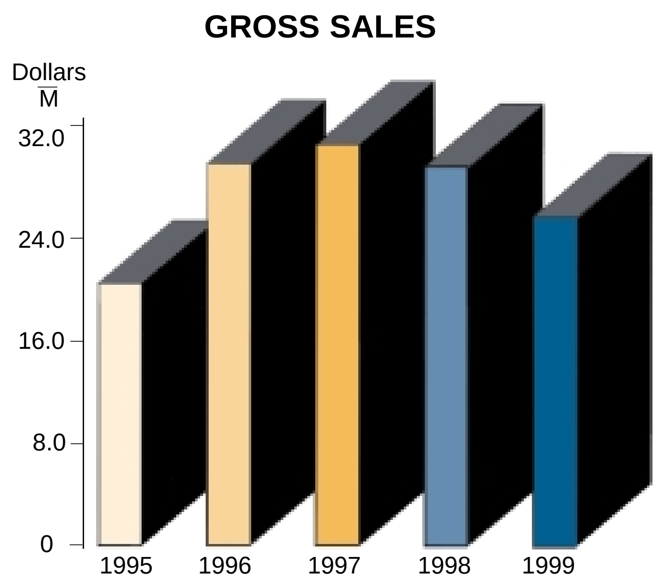
The Company continues to look for ways to improve our service level to our customers, both on a product and information flow basis. Future plans include the implementation of EDI order transmission from our consultants, as well as further streamlining of the shipping process.

General

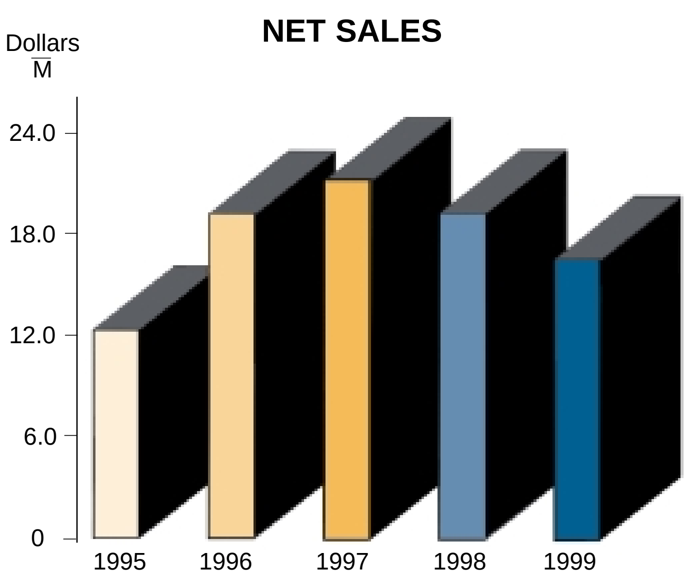
Certain statements contained in this Management's Discussion and Analysis are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that may ultimately prove to be inaccurate. Actual events and results may materially differ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



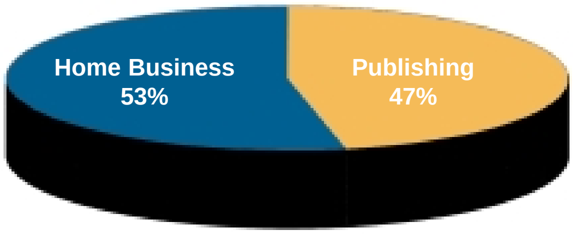
EDC had net earnings of $1,297,493 for fiscal year 1999 compared to $1,704,568 for fiscal year 1998, $1,630,088 for fiscal year 1997, $1,478,714 for fiscal year 1996 and $1,171,786 for fiscal year 1995.



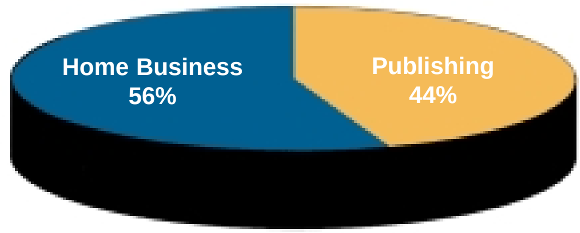
Gross sales for fiscal year 1999 were $25,889,212 compared to $29,764,345 in fiscal year 1998, $31,547,007 in fiscal year 1997, $30,039,963 in fiscal year 1996 and $20,616,152 in fiscal year 1995.



Net sales for fiscal year 1999 were $16,671,385 compared to $19,343,362 in fiscal year 1998, $21,239,507 in fiscal year 1997, $19,253,467 in fiscal year 1996, and $12,353,257 in fiscal year 1995.

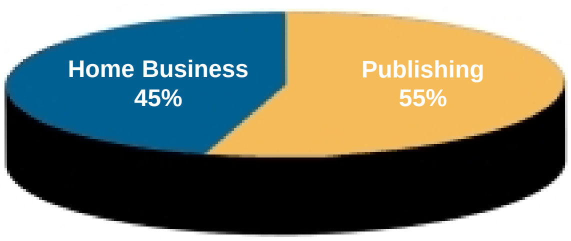


1999 NET SALES BY DIVISION

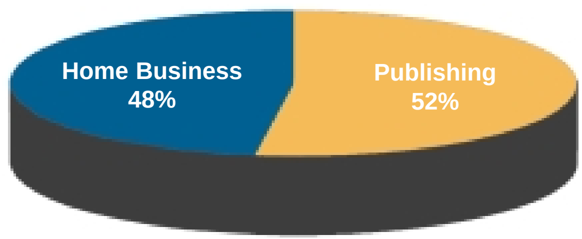


1998 NET SALES BY DIVISION

Net sales from the Company's Home Business Division were $8,876,683 in fiscal year 1999 compared to $10,739,266 in fiscal year 1998, and $12,932,176 in fiscal year 1997. Net sales from the Company's Publishing Division were $7,794,702 in fiscal year 1999 compared to $8,604,096 in fiscal year 1998, and $7,864,910 in fiscal year 1997. Net sales from the Company's Library Services Division were $442,421 in fiscal year 1997. In July, 1996 the Company transferred responsibility of sales to school and public libraries from the Library Division to the Home Business Division.



1999 OPERATING PROFIT



1998 OPERATING PROFIT

The Company’s cost of sales in fiscal year 1999 was $6,724,539 compared to $7,771,311 in fiscal year 1998 and $8,396,060 for fiscal year 1997. Cost of sales as a percentage of gross sales was 26.0% in fiscal year 1999 compared to 26.1% in fiscal year 1998 and 26.6% in fiscal year 1997. Cost of sales as a percentage of gross sales will fluctuate depending upon the product mix being sold.

Operating and selling expenses decreased 8.0% over the previous year. As a percentage of gross sales, these expenses were 12.0% in fiscal year 1999, 11.4% in fiscal year 1998, and 12.3% in fiscal year 1997. Reduced sales incentives and credit card fees in the Home Business Division contributed to the decrease in operating and selling expenses. In addition, payroll and benefit costs related to operating and selling expenses declined due to a decrease in headcount.

Sales commissions decreased 12.9% over the previous year. Sales commissions as a percentage of gross sales will vary depending upon the division making the sale and the product being sold. The Home Business Division has a higher commission structure and this Division’s lower sales resulted in the decrease in commission expense. As a percentage of gross sales, commission expenses were 12.8%, 12.8% and 14.9% for fiscal years 1999, 1998 and 1997, respectively.

General and administrative expenses increased 4.9% in fiscal year 1999 over fiscal year 1998. Increased payroll and benefit costs contributed to this increase. General and administrative expenses are not always directly affected by sales, so comparison of these expenses as a percentage of gross sales can be misleading.

Interest expense decreased 38.2% in fiscal year 1999 versus fiscal year 1998. This decrease was due primarily to decreased borrowing levels throughout fiscal year 1999, the result of improved cash flows.

FINANCIAL POSITION

Working capital was $9.8 million for fiscal year end 1999 and $9.6 million for fiscal year end 1998. Reduced payables and short-term bank debt contributed to the working capital increase at fiscal year end 1999. The Company pays interest on its bank promissory note monthly from current cash flows. Management expects its financial position to remain strong and to increase working capital during the next fiscal year.

Management believes the Company's liquidity at February 28, 1999 to be adequate. There are no known demands, commitments, events or uncertainties that would result in a material change in the Company's liquidity during fiscal year 2000. Capital expenditures are expected to be less than $750,000 in fiscal year 2000. These expenditures would consist primarily of software and hardware enhancements to the Company's existing data processing equipment, leasehold improvements and additions to the warehouse shipping system.

W. Curtis Fossett
Controller & Corporate Secretary

Effective June 30, 1998 the Company signed a Second Amendment to Restated Credit and Security Agreement with State Bank which provides a $3,500,000 line of credit. The line of credit is evidenced by a promissory note in the amount of $3,500,000 payable June 30, 1999. The note bears interest at the Wall Street Journal prime floating rate payable monthly (7.75% at February 28, 1999). The note is collateralized by substantially all of the assets of the Company. At February 28, 1999, the Company had $756,000 in borrowings and a $50,000 letter of credit issued under the revolving credit agreement. Available credit under the revolving credit agreement was $2,694,000 at February 28,1999.

The Company obtained and uses the credit facility to fund routine operations. Payments are made from current cash flows. The Company is negotiating to renew this facility when it matures June 30, 1999. The Company believes its borrowing capacity under this line to be adequate for the next several years.

The Company generated approximately $1.5 million from operating activities during fiscal year 1999. Accounts receivable decreased during fiscal year 1999, the result of lower sales in the publishing division and the Company's emphasis on collections and the tightening of credit controls. The Company plans to continue to maximize its collection efforts in order to maintain cash flows.

Inventory levels declined 8.4% from fiscal year end 1998 to fiscal year end 1999, the result of the Company's continued efforts of monitoring inventory levels to ensure that adequate inventory is on hand to support sales as well as to meet the six to eight month resupply requirements of its principal supplier. The Company expects inventory levels will increase moderately each year as new titles are added to the product line.

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

Cash used in investing activities during fiscal year 1999 was primarily for additional computer equipment and additions to the warehouse flowrack shipping system.

The Company was able to pay down the bank promissory note during fiscal year 1999 due to improved cash flows during the year.

During the year the Company continued its stock buyback program by purchasing 376,832 shares of its common stock at a cost of $1,277,186. The Company also paid a dividend of $.02 per share or $101,892.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Educational Development Corporation:

We have audited the accompanying balance sheets of Educational Development Corporation as of February 28, 1999 and 1998, and the related statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended February 28, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at February 28, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended February 28, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

April 19, 1999
Tulsa, Oklahoma

EDUCATIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS
FEBRUARY 28, 1999 AND 1998

ASSETS	1999	1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 210,931	$ 171,549
Accounts receivable, less allowances for doubtful accounts and sales returns	1,842,616	2,128,012
Inventories - Net	9,546,674	10,402,230
Prepaid expenses and other assets	220,032	95,679
Income taxes receivable	55,077	51,092
Deferred income taxes	121,800	153,300
Total current assets	11,997,130	13,001,862
PROPERTY AND EQUIPMENT - Net	342,464	595,638
	$ 12,339,594	$ 13,597,500
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable to bank	$ 756,000	$ 876,000
Accounts payable	1,095,771	2,230,651
Accrued salaries and commissions	242,582	259,760
Other current liabilities	149,563	69,884
Total current liabilities	2,243,916	3,436,295
DEFERRED INCOME TAXES	56,300	95,000
COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Common stock, $0.20 par value; Authorized 6,000,000 shares; Issued 5,429,240 (1999) and 5,424,240 (1998) shares; Outstanding 4,873,254 (1999) and 5,232,138 (1998) shares	1,085,848	1,084,848
Capital in excess of par value	4,410,066	4,403,566
Retained earnings	6,266,424	5,070,823
	11,762,338	10,559,237
Less treasury stock, at cost	(1,722,960)	(493,032)
	10,039,378	10,066,205
	$ 12,339,594	$ 13,597,500

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF EARNINGS

YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

	1999	1998	1997
GROSS SALES	$ 25,889,212	$ 29,764,345	$ 31,547,007
Less discounts and allowances	(9,217,827)	(10,420,983)	(10,307,500)
Net sales	16,671,385	19,343,362	21,239,507
COST OF SALES	6,724,539	7,771,311	8,396,060
Gross margin	9,946,846	11,572,051	12,843,447
OPERATING EXPENSES:			
Operating and selling	3,118,179	3,389,317	3,883,438
Sales commissions	3,308,551	3,797,145	4,699,279
General and administrative	1,619,635	1,543,348	1,315,012
Interest	96,427	156,149	344,966
	8,142,792	8,885,959	10,242,695
OTHER INCOME	117,339	127,376	33,436
EARNINGS BEFORE INCOME TAXES	1,921,393	2,813,468	2,634,188
INCOME TAXES	623,900	1,108,900	1,004,100
NET EARNINGS	$ 1,297,493	$ 1,704,568	$ 1,630,088
BASIC AND DILUTED EARNINGS PER SHARE:			
Basic	$ 0.26	$ 0.33	$ 0.31
Diluted	$ 0.26	$ 0.32	$ 0.31
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:			
Basic	5,036,574	5,216,076	5,214,264
Diluted	5,098,167	5,338,188	5,353,938

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

	Common Stock (par value $.20 per share)				Treasury Stock		
	Number of Shares Issued	Amount	Capital in Excess of Par Value	Retained Earnings	Number of Shares	Amount	Shareholders' Equity
BALANCE, MARCH 1, 1996	5,398,240	$ 1,079,648	$ 4,391,339	$ 1,788,343	206,742	$ (527,442)	$ 6,731,888
Exercise of options at $0.25/share	20,000	4,000	1,000	-	-	-	5,000
Exercise of options at $1.50/share	6,000	1,200	7,800	-	-	-	9,000
Issuance of treasury stock	-	-	3,103	-	(3,840)	10,738	13,841
Purchase of treasury stock	-	-	-	-	32,975	(242,730)	(242,730)
Sales of treasury stock	-	-	-	-	(12,334)	125,958	125,958
Net earnings	-	-	-	1,630,088	-	-	1,630,088
BALANCE, FEBRUARY 28, 1997	5,424,240	1,084,848	4,403,242	3,418,431	223,543	(633,476)	8,273,045
Issuance of treasury stock	-	-	324	-	(700)	2,069	2,393
Purchase of treasury stock	-	-	-	-	15,900	(85,364)	(85,364)
Sales of treasury stock	-	-	-	-	(46,641)	223,739	223,739
Dividends paid ($0.01/share)	-	-	-	(52,176)	-	-	(52,176)
Net earnings	-	-	-	1,704,568	-	-	1,704,568
BALANCE, FEBRUARY 28, 1998	5,424,240	1,084,848	4,403,566	5,070,823	192,102	(493,032)	10,066,205
Exercise of options at $1.50/share	5,000	1,000	6,500	-	-	-	7,500
Issuance of treasury stock	-	-	-	-	(400)	1,240	1,240
Purchase of treasury stock	-	-	-	-	376,832	(1,277,186)	(1,277,186)
Sales of treasury stock	-	-	-	-	(12,548)	46,018	46,018
Dividends paid ($0.02/share)	-	-	-	(101,892)	-	-	(101,892)
Net earnings	-	-	-	1,297,493	-	-	1,297,493
BALANCE, FEBRUARY 28, 1999	5,429,240	$ 1,085,848	$ 4,410,066	$ 6,266,424	555,986	$(1,722,960)	$10,039,378

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28, 1999, 1998 AND 1997

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 1,297,493	$ 1,704,568	$ 1,630,088
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	308,805	296,803	252,113
Write off of asset	535	-	-
Deferred income taxes	(7,200)	100,900	9,100
Provision for doubtful accounts and sales returns	1,277,201	862,900	1,225,000
Recovery of obsolete inventory reserve	-	(150,913)	-
Stock issued for awards	1,240	2,393	4,251
Changes in assets and liabilities:			
Accounts and income taxes receivable	(995,790)	(885,224)	(273,973)
Inventories	855,556	(202,860)	1,951,416
Prepaid expenses and other assets	(124,353)	(25,378)	44,462
Accounts payable and accrued expenses	(1,072,379)	(522,029)	(787,856)
Total adjustments	243,615	(523,408)	2,424,513
Net cash provided by operating activities	1,541,108	1,181,160	4,054,601
CASH FLOWS FROM INVESTING ACTIVITIES -			
Purchases of property and equipment	(56,166)	(43,963)	(275,639)
Net cash used in investing activities	(56,166)	(43,963)	(275,639)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	7,000,000	8,484,900	7,130,000
Payments under revolving credit agreement	(7,120,000)	(9,618,900)	(10,940,000)
Cash received from exercise of stock options	7,500	-	14,000
Cash received from sale of stock	46,018	223,739	125,958
Cash paid to acquire treasury stock	(1,277,186)	(85,364)	(242,730)
Dividends paid	(101,892)	(52,176)	-
Net cash used in financing activities	(1,445,560)	(1,047,801)	(3,912,772)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,382	89,396	(133,810)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	171,549	82,153	215,963
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 210,931	$ 171,549	$ 82,153
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 98,482	$ 164,519	$ 368,051
Cash paid for income taxes	$ 779,000	$ 935,000	$ 766,769

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Educational Development Corporation (the "Company") distributes books and publications through its Publishing and Home Business Divisions. In July 1996, the Company's Library Division ceased operations and responsibility for sales to this market segment was taken over by the Home Business Division. The Company is the United States ("U.S.") distributor of books and related matters, published primarily in England, to book, toy and gift stores, libraries and home educators. The Company is also involved in the production and publishing of new book titles. The English publishing company is the Company's primary supplier. The Company sells to its customers, located throughout the U.S., primarily on standard credit terms.

Estimates - The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Accounts Receivable - Accounts receivable at February 28, 1999 and 1998, include approximately $148,000 and $65,000, respectively, due from directors of the Company.

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

Property and Equipment - Property and equipment are stated at cost and depreciated and amortized using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives range from two to five years.

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

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

Advertising Costs - The Company expenses advertising costs as incurred.

Earnings Per Share - 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 and common share equivalents outstanding which include, where appropriate, the assumed exercise of options. In computing diluted EPS the Company has utilized the treasury stock method.

The following reconciles the diluted earnings per share:

	Year Ended February 28,		
	1999	1998	1997
Diluted Earnings Per Share:			
Net earnings applicable to common shareholders	$ 1,297,493	$ 1,704,568	$ 1,630,088
Shares:			
Weighted average shares outstanding - basic	5,036,574	5,216,076	5,214,264
Assumed exercise of options	61,593	122,112	139,674
	5,098,167	5,338,188	5,353,938
Diluted Earnings Per Share	$ 0.26	$ 0.32	$ 0.31

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

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

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

New Accounting Standards - SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities,"establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives be recognized as either assets or liabilities in the statement of financial position and be measured at fair value. SFAS No. 133 is effective for the Company beginning March 1, 2000. The Company is currently evaluating SFAS No. 133, but does not expect its adoption will have a material impact on its consolidated financial statements.

Reclassifications - Reclassifications were made to certain 1998 balances to conform with the 1999 presentation.

2. INVENTORIES

Inventories consist of the following:

	February 28,	
	1999	**1998**
Book inventory	$ 9,670,406	$ 10,552,417
Reserve for obsolescence	(123,732)	(150,187)
	$ 9,546,674	$ 10,402,230

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	February 28, 1999	February 28, 1998
Computer equipment	$ 802,899	$ 777,699
Warehouse and office equipment	471,438	441,954
Furniture, fixtures and other	101,335	101,335
	1,375,672	1,320,988
Less accumulated depreciation and amortization	(1,033,208)	(725,350)
	$ 342,464	$ 595,638

4. NOTE PAYABLE

The note payable to bank is under a $3,500,000 revolving credit agreement, with interest payable monthly at prime (7.75% and 8.50% at February 28, 1999 and 1998, respectively), collateralized by substantially all assets of the Company, maturing on June 30, 1999. At February 28, 1999, the Company had $756,000 in borrowings and a $50,000 letter of credit issued under the revolving credit agreement. Available credit under the revolving credit agreement was $2,694,000 at February 28, 1999. The agreement contains provisions that require the maintenance of specified financial ratios, restrict transactions with related parties, prohibit mergers or consolidation, disallow additional debt, and limit the amount of compensation, salaries, investments, capital expenditures and leasing transactions. The Company is in compliance with or has obtained waivers for all restrictive covenants. The Company intends to renew the bank agreement or obtain other financing upon maturity.

For each of the three years in the period ended February 28, 1999, the highest amount of short-term borrowings, the average amount of borrowings under these short-term notes, and the weighted average interest rates are as follows:

	Year Ended February 28, 1999	1998	1997
Note payable to bank:			
Largest amount borrowed	$ 2,306,000	$ 2,860,000	$ 5,850,000
Average amount borrowed	1,343,549	1,766,813	4,061,250
Weighted average interest rate	8.3%	8.5%	8.5%

5. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating loss and tax credit carryforwards. The tax effects of significant items comprising the Company's net deferred tax assets and liabilities as of February 28, 1999 and 1998 are as follows:

	February 28, 1999	February 28, 1998
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	$ 34,600	$ 55,300
Inventories	48,300	59,500
Expenses deducted on the cash basis for income tax purposes	23,400	23,400
Change in accounting method	15,500	15,100
Deferred tax asset	$ 121,800	$ 153,300
Noncurrent:		
Deferred tax asset - Change in accounting method	$ -	$ 15,100
Deferred tax liability - Property and equipment	(56,300)	(110,100)
Net deferred tax liability	$ (56,300)	$ (95,000)

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

The components of income tax expense are as follows:

	Year Ended February 28, 1999	1998	1997
Current:			
Federal	$ 536,500	$ 856,900	$ 845,800
State	94,600	151,100	149,200
	631,100	1,008,000	995,000
Deferred:			
Federal	(6,100)	85,800	7,700
State	(1,100)	15,100	1,400
	(7,200)	100,900	9,100
Total income tax expense	$ 623,900	$ 1,108,900	$ 1,004,100

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

	Year Ended February 28, 1999	1998	1997
Tax expense at federal statutory rate	$ 653,000	$ 957,000	$ 896,000
State income tax, net of federal tax benefit	66,000	116,000	105,000
Other	(95,100)	35,900	3,100
	$ 623,900	$ 1,108,900	$ 1,004,100

6. EMPLOYEE BENEFIT PLAN

The Company has a profit sharing plan which incorporates the provisions of Section 401(k) of the Internal Revenue Code. The 401(k) plan covers substantially all employees meeting specific age and length of service requirements. Matching contributions from the Company are discretionary and amounted to $27,291, $27,113 and $31,457 in fiscal years 1999, 1998 and 1997, respectively.

7. COMMITMENTS

The Company leases its office and warehouse facilities under a noncancelable operating lease which expired in February 1999. Total rent expense related to these leases was $225,960, in both fiscal 1999 and 1998 and $219,000 for fiscal 1997.

At February 28, 1999, the Company had outstanding commitments to purchase inventory from its primary vendor totaling approximately $1,548,000.

8. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

On December 20, 1995, the Company's Board of Directors declared a two-for-one split of the Company's common stock in the form of a stock dividend for shareholders of record as of April 1, 1996. On March 13, 1996, in a special meeting of the stockholders, an increase in the number of authorized shares from 3,000,000 to 6,000,000 was approved. A total of 2,699,120 shares of common stock were issued in connection with the split related to shares outstanding at February 29, 1996. The stated par value of each share was not changed from $0.20. A total of $539,824 was reclassified from the Company's capital in excess of par value account to the Company's common stock account.

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

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

Options granted under either of the two Incentive Stock Option Plans, collectively the "Incentive Plan," are exercisable up to ten years from the date of grant. Options outstanding at February 28, 1999 expire in 2003 through 2009.

A summary of the status of the Company's Incentive Plan as of February 28, 1999, 1998 and 1997 and changes during the years ended on those dates is presented below:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	328,500	$ 3.06	309,800	$ 3.79	206,000	$ 2.55
Granted	171,700	4.34	140,600	4.03	117,400	6.00
Exercised/canceled	(10,200)	(2.77)	(121,900)	(6.02)	(13,600)	(4.01)
Outstanding at End of Year	490,000	$ 3.51	328,500	$ 3.06	309,800	$ 3.79

The following table summarizes information about stock options outstanding at February 28, 1999:

Range of Exercise Prices	Number Outstanding at February 28, 1999	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1.375-$1.50	79,000	4	$ 1.41
$2.50	15,000	9	$ 2.50
$3.13	106,000	5	$ 3.13
$3.81	21,500	9	$ 3.81
$4.00	133,300	8	$ 4.00
$4.63	135,200	9	$ 4.63
	490,000	8	$ 3.51

All options outstanding are exercisable at February 28, 1999.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its Incentive Plan. Accordingly, no compensation cost has been recognized for its Incentive Plan. Had compensation cost for the Company's Incentive Plan been determined based on the fair value at the grant dates for awards under the Incentive Plan consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended February 28, 1999, 1998 and 1997 would have been reduced to the pro forma amounts indicated below:

	1999	1998	1997
Net earnings - as reported	$ 1,297,493	$ 1,704,568	$ 1,630,088
Net earnings - pro forma	$ 1,104,347	$ 1,636,618	$ 1,375,088
Earnings per share - as reported:			
Basic	$ 0.26	$ 0.33	$ 0.31
Diluted	$ 0.26	$ 0.32	$ 0.31
Earnings per share - pro forma:			
Basic	$ 0.22	$ 0.31	$ 0.26
Diluted	$ 0.22	$ 0.31	$ 0.26

The fair value of options granted under the Incentive Plan were estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for options granted in 1999; no dividend yield, expected volatility of 50%, risk free interest rate of 5.06% and expected lives of four years; 1998, no dividend yield, expected volatility of 54%, risk free interest rate of 6.2% and expected lives of four years; and 1997, no dividend yield, expected volatility of 76%, risk free interest rate of 6% and expected lives of four years.

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

Additionally, at February 1992, options to purchase 80,000 shares of the Company's common stock were outstanding. These options were issued to directors and a stockholder who were not officers of the Company at exercise prices of $0.25-$0.625. During August 1992, 40,000 of these options were exercised at an option price of $0.625 per share, and the Company simultaneously reacquired the common stock issued at a net cost to the Company of $7,500. During February 1996, 20,000 of these options were exercised at an option price of $0.25. The remaining 20,000 of these options were exercised at an option price of $0.25 in March 1996.

9. SUPPLEMENTARY INFORMATION

The activity in the allowances for doubtful accounts receivable, sales returns and inventory valuation for each of the three years in the period ended February 28, 1999 is as follows:

Doubtful accounts receivable:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1997	$ 127,000	$ 60,000	$ (95,100)	$ 91,900
1998	91,900	60,000	(10,200)	141,700
1999	141,700	66,000	(119,144)	88,556

Sales returns:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1997	$ 101,000	$ 1,165,000	$ (1,165,000)	$ 101,000
1998	101,000	802,900	(802,900)	101,000
1999	101,000	1,211,201	(1,211,201)	101,000

Inventory valuation:

Year	Balance at Beginning of Year	Amounts Charged to Expense	Amounts Charged to Reserve	Balance at End of Year
1997	$ 301,100	$ -	$ -	$ 301,100
1998	301,100	-	(150,913)	150,187
1999	150,187	33,545	(60,000)	123,732

Charges to certain expense accounts for each of the three years in the period ended February 28, 1999 are shown below:

	Year Ended February 28,		
	1999	1998	1997
Maintenance and repairs	$ 33,515	$ 30,919	$ 34,435
Taxes other than payroll and income taxes	31,079	30,093	20,805
Advertising costs	51,730	83,865	84,501

10. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 1999 and 1998:

	Net Sales	Gross Profit	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
1999					
First quarter	$ 4,160,700	$ 2,484,200	$ 350,000	$ 0.07	$ 0.07
Second quarter	3,950,400	2,253,900	307,000	0.06	0.06
Third quarter	5,453,700	3,391,000	537,600	0.11	0.11
Fourth quarter	3,106,585	1,817,746	102,893	0.02	0.02
Total year	$16,671,385	$ 9,946,846	$1,297,493	$ 0.26	$ 0.26
1998					
First quarter	$ 4,660,400	$ 2,794,500	$ 463,900	$ 0.09	$ 0.09
Second quarter	5,266,600	3,021,600	480,800	0.09	0.09
Third quarter	5,559,100	3,395,700	561,000	0.11	0.10
Fourth quarter	3,857,262	2,360,251	198,868	0.04	0.04
Total year	$19,343,362	$11,572,051	$1,704,568	$ 0.33	$ 0.32

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DIRECTORS

Robert D. Berryhill
Private Investor

G. Dean Cosgrove
Independent Consultant

John M. Lare
President – Pegasus Foods, Inc.

James F. Lewis
Chief Executive Officer – The Lewis Companies

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

OFFICERS

Randall W. White
Chairman, President and
Chief Executive Officer

Michael L. Puhl
Vice President - Operations

W. Curtis Fossett
Controller and Corporate Secretary

CORPORATE DATA

Notice of Annual Meeting
June 29, 1999
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Tulsa, Oklahoma

Form 10-K
Educational Development Corporation's Form 10-K filed with the Securities and Exchange Commission is available upon request. Write to:

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