EDUCATIONAL DEVELOPMENT CORP
Form 10-K
May 25, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended February 28, 2006

o **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 o No þ

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 o No þ

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 þ No o

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. þ

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No þ

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, 2005, on the Nasdaq National Market was $27,921,553.

As of May 22, 2006, there were 3,755,934 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report, to the extent not set forth herein, is incorporated herein by reference from the registrant s definitive proxy statement relating to the annual meeting of stockholders to be held on July 25, 2006

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EDUCATIONAL DEVELOPMENT CORPORATION
FORM 10-K ANNUAL REPORT
FOR THE YEAR ENDED FEBRUARY 28, 2006

FACTORS AFFECTING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, including the documents incorporated herein by reference, contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These 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. 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.

The words estimate, project, intend, expect, anticipate, believe and similar expressions are intended to forward-looking statements. These forward-looking statements are found at various places throughout this report and the documents incorporated in this report by reference as well as in other written materials, press releases and oral statements issued by us or on our behalf. 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.

PART 1

Item 1. BUSINESS

(a) General Development of Business

Educational Development Corporation (EDC or the Company), a Delaware corporation with its principal office in Tulsa, Oklahoma, is the exclusive United States trade publisher of a line of children s books produced in the United Kingdom by Usborne Publishing Limited (Usborne).

The Company was incorporated on August 23, 1965. The Company s original corporate name was Tutor Tapes International Corporation of Delaware. Its name was changed to International Teaching Tapes, Inc. on November 24, 1965, and changed again to the present name on June 24, 1968.

During Fiscal Year (FY) 2006 the Company operated two divisions: Home Business Division (Usborne Books at Home or UBAH) and Publishing Division. The Home Business Division distributes books through independent consultants who hold book showings in individual homes, and through book fairs, direct sales and Internet sales. The Home Business Division also distributes these titles to school and public libraries. The Publishing Division markets books to bookstores, toy stores, specialty stores and other retail outlets.

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(b) Financial Information about Industry Segments

See part II, Item 8 Financial Statements and Supplementary Data

(c) Narrative Description of Business

General

The principal product of both the Usborne Books at Home Division and Publishing Division is a line of children s books produced in the United Kingdom by Usborne Publishing Limited. The Company is the sole United States trade publisher of these books. The Company currently offers approximately 1,400 different titles. The Company also distributes a product called Usborne Kid Kits . These Kid Kits take an Usborne book and combine it with specially selected items and/or toys that complement the information contained in the book. The Kid Kits are packaged in a reusable vinyl bag. Alternatively, 39 Kid Kits are also available in an attractive box package. Currently 60 different Kid Kits are available.

The Company considers the political risk of importing books from the United Kingdom to be negligible as the two countries have maintained excellent relations for many years. Likewise there is little direct economic risk to the Company in importing books from the United Kingdom as the Company pays for the books in U.S. dollars and is not directly subject to any currency fluctuations. There is risk of physical loss of the books should an accident occur while the books are in transit, which could cause the Company some economic loss due to lost sales should the supply of some titles be depleted in the event of a lost shipment. The Company considers this to be highly unlikely as this type of loss has yet to occur.

There is some risk involved in having only one source for its products Usborne Publishing Limited. The Company has an excellent working relationship with its foreign supplier Usborne Publishing Limited and can foresee no reason for this to change. Management believes that the Usborne line of books are the best available books of their type.

Local, state and federal funds are important to the Usborne Books at Home Division but not to the Publishing Division. In many cities and states in which the Company does business, school funds have been severely cut, which impacts sales to school libraries.

Industry Segments

(a) Usborne Books at Home Division

The Usborne Books at Home Division markets the Usborne line of approximately 1,400 titles and 60 Kid Kits through a combination of direct sales, home parties, book fairs and the Internet, sold through a network marketing system. The division also sells to schools and public libraries.

(b) Publishing Division

The Publishing Division distributes the Usborne line to bookstores, toy stores, specialty stores and other retail outlets utilizing an inside telephone sales force as well as independent field sales representatives.

Marketing

(a) Usborne Books at Home Division

The Usborne Books at Home Division markets through commissioned consultants using a combination of direct sales, home parties, book fairs and the Internet. The division had approximately 8,100 consultants in 50 states at February 28, 2006.

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(b) Publishing Division

The Publishing Division markets through commissioned trade representatives who call on book, toy, specialty stores and other retail outlets and through marketing by telephone to the trade. This division markets to approximately 5,100 book, toy and specialty stores. Significant orders totaling 40% of the Publishing Division s sales have been received from major book chains. During fiscal year 2006 the division continued to expand into mass merchandising outlets such as drug, department and discount stores.

Competition

(a) Usborne Books at Home Division

The Usborne Books at Home Division faces significant competition from several other direct selling companies that have more financial resources. In addition, federal and state funding cuts will also impact the availability of funds to the school libraries. The Company is unable to estimate the effect of these funding cuts on the division s future sales to school libraries because the magnitude of funding cuts has yet to be determined. Management believes its superior product line and consultant network will enable this division to be highly competitive in its market area.

(b) Publishing Division

The Publishing Division faces strong competition from large U.S. and international companies that have more financial resources. Industry sales of juvenile paperbacks approached $851 million annually for calendar year 2005, up 3.8% from the previous year. The Publishing Division s sales are approximately 1.0% of industry sales. Competitive factors include product quality, price and deliverability. Management believes its product line will enable this division to compete well in its market area.

Seasonality

(a) Usborne Books at Home Division

The level of sales for Usborne Books at Home Division is greatest during the Fall as individuals prepare for the holiday season.

(b) Publishing Division

The level of sales for the Publishing Division is greatest in the Fall while retailers are stocking up for the holiday season.

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Executive Officers

The following information is furnished with respect to each of the executive officers of the Company, each of whom is elected by and serves at the pleasure of the Board of Directors.

Name	Office	Office Held Since	Age
Randall W. White	Chairman of the Board, President and Treasurer	1986	64
W. Curtis Fossett	Controller and Corporate Secretary (Principal Financial and Accounting Officer)	1989	60
Craig M. White*	Vice President Information Systems	2001	37
Ronald T. McDaniel*	Vice President Publishing Division	2002	68

*The prior business experience for these executive officers who have been employed by the Company for less than five years is as follows:

In April 2001, Craig M. White, son of Randall W. White, Chairman of the Board, President and Chief Executive Officer, was elected Vice President of Information Systems. Craig White graduated from Oklahoma State University in December 1994 with a BS degree in Electrical and Computer Engineering. He joined EDC in December 1994 as an Inventory Analyst. In July 1995 he was named Manager Information Systems.

In July 2002, Ronald T. McDaniel was elected Vice President of the Publishing Division. Ronald McDaniel joined EDC on September 25, 2000 as National Sales Manager of the Publishing Division. Prior to that he was affiliated with Prudential Detrick Realty, serving as a Residential and Light Commercial Sales Associate. In addition, he was President of The McDaniel Company, a residential management and rehabilitation company.

Employees

As of April 1, 2006, the Company had 76 full-time employees and 5 part-time employees. The Company believes its relations with its employees to be good.

Company Reports

The Company makes available free of charge through the Investor Relations portion of its Internet website at *www.edcpub.com* its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. The information on this website other than these reports is not considered to be part of these reports.

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Item 1A. RISK FACTORS

Investors should carefully consider the following risks in addition to the other information contained in this report. Each of these factors could adversely affect our business, operating results and financial condition of the Company. In addition, these factors could adversely affect the value of an investment in the Company s common stock.

Our operations may be adversely affected by general economic conditions.

General economic factors that are beyond the Company s control impact the Company s forecasts and actual performance. These factors include interest rates; recession; inflation; deflation; consumer credit availability; consumer debt levels; energy costs; tax rates and policy; unemployment trends; the threat or possibility of war, terrorism or other global or national unrest; political or financial instability; and other matters that influence consumer confidence and spending. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. Changes in the economic climate could adversely affect the Company s performance.

Our growth is dependent upon attracting and retaining sales consultants

Our continued growth and success is dependent in part upon our ability to attract and retain sales consultants in the Usborne Books at Home Division, the ability of these sales consultants to operate their businesses successfully and the ability of these sales consultants to recruit other sales consultants. To attract and retain new sales consultants, the Company provides operational manuals and sales materials, participates in regional and national training seminars, provides low start-up costs, offers monetary sales incentives and pays competitive sales commissions and bonuses. The investor should understand that these sales consultants are independent business owners and the Company has no control over the time and effort each individual consultant chooses to spend working their business.

Our business faces a great deal of competitive pressure.

The retail business is highly competitive. The Company competes for sales consultants with many other direct selling companies, most of whom offer products different than the Company s products. Most of these competitors have a greater market presence than the Company and have larger financial resources. Unanticipated changes in the pricing and marketing practices of these competitors may adversely affect the performance of the Company s Usborne Books at Home Division.

The Publishing Division operates in a market that is highly competitive, with a large number of companies selling books. The Publishing Division is in direct competition with all of these other companies, the majority of which have larger financial resources than the Company. The book industry is a $25.1 billion market. Sales in the juvenile paperback market, the Company s market, were approximately $851 million for calendar year 2005. The Company s market share in the juvenile paperback market was 1.0% in fiscal year 2006. Unanticipated changes in the pricing and marketing practices of these competitors may adversely affect the performance of the Company s Publishing Division.

Seasonality of sales.

The Company s business is subject to seasonal influences, with a major portion of sales and income historically realized during the first and third quarters of the fiscal year, which includes the back-to-school and holiday seasons, respectively. This seasonality causes the Company s operating results to vary somewhat from quarter to quarter and could materially and adversely affect the market price of its securities

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Our operations are dependent on a single distribution facility.

The Company s distribution functions for all of its books are handled from a single facility in Tulsa, Oklahoma. Any significant interruption in the operation of the distribution facility due to natural disasters, accidents, system failures or other unforeseen causes could delay or impair the Company s ability to distribute merchandise to its customers, which could cause sales to decline.

The Company has a sole source supplier for its products.

The Company is the sole source United States distributor for the Usborne line of children s book published by Usborne Publishing, LTD, London, UK. There is some risk in having only one source for its products. The contract between the Company and Usborne Publishing, LTD has a two-year notice of termination requirement. However, the Company has an excellent working relationship with its foreign supplier Usborne Publishing, LTD and can foresee no reason for this to change.

All our products are imported from overseas locations.

The Company s products are printed at locations throughout Europe, China, Singapore, India, Malaysia and Dubai. The products are then shipped by ocean cargo to the United States. There is some risk of political unrest causing delays in securing products. However, the Company s supplier has numerous sources for printing the Company s products and should political unrest occur in one area the supplier could utilize printers in other locations to provide the Company s product. There is some risk of physical loss of the books should an accident occur while the books are in transit. This could result in an economic loss to the Company, due to lost sales, should the supply of some titles be depleted in the event of a lost shipment.

The Company s common stock is thinly traded.

The Company s common stock is traded on the NASDAQ market under the symbol EDUC. There were 3,753,923 shares outstanding at February 28, 2006. The average shares traded for the fiscal years ended February 28, 2006, February 28, 2005 and February 29, 2004 were 3,371 shares, 9,855 shares and 5,297 shares, respectively.

Personnel changes.

The Company s development has largely been achieved through the vision and efforts of our President and CEO. If his services were not available for any reason, the Company s business could be adversely affected.

Other factors may negatively affect our business.

The foregoing list of risk factors is not exclusive. Other factors and unanticipated events could adversely affect the Company. The Company does not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

The Company is located at 10302 E. 55th Pl., Tulsa, Oklahoma. These facilities are owned by the Company and contain approximately 105,000 square feet of office and warehouse space, including a 22,000 square foot addition to the warehouse, which was completed in August 2004 at a total cost of $584,700. The Company believes that its operating facility meets both its present and future capacity needs.

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Item 3. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceedings.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders of the Company.

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 National Market (symbol EDUC). The high and low closing quarterly common stock quotations for fiscal years 2006 and 2005, as reported by the National Association of Securities Dealers, Inc., were as follows:

	2006		2005	
Period	High	Low	High	Low
1st Qtr	10.98	10.06	10.98	10.00
2nd Qtr	10.61	10.05	11.56	10.80
3rd Qtr	10.13	7.95	13.49	10.00
4th Qtr	8.57	7.65	10.83	10.06

The number of shareholders of record of EDC s common stock at May 11, 2006 was 833.

The Company paid a $0.15 per share annual dividend during fiscal year 2006 and a $0.12 per share annual dividend during fiscal year 2005. The Company paid a $0.20 per share dividend on May 12, 2006 to shareholders of record as of May 2, 2006.

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The following table sets forth certain information concerning the repurchase of the Company s Common Stock made by the Company during the fourth quarter of the fiscal year ended February 28, 2006.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
December 1, 2005 December 31, 2005				171,564
January 1, 2006 January 31, 2006				171,564
February 1, 2006 February 28, 2006				171,564
Total				

(1) In July 1998, the Board of Directors authorized the Company to purchase up to 1,000,000 shares of the Company s common stock pursuant to a plan that was announced publicly on October 14, 1998. In May 1999, the Board of Directors authorized the Company to purchase up to an additional 1,000,000 shares of its common stock under this plan, which was announced publicly on May 19, 1999. In April 2004 the Board of Directors authorized the Company to purchase up to an additional 500,000 shares of its common stock under this plan. Pursuant to the plan, the Company may purchase such 2,500,000 shares of the Company s common stock until 2,500,000 shares have been repurchased. There is no expiration date for the repurchase plan.

Item 6. SELECTED FINANCIAL DATA

	YEARS ENDED FEBRUARY 28 (29)				
	2006	2005	2004	2003	2002
Net Revenues	$ 31,788,890	$ 31,650,779	$ 31,127,268	$ 26,869,681	$ 22,065,957
Earnings From Continuing Operations	$ 2,398,410	$ 2,406,074	$ 2,373,450	$ 1,996,615	$ 1,531,274
Earnings From Continuing Operations Per Common Share					
Basic	$ .64	$ .62	$ .60	$ .52	.40
Diluted	$ .62	$ .59	$ .55	$ .48	$ .38

Total Assets	$ 18,643,966	$ 17,980,506	$ 19,112,694	$ 17,587,725	$ 14,156,798
Cash Dividends Paid Per Common Share	$ .15	$ .12	$ .10	$ .06	$ .04

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

Overview

The Company operates two separate divisions, Publishing and Usborne Books at Home, to sell the Usborne line of children s books. These two divisions each have their own customer base. The Publishing Division markets its products on a wholesale basis to various retail accounts. The UBAH Division markets its products to individual consumers as well as to school and public libraries.

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 Publishing Division is in direct competition with all of these other companies. Sales in the book industry were approximately $25.1 billion for calendar year 2005. Sales in the trade industry, defined as wholesale sales to retailers, were approximately $7.8 billion for calendar year 2005. Sales in the juvenile paperback market, the Company s market segment, were approximately $851 million for calendar year 2005. The Company s market share in the juvenile paperback market has remained between 0.9% and 1.0% during the last three years.

The following table sets forth the annual sales in the book industry for the last three calendar years and compares these sales to the Publishing Division s net sales.

Table of Book Industry Sales (1)
(amounts in millions)

	2005	2004	2003
Sales Total Industry	$25,067.7	$22,810.9	$23,115.2
Sales Total Trade	$ 7,828.1	$ 6,267.2	$ 6,534.8
Sales Juvenile Paperback	$ 850.6	$ 769.4	$ 741.3
Publishing Division s Sales (2)	$ 8.4	$ 7.3	$ 7.4
Publishing Division s Market Share of Total Book Industry	0.03%	0.03%	0.03%
Publishing Division s Market Share of Total Trade Market	0.11%	0.12%	0.11%
Publishing Division s Market Share of Juvenile Paperback Market	1.0.%	0.9%	1.0%

(1) Source: Association of American Publishers
(2) Reported on fiscal year basis

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 telesales group located in the Company s headquarters. The Vice President of the Publishing Division manages sales to the national chains.

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The following table sets forth the percentages of net revenues earned by sales to the national chains and sales to other markets for the Publishing Division for the past three fiscal years.

	FY 2006	FY 2005	FY 2004
National chain stores	42%	36%	32%
All other	58%	64%	68%
Total net sales	100%	100%	100%

Sales to national chain stores increased in fiscal year 2006 primarily due to special promotions run by the major chains involving certain themes or subjects for which the Company s books were particularly suited.

The Publishing Division follows several avenues in order 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. These shows allow the Company to make contact with potential buyers who may be unfamiliar with the Company s books. The Company actively targets 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 the Company pays back to the customer up to 2% of the net sales to that customer. The Company s products are then featured in promotions, such as catalogs, offered by the vendor. The Company may also acquire, for a fee, an end cap position in a bookstore (the Company s 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. In January 2005 the Company launched the most comprehensive marketing and promotion program in its history. The program consists of additional promotional sales aids and strategies to increase market penetration.

The Publishing Division s in-house telesales group targets the smaller independent book and gift store market. They maintain contact with approximately 5,100 customers. During fiscal year 2006 the telesales group opened 358 new accounts. The Company s full color, 130-page catalogs, which are revised twice a year, are mailed to nearly 5,100 customers and potential customers. The Company also offers two display racks to assist stores in displaying the Company s products. One is a six-foot rack with five adjustable shelves that can hold approximately 250 titles. The second rack is a four-sided rack with three levels that will hold between 50 and 60 of the Company s Kid Kits. There were approximately 4,100 of these attractive racks in retail stores throughout the country at the end of fiscal year 2006.

Publishing Division s net revenues increased $1.0 million from fiscal year 2005 to fiscal year 2006, or 14%. During the previous three fiscal years, net revenues ranged between $7.4 million - $7.6 million each fiscal year. Management expects that in fiscal year 2007 the Publishing Division will achieve revenues in the $8.0 million $8.5 million range.

Usborne Books at Home (UBAH) Division

The UBAH Division is a multi-level selling organization that markets its products through independent sales representatives (consultants) located throughout the United States. The customer base of UBAH consists of individual purchasers and 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 UBAH Division is the addition of new sales consultants and the retention of existing sales consultants. Current active consultants recruit new sales consultants. UBAH makes it easy to recruit by providing low sign-up costs. Kits containing sample products and supplies can be purchased for as little as $29. UBAH provides an extensive handbook that is a valuable tool in explaining the various programs to the new recruit.

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The following table sets forth the number of new consultants added during the last three fiscal years and the number of active sales representatiaves at the end of the last three fiscal years.

	FY 2006	FY 2005	FY 2004
New Sales Representatives	5,347	5,646	6,964
Active Sales Representatives End of Fiscal Year	8,074	8,273	8,800

The UBAH Division presently has six levels of sales representatives: consultants; supervisors; senior supervisors; executive supervisors; senior executive supervisors; directors. Upon signing up, each individual is considered a consultant. A consultant receives commissions from each sale the consultant makes, the commission rate being determined by the marketing program under which the sale is made. In addition, consultants receive a monthly sales bonus once the consultant s sales reach an established monthly goal. Consultants who recruit other consultants and meet certain established criteria are eligible to become supervisors. Upon reaching this level, they receive monthly override payments based upon the sales of their downline groups. The marketing program under which the sales are made determines the rate for the override payments. Once supervisors reach certain established criteria, they become senior supervisors and are eligible to earn promotion bonuses on their consultants. Once senior supervisors reach certain established criteria, they become executive supervisors, senior executive supervisors or directors. Executive supervisors and higher may receive an additional monthly override payment based upon the sales of their downline groups.

The table below sets forth the different types of marketing programs UBAH offers and the percentage of net UBAH revenues, including transportation revenue, that each marketing program has generated for the last three fiscal years.

	FY 2006	FY 2005	FY 2004
Home Shows	46%	51%	54%
Direct Sales	3%	3%	4%
Book Fair	27%	24%	21%
School & Library	9%	9%	8%
Internet	5%	3%	3%
Transportation Revenue	10%	10%	10%
Totals	100%	100%	100%

The table below sets forth a comparison of the percentage increase (decrease) between fiscal years in the net revenue generated by the different types of marketing programs offered by UBAH, along with the percentage increase (decrease) in transportation revenue.

	FY 2006 Compared With FY 2005	FY 2005 Compared With FY 2004
Home Shows	(13%)	(2%)
Direct Sales	(11%)	(8%)
Book Fair	12%	16%
School & Library	2%	7%
Internet	59%	32%
Transportation Revenue	(2%)	0%

Home shows are the largest generator of revenue for the UBAH Division and will continue as such for the foreseeable future. Net revenues from home shows declined 13% or $1,110,300 during fiscal year 2006. This can be attributed to the decline in the number of new consultants signed up during the year.

Net revenues from direct sales declined 11% or $63,400 during fiscal year 2006. This can be attributed to the decline in the number of new consultants signed up during the year.

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The book fair marketing program continues to grow, increasing 12% or $478,100 during fiscal year 2006. Scholastic dominates the book fair market. The Company s book fair program is comparable to Scholastic s program and the Company is making inroads into their market share. Many schools will hold joint book fairs with UBAH and our competitors and the Company does well at these events. In many cases, UBAH book fairs have been the only allowed participant. The Company looks forward to continued growth in this market area as the Company s book fair program gains wider acceptance.

The school and library market is affected by the budget constraints of the various state school budgets. Cuts in schools budgets affect the ability of UBAH to be more effective in this market. However, increased numbers of consultants have entered this section of the market place and sales in fiscal year 2006 increased 2% over fiscal year 2005.

The Internet market is a relatively new market for UBAH. Internet sales have increased significantly year to year. This is the result of more consultants purchasing Company developed web sites. The Company during fiscal year 2006 began offering special web site pricing on selected titles. These specials are changed frequently and have proved successful and have contributed to the growth in this market.

The UBAH Marketing Programs

Homes shows were the original marketing program when UBAH began in 1989 and continues today to generate the greatest percentage of revenue for UBAH. Consultants contact individuals (hostesses) to hold book shows in their homes. The consultant assists the hostess in setting up the details for the show. The consultant 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.

Direct sales are sales without a hostess being involved. This program makes it possible for the consultant to work directly out of her home selling to friends, neighbors and other customers. It is especially convenient for those individuals who wish to order books from a consultant but are unable to attend a home show. The UBAH 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.

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. UBAH 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.

School and library sales are restricted to consultants who have received additional training in order to allow them to sell to schools and libraries. The UBAH consultant is the only source that a library or school has for library bound Usborne books. They are not available through any of the school supply distribution companies.

The UBAH Division offers individual web sites to the consultants. These sites are hosted by the Company and are available for a nominal price. The consultants can customize the web sites to their own particular needs or they can maintain the generic site. These web sites provide access to the Company s 1,400 plus titles. Orders can be processed on line through a shopping cart arrangement. The orders are transmitted to the Company and the consultant receives sales credit and commission on the sales.

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

The table below sets forth the number of orders for each UBAH marketing program.

	FY 2006	FY 2005	FY 2004
Home Shows	37,008	41,237	41,763
Direct Sales	8,999	10,140	10,928
Book Fair	8,040	7,243	6,503
School & Library	4,090	4,251	4,842
Internet	27,358	17,609	13,532
	85,495	80,480	77,568

The Company monitors the trends displayed in the above table in order to judge how the five marketing programs are performing. This table shows strong growth in two of the five categories. Home shows and direct sales suffered declines due to the lower number of new recruits signed up during FY2006. Despite a lower number of orders, the average size per order in the school and library division increased 5.5%, accounting for the increased sales in this market segment. As addressed above, the school and library market is impacted by the budget cuts undertaken by many schools. Internet orders increased as more consultants took advantage of the Company sponsored web sites.

The Company believes that the UBAH Division has the greatest growth potential for the Company. While there are many multi-level companies in the United States, UBAH is the only one exclusively selling books. The Company believes this is a fertile market with excellent opportunities for continued growth. The keys to future growth in the UBAH Division are recruiting new consultants and retaining existing consultants. In January 2005 the Company launched the most comprehensive marketing and promotion program in its history. The program consists of additional promotional sales aids and strategies designed to increase sales and recruiting.

Results of Operations

The following table sets forth statements of earnings data as a percentage of total revenues

	FY 2006	FY 2005	FY 2004
Net revenues	100.0%	100.0%	100.0%
Cost of sales	36.6%	35.8%	36.3%
Gross margin	63.4%	64.2%	63.7%
Operating expenses:			
Operating & selling	22.3%	21.7%	21.6%
Sales commissions	23.7%	24.9%	24.8%
General & administrative	5.4%	5.4%	5.3%
Interest	0.3%	0.2%	0.0%
Total operating expenses	51.7%	52.2%	51.7%
Other income	0.3%	0.3%	0.3%
Earnings before income taxes	12.0%	12.3%	12.3%
Income taxes	4.5%	4.7%	4.7%
Net earnings	7.5%	7.6%	7.6%

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Fiscal Year 2006 Compared with Fiscal Year 2005

Operating Results

The Company had earnings before income taxes of $3,814,410 for fiscal year 2006 compared with $3,885,074 for fiscal year 2005.

Revenues

	FY 2006	FY 2005	$ Increase/ (decrease)
Gross sales	$ 42,567,648	$ 41,361,612	$ 1,206,036
Less discounts & allowances	(12,367,775)	(11,324,165)	(1,043,610)
Transportation revenue	1,589,017	1,613,332	(24,315)
Net revenues	$ 31,788,890	$ 31,650,779	$ 138,111

The UBAH Division s gross sales decreased 4.0% or $1,039,200 during FY 2006 when compared with FY 2005. The Company attributes this decrease to lower sales in the home party and direct sale market, offset by increased sales in the book fair and internet markets. The Publishing Division s gross sales increased 14.8% or $2,245,200 during FY 2006 when compared with FY 2005. The Company attributes this increase to increased buying by the major chains and increases in the sales generated by the Company s in-house telesales force.

The Publishing Division s discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAH Division due to the different customer markets that each division targets. The Publishing Division s discounts and allowances were $9.0 million and $7.8 million in fiscal years 2006 and 2005, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. 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 51.8% of Publishing s gross sales in fiscal year 2006 and 51.5% in fiscal year 2005.

The UBAH Division s discounts and allowances were $3.4 million in fiscal year 2006 and $3.5 million in fiscal year 2005. The UBAH Division is a multi-level selling organization that markets its products through independent sales representatives (consultants). Sales are made to individual purchasers and school and public libraries. Most sales in the UBAH Division are at retail. As a part of the UBAH 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 UBAH Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAH Division s discounts and allowances were 13.4% of UBAH s gross sales in fiscal year 2006 and 13.5% in fiscal year 2005.

The decrease in transportation revenues is the result of decreased sales in the UBAH Division.

Expenses

	FY 2006	FY 2005	$ Increase/ (decrease)
Cost of sales	$ 11,651,182	$ 11,338,039	$ 313,143
Operating & selling	7,094,963	6,860,540	234,423
Sales commissions	7,526,184	7,875,891	(349,707)
General & administrative	1,712,469	1,719,240	(6,771)
Interest	83,054	67,620	15,434
Total	$ 28,067,852	$ 27,861,330	$ 206,522

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Cost of sales increased approximately 2.8% in fiscal year 2006 when compared with fiscal year 2005. The Company s cost of its products is 25% to 34% of the gross sales price, depending upon the product. In comparing the percentage increase in gross sales with the percentage increase in cost of goods, consideration must be given to the mix of products sold. Approximately 97% of the Company s products come from one vendor, where the cost of the products is a fixed percentage of the retail price. The mix of products sold has not materially changed in recent years. We expect the percentage increases in year-to-year gross sales and the percentage increases in year-to-year cost of sales to be similar in movement in the foreseeable future. The 2.8% increase in cost of sales for fiscal year 2006 over fiscal year 2005 is consistent with the percent increase in gross sales of approximately 2.9% for the same periods. Cost of sales is the inventory cost of the product sold, which includes the cost of the product itself and inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network are included in operating and selling expenses. These costs totaled $1,144,907 in FY2006, $1,196,915 in FY2005 and $1,110,634 in FY2004. Readers are advised to be cautious when comparing our gross margins with the gross margins of other companies, since some companies include the costs of their distribution networks in 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 UBAH Division and the order entry and customer service functions. Operating and selling expenses increased because of higher postage and freight expense totaling $126,100, increases in travel contest incentives and other sales incentives offered by the UBAH Division totaling $116,500 and higher promotion costs in the Publishing Division totaling $16,500. Offsetting the increase in operating and selling expenses were decreases in payroll costs for both divisions of $23,200. Operating and selling expenses as a percentage of gross sales were 16.7% and 16.6% for fiscal year 2006 and fiscal year 2005, respectively.

Sales commissions in the Publishing Division increased $10,700 for the fiscal year ended 2006, due to the increase in net sales. Publishing Division sales commissions are paid on net sales and were 1.1% of net sales in fiscal year 2006 and 1.2% of net sales in fiscal year 2005. Publishing Division sales commissions will fluctuate as a percentage of net sales, depending upon the type of customer. Sales to the major chains are handled by the Publishing Division Vice President and no sales commissions are paid on these sales. Sales commissions in the UBAH Division decreased $360,400. UBAH Division sales commissions are paid on retail sales and were 37.6% for fiscal year 2006 and 38.2% for fiscal year 2005. 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 commissions 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 UBAH Division.

General and administrative costs include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses decreased because of lower materials and supplies costs, offset by increased depreciation costs. Materials and supplies costs declined $34,700. Depreciation costs increased $26,400 due to the addition of the new warehouse building. General and administrative expenses as a percentage of gross sales were 4.0% for fiscal year 2006 and 4.2% for fiscal year 2005.

Interest expense increased $15,400 due to increased borrowings throughout fiscal year 2006 and higher interest rates. The Federal Reserve increased interest rates eight times during fiscal year 2006, which in turn caused the Company s borrowing rate to increase. Interest expense as a percentage of gross sales was 0.20% in fiscal year 2006 and .16% in fiscal year 2005.

The tax provision for fiscal year 2006 was $1,416,000. The effective rate for fiscal year 2006 was 37.1% and for fiscal year 2005 was 38.0%. The Company s effective tax rate is higher than the Federal statutory rate due to state income taxes.

Fiscal Year 2005 Compared with Fiscal Year 2004

Operating Results

The Company had earnings before income taxes of $3,885,074 for fiscal year 2005 compared with $3,832,450 for fiscal year 2004.

Revenues

	FY 2005	FY 2004	$ Increase
Gross sales	$ 41,361,612	$ 40,940,822	$ 420,790
Less discounts & allowances	(11,324,165)	(11,424,127)	99,962
Transportation revenue	1,613,332	1,610,573	2,759
Net revenues	$ 31,650,779	$ 31,127,268	$ 523,511

The UBAH Division s gross sales increased 2.6% or $676,800 during FY 2005 when compared with FY 2004. The Company attributes this increase to the book fair market and school and library market, which both recorded increased sales during FY 2005. The Publishing Division s gross sales declined 1.8% or $256,000 during FY 2005 when compared with FY 2004. The Company attributes this decline to the loss last year of a major customer due to bankruptcy.

The Publishing Division s discounts and allowances are a much larger percentage of gross sales than discounts and allowances in the UBAH Division due to the different customer markets that each division targets. The Publishing Division s discounts and allowances were $7.8 million and $7.9 million in fiscal years 2005 and 2004, respectively. The Publishing Division sells to retail book chains, regional and local bookstores, toy and gift stores, school supply stores and museums. 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% of Publishing s gross sales for both fiscal years 2005 and 2004.

The UBAH Division s discounts and allowances were $3.5 million in fiscal years 2005 and 2004. The UBAH Division is a multi-level selling organization that markets its products through independent sales representatives (consultants). Sales are made to individual purchasers and school and public libraries. Most sales in the UBAH Division are at retail. As a part of the UBAH 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 UBAH Division will vary from year to year depending upon the marketing programs in place during any given year. The UBAH Division s discounts and allowances were 14% of UBAH s gross sales for both fiscal years 2005 and 2004.

The increase in transportation revenues is the result of increased sales in the UBAH Division.

Expenses

	FY 2005	FY 2004	$ Increase
Cost of sales	$ 11,338,039	$ 11,295,738	$ 42,301
Operating & selling	6,860,540	6,730,548	129,992
Sales commissions	7,875,891	7,712,408	163,483
General & administrative	1,719,240	1,639,141	80,099
Interest	67,620	9,762	57,858
Total	$ 27,861,330	$ 27,387,597	$ 473,733

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Cost of sales increased approximately 0.4% in fiscal year 2005 when compared with fiscal year 2004. The Company s cost of its products is 25% to 34% of the gross sales price, depending upon the product. In comparing the percentage increase in gross sales with the percentage increase in cost of goods, consideration must be given to the mix of products sold. Approximately 97% of the Company s products come from one vendor, where the cost of the products is a fixed percentage of the retail price. The mix of products sold has not materially changed in recent years. We expect the percentage increases in year-to-year gross sales and the percentage increases in year-to-year cost of sales to be similar in movement in the foreseeable future. The 0.4% increase in cost of sales for fiscal year 2005 over fiscal year 2004 is consistent with the percent increase in gross sales of approximately 1.0% for the same periods. Cost of sales is the inventory cost of the product sold, which includes the cost of the product itself and inbound freight charges. Purchasing and receiving costs, inspection costs, warehousing costs, and other costs of our distribution network are included in operating and selling expenses. These costs totaled $1,196,915 in FY2005 and $1,110,634 in FY2004. Readers are advised to be cautious when comparing our gross margins with the gross margins of other companies, since some companies include the costs of their distribution networks in 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 UBAH Division and the order entry and customer service functions. Operating and selling expenses increased because of higher payroll and benefits costs of $175,900 and increases in sales incentives offered by the UBAH Division totaling $64,900. Offsetting the increase in operating and selling expenses were decreases in damaged returns for both divisions of $109,300. Payroll and benefits costs increased because of additional personnel added to the order fulfillment areas and annual wage increases necessary to keep the Company competitive in the local job market. Operating and selling expenses as a percentage of gross sales were 16.6% and 16.4% for fiscal year 2005 and fiscal year 2004, respectively.

Sales commissions in the Publishing Division decreased $19,700 for the fiscal year ended 2005, due to the decrease in net sales. Publishing Division sales commissions are paid on net sales and were 1.2% of net sales in fiscal year 2005 and 1.4% of net sales in fiscal year 2004. Publishing Division sales commissions will fluctuate as a percentage of net sales, depending upon the type of customer. Sales to the major chains are handled by the Publishing Division Vice President and no sales commissions are paid on these sales. Sales commissions in the UBAH Division increased $183,200. UBAH Division sales commissions are paid on retail sales and were 38.2% for fiscal year 2005 and 38.9% for fiscal year 2004. 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 commissions 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 increase in sales commissions is the result of increased sales in the UBAH Division.

General and administrative costs include the executive department, accounting department, information services department, general office management and building facilities management. General and administrative expenses increased because of higher payroll and benefits costs and increased maintenance costs. Payroll and benefits increased $76,600, due to annual salary adjustments necessary to keep the Company competitive in the local job market and the addition of new personnel. Routine maintenance and repair costs to the Company s facility increased $13,800. General and administrative expenses as a percentage of gross sales were 4.2% for fiscal year 2005 and 4.0% for fiscal year 2004.

Interest expense increased $57,858 due to increased borrowings throughout fiscal year 2005 and higher interest rates. The Federal Reserve increased interest rates six times during fiscal year 2005, which in turn caused the Company s rate to increase. Interest expense as a percentage of gross sales was 0.16% in fiscal year 2005 and .02% in fiscal year 2004.

The tax provision for fiscal year 2005 was $1,479,000. The effective rate for fiscal year 2005 was 38.0%, which is consistent with fiscal year 2004. The Company s current tax liability was reduced by $399,200 as a result of the benefit obtained from several Company officers and former officers exercising stock options.

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Liquidity and Capital Resources

The Company s primary source of cash is operating cash flow. Its primary uses of cash are to repay borrowings on the Company s line of credit, purchase property and equipment and pay dividends. The Company utilizes its bank credit facility to meet its short-term cash needs.

The Company s Board of Directors has adopted a stock repurchase plan in which the Company may purchase up to 2,500,000 shares as market conditions warrant. Management believes the stock is undervalued and when stock becomes available at an attractive price, the Company will 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 the Company s short-term and long-term liquidity. The Company limited its purchases of treasury stock in fiscal year 2006, but remains open to such purchases in the future.

The Company has a history of profitability and positive cash flow. The Company can sustain planned growth levels with minimal capital requirements. Consequently, cash generated from operations is used to liquidate any existing debt and then to repurchase shares outstanding or capital distributions through dividends.

The Company expects its ongoing cash flow to exceed cash required to operate the business. Consequently, the Company expects that it will be able to reduce short-term borrowings during the year.

The Company s primary source of liquidity is cash generated from operations. During fiscal year 2006 the Company experienced a positive cash flow from operations of $1,380,000. Cash flow from operations was reduced by a decrease in accounts payable and accrued expenses of $613,600.

The Company believes that in fiscal year 2007 it will experience a positive cash flow and that this positive cash flow along with the bank credit facility will be adequate to meet its liquidity requirements for the foreseeable future.

Cash used in investing activities was $229,200. The principal use of cash in investing activities was $169,500 for completion of the 22,000 square foot addition to the Company s warehouse facility. Additional cash used in investing activities included $41,300 for a corporate automobile, $11,600 for data processing equipment and $5,600 for warehouse storage racks. The Company estimates that cash used in investing activities for fiscal year 2007 will be less than $1,000,000. This would consist of software and hardware enhancements to the Company s existing data processing equipment, property improvements and additional warehouse equipment.

Cash received from financing activities was $135,200 from the sale of treasury stock, $49,400 from the exercise of stock options and $12,200 reduced income taxes from exercise of stock options. Cash used in financing activities included $752,000 net payments under the bank loan agreement, $77,200 paid to acquire treasury stock and the annual dividend totaling $560,700. In September 2002 the Board of Directors of the Company authorized paying a minimum annual cash dividend of 20% of net earnings. In 2006, 2005 and 2004 the Company paid 31%, 25% and 20%, respectively, of net earnings as a cash dividend. The Company anticipates that in future years it will continue paying 25% 35% of net earnings as a cash dividend.

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Contractual Obligations

The table below summarizes the maturity dates of our contractual obligations by period.

Contractual obligations	Total	Payments due by period Less than 1 year	1-3 years	3-5 years	More then 5 years
Long-Term Debt Obligations					
Capital Lease Obligations					
Operating Lease Obligations					
Purchase Obligations	$3,163,900	$3,163,900			
Other Long- Term Liabilities Reflected on the Registrant s Balance Sheet under GAAP					
Total	$3,163,900	$3,163,900			

Bank Credit Agreement

Effective June 30, 2005 the Company signed a Sixth Amendment to the Credit and Security Agreement with Arvest Bank which provided a $3,500,000 line of credit through June 30, 2006. Effective September 2, 2005, the Company signed a Seventh Amendment to the Credit and Security Agreement with Arvest Bank which increased the line of credit from $3,500,000 to $5,000,000 through June 30, 2006. Interest is payable monthly at the Wall Street Journal prime-floating rate minus 0.75% (6.75% at February 28, 2006) and borrowings are collateralized by substantially all the assets of the Company. At February 28, 2006 the Company had $676,000 outstanding. Available credit under the revolving credit agreement was $4,324,000 at February 28, 2006. Borrowings outstanding under the agreement ranged from $0 to $1,048,000 during the fiscal year ended February 28, 2006.

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Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated 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. The Company s significant accounting policies are described in the notes accompanying the financial statements included elsewhere in this report. However, the Company considers the following accounting policies to be more significantly dependent on the use of estimates and assumptions.

Stock-Based Compensation

The Company accounts 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 over the vesting period.

Revenue Recognition

Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAH Division s sales are paid before the product is shipped. These sales accounted for 74% of net revenues in FY2006, 77% in FY2005 and 76% in FY2004. The provisions of the SEC Staff Accounting Bulletin No.104, Revenue Recognition in Financial Statements, have been applied, and as a result, a reserve is provided for estimated future sales returns. The Company s sales return policy allows the customer to return all purchases for an exchange or refund for up to 30 days after the customer receives the item. 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. The Company is 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 $73,000 as of February 28, 2006 and $63,000 as of February 28, 2005.

Allowance for Doubtful Accounts

The Company maintains an allowance for estimated losses resulting from the inability of its 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, the customer s financial condition and current economic trends. If the actual uncollected amounts significantly exceed the estimated allowance, then the Company s operating results would be significantly adversely affected. Management has estimated allowance for doubtful accounts of $112,200 and $77,400 as of February 28, 2006 and February 28, 2005, respectively.

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Inventory

Management continually estimates and calculates the amount of non-current inventory. The inventory arises due to the Company occasionally purchasing book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of the Company s primary supplier. Noncurrent inventory was estimated by management using the current year turnover ratio by title. All inventory in excess of 2 1/2 years of anticipated sales was classified as noncurrent inventory. Noncurrent inventory balances were $657,000 and $1,111,700 at February 28, 2006 and February 28, 2005, 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 $304,900 and $424,900 as of February 28, 2006 and 2005, respectively.

The Company s product line contains approximately 1,400 titles, each with different rates of sale, depending upon the popularity of the various titles. Almost all of the Company s product line is saleable as the books are not topical in nature and remain current in content today as well as in the future. A few of the titles, less than 50, have a limited time when they remain current in content, i.e. computer books, and these few titles are fully reserved as warranted. The Company s products are printed in Europe, China and the Middle East, resulting in a six-month lead-time to have a title reprinted and delivered to the Company. The Company s principal supplier, based in England, imposes minimum order requirements before reprinting a title. At the current time the Company must reorder 7,500 or more of a title in order to get a solo print run. If the Company orders less than 7,500 of a title, then it must share a print run with the suppliers other customers. Sharing a print run has resulted in delays of up to twelve months in the Company receiving the ordered title. Anticipating customer preferences and purchasing habits requires historical analysis of similar titles in the same series. The Company then places the initial order or re-order based upon this analysis. These factors and historical analysis have led Management to determine that 2.5 years represents a reasonable estimate of the normal operating cycle for the Company s products.

Deferred Tax Assets

As discussed in Note 4 of the consolidated financial statements, the Company does not currently have a valuation allowance recorded against its deferred tax assets. If management determines it is more likely than not that its deferred tax assets would not be realizable in the future, a valuation allowance would be recorded to reduce the deferred tax asset to its net realizable value.

Long-lived Assets

Whenever events or changes in circumstances indicate that the carrying amount of our property and equipment may not be recoverable from future operating cash flows, we will perform a test to determine if the asset values are impaired. We believe that at this time that such an evaluation is not necessary.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have any material market risk.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 begins at page 30.

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

There have been no disagreements on any matter of accounting principles or practices or financial statement disclosure within the twenty-four months prior to February 28, 2006.

The Audit Committee dismissed the Company s independent registered public accounting firm, Deloitte & Touche LLP, as of February 22, 2005. The Audit Committee selected Tullius Taylor Sartain & Sartain LLP (Tullius Taylor) headquartered in Tulsa, Oklahoma, as the Company s new independent registered public accounting firm for the fiscal year ended February 28, 2005.

Item 9.A CONTROLS AND PROCEDURES

An evaluation was performed of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of February 28, 2006. This evaluation was conducted under the supervision and with the participation of the Company s management, including its Chief Executive Officer and its Controller and Corporate Secretary (Principal Financial and Accounting Officer). Based on that evaluation, the Company s Chief Executive Officer and its Controller and Corporate Secretary (Principal Financial and Accounting Officer) concluded that the Company s 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 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, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. During the fourth fiscal quarter of the fiscal year covered by this report on Form 10-K, there have been no changes in the Company s internal control over financial reporting that have materially affected or are reasonably likely to materially affect, its internal control over financial reporting.

Item 9.B 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 the Company s definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 25, 2006.

(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.

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(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 the Company s definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 25, 2006.

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 the Company s definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 25, 2006.

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 the Company s definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 25, 2006.

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 the Company s definitive Proxy Statement to be filed in connection with the Annual Meeting of Shareholders to be held on July 25, 2006.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

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 of the Company 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 (File No. 0-4957).

3.2 Certificate of Amendment of Restated Certificate of Incorporation of the Company dated August 27, 1977 are 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 of the Company 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 of the Company 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 of the Company 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 of the Company 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 of the Company 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 the Company 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.

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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
*23.1	Consent of current Independent Registered Public Accounting Firm
*23.2	Consent of prior 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

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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, 2006 By /s/ W. Curtis Fossett

W. Curtis Fossett
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, 2006	/s/ Randall W. White
	Randall W. White Chairman of the Board President, Treasurer and Director
May 25, 2006	/s/ John A. Clerico
	John A. Clerico, Director
May 25, 2006	/s/ Dean Cosgrove
	G. Dean Cosgrove, Director
May 25, 2006	/s/ James F. Lewis
	James F. Lewis, Director
May 25, 2006	/s/ W. Curtis Fossett
	W. Curtis Fossett Controller and Corporate Secretary (Principal Financial and Accounting Officer)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Educational Development Corporation

We have audited the balance sheets of Educational Development Corporation as of February 28, 2006 and 2005, and the related statements of earnings, shareholders equity, and cash flows for the years then ended. 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 audit 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 audit 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of Educational Development Corporation as of February 28, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2005, the Company changed its method of accounting for stock based compensation with the election to early adopt Statement of Financial Accounting Standards No. 123 (revised 2004) Share Based Payment. We also audited the adjustments described in Note 1 that were applied to restate the financial statements as of and for the year ended February 29, 2004. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ Tullius Taylor Sartain & Sartain LLP
Tulsa, Oklahoma
April 26, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Educational Development Corporation

We have audited the statements of earnings, shareholders equity, and cash flows of Educational Development Corporation (the Company) for the year ended February 29, 2004 (none of which are presented herein). 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 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. 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 results of operations, changes in shareholders equity, and cash flows of the Company for the year ended February 29, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Tulsa, Oklahoma
May 19, 2004

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EDUCATIONAL DEVELOPMENT CORPORATION

BALANCE SHEETS
FEBRUARY 28, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 321,537	$ 364,024
Accounts receivable, less allowance for doubtful accounts and sales returns $185,209 (2006) and $140,391 (2005)	2,946,462	2,442,436
Inventories Net	12,159,360	11,749,238
Prepaid expenses and other assets	119,508	103,346
Income taxes receivable		53,805
Deferred income taxes	141,700	44,800
Total current assets	15,688,567	14,757,649
INVENTORIES Net	379,570	723,290
PROPERTY, PLANT AND EQUIPMENT Net	2,493,929	2,402,767
DEFERRED INCOME TAXES	81,900	96,800
TOTAL	$ 18,643,966	$ 17,980,506
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Note payable to bank	$ 676,000	$ 1,428,000
Accounts payable	3,042,937	3,612,877
Accrued salaries and commissions	566,379	544,423
Income taxes payable	71,749	
Dividends payable	750,785	
Other current liabilities	197,486	263,060
Total current liabilities	5,305,336	5,848,360
COMMITMENTS (Note 7)		
SHAREHOLDERS EQUITY:		
Common stock, $0.20 par value; Authorized 8,000,000 shares; Issued 5,771,840 (2006) and 5,762,340 (2005) shares; Outstanding 3,753,923 (2006) and 3,735,513 (2005) shares	1,154,368	1,152,468
Capital in excess of par value	7,577,495	7,469,486
Retained earnings	15,300,999	14,214,093

	24,032,862	22,836,047
Less treasury stock, at cost	(10,694,232)	(10,703,901)
	13,338,630	12,132,146
TOTAL	$ 18,643,966	$ 17,980,506

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF EARNINGS
YEARS ENDED FEBRUARY 28, 2006, FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	2006	2005	2004
GROSS SALES	$ 42,567,648	$ 41,361,612	$ 40,940,822
Less discounts and allowances	(12,367,775)	(11,324,165)	(11,424,127)
Transportation revenue	1,589,017	1,613,332	1,610,573
NET REVENUES	31,788,890	31,650,779	31,127,268
COST OF SALES	11,651,182	11,338,039	11,295,738
Gross margin	20,137,708	20,312,740	19,831,530
OPERATING EXPENSES:			
Operating and selling	7,094,963	6,860,540	6,730,548
Sales commissions	7,526,184	7,875,891	7,712,408
General and administrative	1,712,469	1,719,240	1,639,141
Interest	83,054	67,620	9,762
	16,416,670	16,523,291	16,091,859
OTHER INCOME	93,372	95,625	92,779
EARNINGS BEFORE INCOME TAXES	3,814,410	3,885,074	3,832,450
INCOME TAXES	1,416,000	1,479,000	1,459,000
NET EARNINGS	$ 2,398,410	$ 2,406,074	$ 2,373,450
BASIC AND DILUTED EARNINGS PER SHARE:			
Basic	$ 0.64	$ 0.62	$ 0.60
Diluted	$ 0.62	$ 0.59	$ 0.55
WEIGHTED AVERAGE NUMBER OF COMMON AND EQUIVALENT SHARES OUTSTANDING:			
Basic	3,747,759	3,902,075	3,948,193
Diluted	3,898,737	4,088,130	4,293,802

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF SHAREHOLDERS EQUITY
YEARS ENDED FEBRUARY 28, 2006, FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	Common Stock (par value $0.20 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, 2003	5,441,640	$ 1,088,328	$ 5,788,204	$ 10,312,564	1,614,020	$ (5,446,791)	$ 11,742,305
Purchases of treasury stock					54,304	(575,820)	(575,820)
Sales of treasury stock			301,525		(97,757)	336,165	637,690
Exercise of options ($1.375 $4.00/share)	154,700	30,940	341,040				371,980
Tax benefit-stock options			87,900				87,900
Dividends paid ($0.10/share)				(393,948)			(393,948)
Net earnings				2,373,450			2,373,450
BALANCE February 29, 2004	5,596,340	1,119,268	6,518,669	12,292,066	1,570,567	(5,686,446)	14,243,557
Purchases of treasury stock					479,360	(5,103,255)	(5,103,255)
Sales of treasury stock			36,700		(23,100)	85,800	122,500
Exercise of options ($2.1875 $6.00/share)	166,000	33,200	510,300				543,500
Tax benefit-stock options			399,178				399,178
Stock-based compensation			4,639				4,639
Dividends paid ($0.12/share)				(484,047)			(484,047)
Net earnings				2,406,074			2,406,074
BALANCE February 28, 2005	5,762,340	1,152,468	7,469,486	14,214,093	2,026,827	(10,703,901)	12,132,146
					7,500	(77,250)	(77,250)

Purchases of treasury stock							
Sales of treasury stock			48,294		(16,410)	86,919	135,213
Exercise of options ($2.1875 $6.00/share)	9,500	1,900	47,475				49,375
Tax benefit-stock options			12,240				12,240
Dividends paid ($0.15/share)				(560,719)			(560,719)
Dividends declared ($0.20/share)				(750,785)			(750,785)
Net earnings				2,398,410			2,398,410
BALANCE February 28, 2006	5,771,840	$ 1,154,368	$ 7,577,495	$ 15,300,999	2,017,917	$ (10,694,232)	$ 13,338,630

See notes to financial statements.

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EDUCATIONAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2006, FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 2,398,410	$ 2,406,074	$ 2,373,450
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	138,023	125,570	167,500
Stock-based compensation		4,639	
Deferred income taxes	(82,000)	(28,900)	44,800
Provision for doubtful accounts and sales returns	1,323,472	1,210,272	1,009,645
Loss on disposal of property, plant and equipment		1,163	
Changes in assets and liabilities:			
Accounts and income tax receivable	(1,773,693)	(1,526,421)	(1,052,325)
Inventories	(66,402)	1,893,703	(2,610,636)
Prepaid expenses and other assets	(16,162)	43,678	(20,868)
Accounts payable, accrued salaries and commissions, and other current liabilities	(613,558)	(54,777)	(1,209,688)
Income tax payable	71,749		(160,303)
Total adjustments	(1,018,571)	1,668,927	(3,831,875)
Net cash provided by (used in) operating activities	1,379,839	4,075,001	(1,458,425)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(229,185)	(483,358)	(235,854)
Net cash used in investing activities	(229,185)	(483,358)	(235,854)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on revolving credit agreement	14,239,000	13,235,000	8,192,000
Payments on revolving credit agreement	(14,991,000)	(12,201,000)	(7,798,000)
Cash received from exercise of stock options	49,375	543,500	371,980
Tax benefit of stock options exercised	12,240	399,178	87,900
Cash received from sale of treasury stock	135,213	122,500	637,690
Cash paid to acquire treasury stock	(77,250)	(5,103,255)	(575,820)
Dividends paid	(560,719)	(484,047)	(393,948)
Net cash provided by (used in) financing activities	(1,193,141)	(3,488,124)	521,802

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(42,487)	103,519	(1,172,477)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR		364,024	260,505	1,432,982
CASH AND CASH EQUIVALENTS END OF YEAR		$ 321,537	$ 364,024	$ 260,505
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest		$ 85,933	$ 62,533	$ 8,102
Cash paid for income taxes		$ 1,381,106	$ 1,117,672	$ 1,531,458
SUPPLEMENTAL DISCLOSURE NON CASH INVESTING AND FINANCING ACTIVITIES:				
Dividend declared		$ 750,785		

See notes to financial statements.

EDUCATIONAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2006, FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business Educational Development Corporation (the Company) distributes books and publications through its Publishing and Usborne Books at Home (UBAH) Divisions to book, toy and gift stores, libraries and home educators located throughout the United States (U.S.). The Company is the sole U.S. distributor of books and related items, which are published by an England based publishing company. The England based publishing company is the Company s primary supplier.

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

Business Concentration A significant portion of inventory purchases by the Company are concentrated with an England based publishing company. Purchases from this England based publishing company were approximately $10.6 million, $8.0 million and $12.7 million for the fiscal years ended February 28, 2006, February 28, 2005 and February 29, 2004, respectively. Total inventory purchases were approximately $13.1 million, $11.2 million and $15.3 million for the fiscal years ended February 28, 2006, February 28, 2005 and February 29, 2004, respectively.

Cash and Cash Equivalents Cash and cash equivalents include cash on hand and cash on deposit in banks. The Company maintains bank accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At times, cash balances may be in excess of the FDIC insurance limit. The Company believes no significant concentrations of risk exist with respect to its cash. 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 28, 2006 and 2005, respectively.

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 individually reviews all accounts receivable balances that exceed sixty days from invoice date and based on an assessment of current creditworthiness, 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 that 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. Changes in the valuation allowance have not been material to the financial statements. 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 first-in, first-out (FIFO) method. The Company presents a portion of its inventory as a noncurrent asset. Occasionally the Company purchases book inventory in quantities in excess of what will be sold within the normal operating cycle due to minimum order requirements of the Company s primary supplier. These excess quantities were included in noncurrent inventory. Noncurrent inventory was estimated by management using the current year turnover ratio by title. All inventory in excess of $2^1/2$ years of anticipated sales was 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 28, 2006 and 2005.

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:

Building	30 years
Machinery & equipment	3 - 10 years
Furniture & fixtures	3 years

Income Taxes The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the regular tax rate expected to be in effect when the taxes are actually paid or recovered. The Company records net deferred tax assets related to the recognition of future tax benefits, to the extent that realization of such benefits is considered more likely than not to occur.

Revenue Recognition Sales are recognized and recorded when products are shipped. Products are shipped FOB shipping point. The UBAH Division s sales are paid before the product is shipped. These sales accounted for 74% of net revenues in FY2006, 77% in FY2005 and 76% in FY2004. The provisions of the SEC Staff Accounting Bulletin No.104, Revenue Recognition in Financial Statements, have been applied, and as a result, a reserve is provided for estimated future sales returns. The Company s sales return policy allows the customer to return all purchases for an exchange or refund for up to 30 days after the customer receives the item. 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. The Company is 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 $73,000 as of February 28, 2006 and $63,000 as of February 28, 2005.

Advertising Costs The Company expenses advertising costs as incurred. Advertising expenses, included in selling and operating expenses in the statements of earnings, were $28,166 in FY2006, $11,573 in FY2005 and $6,795 in FY2004.

Shipping and Handling Costs The Company classifies shipping and handling costs as operating and selling expenses in the statements of earnings. Shipping and handling costs were $2,278,230 for FY 2006, $2,108,565 for FY 2005 and $1,995,038 for FY2004.

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

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The following reconciles the diluted earnings per share:

	Year Ended February 28, 2006	Year Ended February 28, 2005	Year Ended February 29, 2004
Diluted Earnings Per Share:			
Net earnings applicable to common shareholders	$ 2,398,310	$ 2,406,074	$ 2,373,450
Shares:			
Weighted average shares outstanding-basic	3,747,759	3,902,075	3,948,193
Assumed exercise of options	150,978	186,055	345,609
Weighted average shares outstanding-diluted	3,898,737	4,088,130	4,293,802
Diluted Earnings Per Share	$ 0.62	$ 0.59	$ 0.55

There were no stock options for the fiscal years ended February 28, 2006, February 28, 2005 and February 29, 2004 excluded from the diluted earnings per share calculation.

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

Long-Lived Asset Impairment The Company reviews 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 28, 2006, February 28, 2005 and February 29, 2004.

Stock-Based Compensation The Company accounts 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 over the vesting period.

In the fourth quarter of fiscal year 2005, the Company early adopted Statement of Financial Accounting Standards No. 123 (revised 2004) Share Based Payment (SFAS No. 123R) which eliminates the alternative of applying the intrinsic value measurement provision of Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees to stock compensation awards and requires that share-based payment transactions with employees, such as stock options and restricted stock, be measured at fair value and recognized as compensation expense over the vesting period. The Company adopted SFAS No. 123R on the modified retrospective application method to all prior years for which SFAS No. 123R was effective. For the Company, this begins with its fiscal year ended February 28, 1997. As a result of the adoption, retained earnings as of March 1, 2004 was reduced by $1,143,098; deferred tax assets were increased by $25,700; and capital in excess of par value was increased by $1,168,798. The accounting change increased earnings by approximately $198,000 in fiscal year 2005 ($0.05 per diluted share).

Reclassifications Certain prior year amounts have been reclassified to conform with the 2006 presentation.

2. INVENTORIES

Inventories consist of the following:

	February 28, 2006	February 28, 2005
Current:		

Book inventory	$ 12,186,820	$ 11,785,698
Inventory valuation allowance	(27,460)	(36,460)
Inventories net-current	$ 12,159,360	$ 11,749,238
Noncurrent:		
Book inventory	$ 657,000	$ 1,111,700
Inventory valuation allowance	(277,430)	(388,410)
Inventories net-noncurrent	$ 379,570	$ 723,290

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3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	February 28, 2006	February 28, 2005
Land	$ 250,000	$ 250,000
Building	2,124,712	2,124,712
Machinery and equipment	1,957,224	1,765,552
Furniture and fixtures	66,927	65,807
	4,398,863	4,206,071
Less accumulated depreciation and amortization	(1,904,934)	(1,803,304)
	$ 2,493,929	$ 2,402,767

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 the Company s net deferred tax assets and liabilities as of February 28, 2006 and 2005 are as follows:

	2006	2005
Current:		
Deferred tax assets:		
Allowance for doubtful accounts	$ 42,700	$ 29,400
Allowance for slow moving inventory	10,400	13,900
Allowance for sales returns	27,700	
Accruals	59,400	
Stock-based compensation	1,500	1,500
Deferred tax assets	141,700	44,800
Deferred tax asset-Net	$ 141,700	$ 44,800
Noncurrent:		
Deferred tax assets:		
Allowance for slow moving inventory	$ 138,700	$ 154,500
Stock-based compensation	4,200	4,200
Deferred tax assets	142,900	158,700
Deferred tax liabilities:		
Property and equipment	(61,000)	(61,900)

Deferred tax liabilities	(61,000)	(61,900)
Deferred tax asset-Net	$ 81,900	$ 96,800

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

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The components of income tax expense are as follows:

	February 28 2006	February 28 2005	February 29 2004
Current:			
Federal	$ 1,273,200	$ 1,300,000	$ 1,202,200
State	224,800	229,400	212,000
	1,498,000	1,529,400	1,414,200
Deferred:			
Federal	(69,700)	(43,100)	37,800
State	(12,300)	(7,300)	7,000
	(82,000)	(50,400)	44,800
Total income tax expense	$ 1,416,000	$ 1,479,000	$ 1,459,000

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

	February 28, 2006	February 28, 2005	February 29, 2004
Tax expense at federal statutory rate	$ 1,297,000	$ 1,321,000	$ 1,303,000
State income tax-net of federal tax benefit	151,000	156,000	153,000
Other	(32,000)	2,000	3,000
Total income tax expense	$ 1,416,000	$ 1,479,000	$ 1,459,000

5. EMPLOYEE BENEFIT PLAN

The Company has 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 from the Company are discretionary and amounted to $65,108, $70,280 and $29,474 in the fiscal years ended February 28, 2006, February 28, 2005 and February 29, 2004, respectively.

6. NOTE PAYABLE TO BANK

The Company has a $5,000,000 revolving credit agreement, with interest payable monthly at prime minus 0.75% (6.75% at February 28, 2006), collateralized by substantially all assets of the Company and maturing on June 30, 2006. Available credit under the revolving credit agreement was $4,324,000 at February 28, 2006, and $2,072,000 at February 28, 2005. The agreement contains provisions that require the Company to maintain specified financial ratios, restrict transactions with related parties, prohibit mergers or consolidation, disallow additional debt, and limit the amount of compensation, salaries, investments, capital expenditures and leasing transactions. The Company intends to renew the bank agreement or obtain other financing upon maturity.

The Company had $676,000 of borrowings outstanding on the above revolving credit agreement at February 28, 2006 and $1,428,000 of borrowings outstanding at February 28, 2005.

7. COMMITMENTS

At February 28, 2006, the Company had outstanding purchase commitments totaling approximately $3,163,900.

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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 the Company 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 the Company 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 28, 2006 expire beginning in December 2007 through March 2014.

A summary of the status of the Company s Incentive Plans as of February 28, 2006, February 28, 2005 and February 29, 2004, and changes during the years then ended is presented below:

	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	259,700	$ 3.79	424,700	$ 3.57	579,400	$ 3.26
Granted			1,000	10.00		
Exercised/canceled	(9,500)	(5.20)	(166,000)	(3.27)	(154,700)	(2.40)
Outstanding at End of Year	250,200	$ 3.74	259,700	$ 3.79	424,700	$ 3.57

The following table summarizes information about stock options outstanding at February 28, 2006:

Range of Exercise Prices	Number Outstanding at February 28, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$2.19 $2.50	89,000	4	$ 2.26
$3.81	5,000	2	$ 3.81
$4.00	20,000	2	$ 4.00
$4.63	135,200	2	$ 4.63
$10.00	1,000	8	$ 10.00
	250,200		

All options outstanding are exercisable at February 28, 2006.

Options totaling 1,000 shares were granted in the fiscal year ended February 28, 2005. The fair value of options granted under the Incentive Plan was estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for options granted in the fiscal year ended February 28, 2005: 1% dividend yield, expected volatility of 26.49%, risk free interest rate of 4.06%, and expected life of ten years. Compensation expense was increased by $4,639 and the income tax provision was decreased by $1,500 for 2005.

9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended February 28, 2006, February 28, 2005 and February 29, 2004.

	Net Revenues	Gross Margin	Net Earnings	Basic Earnings Per Share	Diluted Earnings Per Share
2006					
First quarter	$ 8,226,700	$ 5,221,900	$ 745,200	$ 0.20	$ 0.19
Second quarter	6,794,100	4,054,900	394,800	0.11	0.10
Third quarter	9,683,000	6,292,800	739,100	0.20	0.19
Fourth quarter	7,085,090	4,568,108	519,310	0.14	0.13
Total year	$ 31,788,890	$ 20,137,708	$ 2,398,410	$ 0.64	$ 0.62
2005					
First quarter	$ 8,553,300	$ 5,549,400	$ 824,400	$ 0.21	$ 0.19
Second quarter	6,992,200	4,373,100	452,400	0.11	0.11
Third quarter	9,331,100	6,110,600	809,400	0.21	0.20
Fourth quarter	6,774,179	4,279,640	319,874	0.09	0.09
Total year	$ 31,650,779	$ 20,312,740	$ 2,406,074	$ 0.62	$ 0.59
2004					
First quarter	$ 7,384,200	$ 4,701,900	$ 585,900	$ 0.15	$ 0.14
Second quarter	7,142,100	4,341,600	534,400	0.14	0.12
Third quarter	10,168,900	6,653,700	871,100	0.22	0.20
Fourth quarter	6,432,068	4,134,330	382,050	0.09	0.09
Total year	$ 31,127,268	$ 19,831,530	$ 2,373,450	$ 0.60	$ 0.55

10. BUSINESS SEGMENTS

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on 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. The Company s assets and liabilities are not allocated on a segment basis.

Information by industry segment for the years ended February 28, 2006, February 28, 2005 and February 29, 2004 is set forth below:

	Publishing	UBAH	Other	Total
2006				
Net revenues	$8,403,720	$23,385,170	$	$31,788,890
Earnings (loss) before income taxes	2,833,289	4,743,015	(3,761,894)	$ 3,814,410
2005				
Net revenues	$7,362,717	$24,288,062	$	$31,650,779
Earnings (loss) before income taxes	2,447,035	5,172,271	(3,734,232)	3,885,074
2004				
Net revenues	$7,465,762	$23,661,506	$	$31,127,268
Earnings (loss) before income taxes	2,454,742	4,757,742	(3,380,034)	3,832,450

11. STOCK REPURCHASE PLAN

In July 1998, the Board of Directors authorized the Company to purchase up to 1,000,000 shares of the Company s common stock. In May 1999, the Board of Directors authorized the Company to purchase up to an additional 1,000,000 shares of its common stock. In April 2004 the Board of Directors authorized the Company to purchase up to an additional 500,000 shares of its common stock. During fiscal year 2006 the Company purchased 7,500 shares of common stock at an average price of $10.30 per share totaling approximately $77,250. The cumulative shares purchased under the share repurchase program, as of February 28, 2006, were 2,328,436 shares at a cost totaling approximately $11,805,900.

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