

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 12, 2008

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

Form 10-Q
(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

☐ **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 0-14669

THE ARISTOTLE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

06-1165854
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

06902
(ZIP CODE)

(203) 358-8000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant 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 ☐

Accelerated filer ☐

Non-accelerated filer ☒

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

As of May 5, 2008, 17,962,205 shares of Common Stock, 1,081,427 shares of Series I Preferred Stock and 10,984,971 shares of Series J Preferred Stock were outstanding.

THE ARISTOTLE CORPORATION

INDEX OF INFORMATION CONTAINED IN FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets at March 31, 2008 (unaudited), December 31, 2007 and March 31, 2007 (unaudited)	1
	Condensed Consolidated Statements of Earnings for the Three Months ended March 31, 2008 and 2007 (unaudited)	2
	Condensed Consolidated Statements of Cash Flows for the Three Months ended March 31, 2008 and 2007 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	17
Item 4T.	Controls and Procedures	18

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	18
Item 1A.	Risk Factors	18
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3	Defaults Upon Senior Securities	18
Item 4.	Submission of Matters to a Vote of Security Holders	19
Item 5.	Other Information	19
Item 6.	Exhibits	19

PART I

ITEM 1. FINANCIAL STATEMENTS

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

Assets	March 31, 2008 (unaudited)	December 31, 2007	March 31, 2007 (unaudited)
Current assets:			
Cash and cash equivalents	\$ 4,514	5,604	2,013
Marketable Securities	3,305	3,335	-
Investments	19,277	18,150	14,958
Accounts receivable, net	20,481	15,631	19,557
Inventories	44,156	42,297	39,609
Prepaid expenses and other	7,318	9,071	6,581
Income Tax receivable	283	540	-
Deferred income taxes	1,910	2,484	2,774
Total current assets	101,244	97,112	85,492
Property, plant and equipment, net	28,193	27,476	26,357
Goodwill	14,338	14,476	13,890
Deferred income taxes	5,646	5,646	8,188
Investments	4,319	4,279	-
Other assets	518	446	311
Total assets	\$ 154,258	149,435	134,238
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term debt	\$ 302	305	288
Trade accounts payable	8,632	10,500	8,495
Accrued expenses	6,100	6,765	5,613
Income taxes	-	-	821
Accrued dividends payable	-	2,156	-
Total current liabilities	15,034	19,726	15,217
Long-term debt, less current installments	16,083	8,655	14,913
Long-term pension obligations	2,704	2,944	4,653
Other long-term accruals	2,439	2,429	2,397
Stockholders' equity:			
Preferred stock, Series I, 11% cumulative, \$6.00 stated value, \$.01 par value; 2,400,000 shares authorized; 1,081,427, 1,081,427 and 1,100,122 shares issued and outstanding at March 31, 2008, December 31, 2007 and March 31, 2007, respectively	6,489	6,489	6,601
Preferred stock, Series J, 12% cumulative, \$6.00 stated value, \$.01 par value; 11,200,000 shares authorized; 10,984,971 shares issued and outstanding	65,760	65,760	65,760
Common stock, \$.01 par value; 20,000,000 shares authorized; 17,962,205, 17,946,705 and 17,282,084 shares issued and outstanding at March 31, 2008, December 31, 2007 and March 31, 2007, respectively	180	179	173
Additional paid-in capital	7,674	7,580	3,294
Retained earnings	37,807	34,964	22,417
Accumulated other comprehensive income (loss)	88	709	(1,187)
Total stockholders' equity	117,998	115,681	97,058
Total liabilities and stockholders' equity	\$ 154,258	149,435	134,238

The accompanying notes are an integral part of these condensed consolidated financial statements.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2008	2007
Net sales	\$ 50,432	48,224
Cost of sales	<u>30,536</u>	<u>29,261</u>
Gross profit	19,896	18,963
Selling and administrative expense	<u>11,826</u>	<u>11,627</u>
Earnings from operations	8,070	7,336
Other (expense) income:		
Interest expense	(288)	(326)
Other, net	<u>232</u>	<u>351</u>
Earnings before income taxes	<u>(56)</u>	<u>25</u>
	8,014	7,361
Income taxes:		
Current	2,328	1,523
Deferred	<u>687</u>	<u>1,319</u>
Net earnings	<u>3,015</u>	<u>2,842</u>
	4,999	4,519
Preferred dividends	<u>2,156</u>	<u>2,159</u>
Net earnings applicable to common stockholders	<u>\$ 2,843</u>	<u>2,360</u>
Earnings per common share:		
Basic	\$.16	.14
Diluted	\$.16	.13
Weighted average common shares outstanding:		
Basic	17,961,040	17,266,573
Diluted	17,973,632	17,536,665

The accompanying notes are an integral part of these condensed consolidated financial statements.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 4,999	4,519
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	474	441
Stock option compensation	5	24
Earnings in equity method investment	(127)	(372)
Excess tax benefits from stock-based compensation	(29)	(42)
Deferred income taxes	557	1,319
Change in assets and liabilities:		
Accounts receivable	(4,850)	(4,099)
Inventories	(1,859)	(2,123)
Prepaid expenses and other	2,010	1,565
Other assets	62	(39)
Trade accounts payable	(1,868)	(1,163)
Accrued expenses and other liabilities	(1,100)	(1,471)
Accrued pension obligations	(240)	184
Net cash used in operating activities	(1,966)	(1,257)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,327)	(1,333)
Purchases of investments	(1,010)	-
Net cash used in investing activities	(2,337)	(1,333)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	7,500	3,000
Principal payments on long-term debt	(75)	(72)
Proceeds from issuance of stock under stock option plans	90	165
Changes in other long-term accruals	10	14
Preferred dividends paid	(4,312)	(4,318)
Net cash provided by (used in) financing activities	3,213	(1,211)
Net decrease in cash and cash equivalents	(1,090)	(3,801)
Cash and cash equivalents at beginning of period	5,604	5,814
Cash and cash equivalents at end of period	\$ 4,514	2,013
Supplemental cash flow information:		
Cash paid during periods for:		
Interest	\$ 286	224
Income taxes	\$ 2,072	2,215

The accompanying notes are an integral part of these condensed consolidated financial statements.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

1. Organization

The Aristotle Corporation (“Aristotle”) and its subsidiaries (together with Aristotle, the “Company”), founded in 1986, and headquartered in Stamford, CT, is a leading manufacturer and global distributor of educational, health, medical technology and agricultural products. A selection of over 80,000 items is offered, primarily through more than 45 separate catalogs carrying the brand of Nasco (founded in 1941), as well as those bearing the brands of Life/Form®, Whirl-Pak®, Simulaids, Triarco, Spectrum Educational Supplies, Hubbard Scientific, Scott Resources, Haan Crafts, To-Sew, CPR Prompt®, Ginsberg Scientific and Summit Learning. Products include educational materials and supplies for substantially all K-12 curricula, molded plastics, biological materials and items for the agricultural, senior care and food industries. In addition, the Company offers medical simulators and manikins used for training in cardiopulmonary resuscitation and the fire and emergency rescue and patient care fields. The Company also markets proprietary product lines that provide exclusive distribution rights throughout all of its catalogs. The proprietary product lines are developed internally through the Company’s research and development efforts and acquired externally by licensing rights from third parties.

Geneve Corporation (“Geneve”), a privately-held diversified financial holding company, and an affiliated entity held approximately 90% of Aristotle’s voting power at March 31, 2008 and 2007.

2. Financial Statement Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position as of March 31, 2008 and 2007 and results of operations and cash flows for the three months ended March 31, 2008 and 2007, as applicable, have been made. Operating results for the three months ended March 31, 2008 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

3. Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

4. Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 141 (revised 2007), “*Business Combinations*” (“SFAS No. 141R”), which replaces SFAS No. 141. SFAS No. 141R establishes principles and requirements for recognition and measurement in the Company’s financial statements of identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquired entity and goodwill acquired in a business combination. SFAS No. 141R also establishes disclosure requirements which will enable readers to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 141R will have on the Company’s consolidated financial position, results of operations and cash flows.

In December 2007, FASB issued SFAS No. 160, “*Noncontrolling Interests in Consolidated Financial Statements – an Amendment of Accounting Research Bulletin No. 51*” (“SFAS No. 160”), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interests of the noncontrolling owner. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on the Company's consolidated financial position, results of operations and cash flows.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115* ("SFAS No. 159"), which allows an entity to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has elected to apply the provisions of SFAS No. 157, *Fair Value Measurements*. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The adoption of SFAS No. 159 did not have any impact on the Company's financial position or results of operations. The Company did not elect the fair value option for any of its financial instruments.

5. Earnings per Common Share

Basic earnings per common share is calculated by dividing net earnings applicable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings applicable to common stockholders by the weighted average number of common shares outstanding during the period and including each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period.

6. Marketable Securities

The Company invests in marketable securities, which the Company classifies as available-for-sale. The marketable securities are included in current assets, and are reported at fair value based on quoted market prices as of the reporting date. All unrealized gains or losses are reflected net of tax in accumulated other comprehensive income (loss) within Stockholders' Equity. The Company made no additional investments in marketable securities during the quarter ended March 31, 2008.

The carrying value of the marketable equity securities at March 31, 2008 was \$3.3 million. Net unrealized loss, net of tax, included in accumulated other comprehensive income (loss) was \$.3 million and \$.1 million at March 31, 2008 and December 31, 2007, respectively.

7. Investments

The Company has invested in a limited partnership, the general partner of which is an affiliate of the Company. The assets of this limited partnership are managed exclusively by a non-affiliate of the Company. The purpose of this limited partnership is to manage a diversified investment portfolio. The Company's investment is accounted for under the equity method of accounting, which equates the carrying value of the investment to the Company's equity in the partnership's underlying book value. The Company's equity earnings or loss is credited or charged, as appropriate, to other income, net within the Consolidated Statements of Earnings. For the three months ended March 31, 2008 and 2007, equity earnings amounted to \$.2 million and \$.4 million, respectively. At March 31, 2008, December 31, 2007 and March 31, 2007, the net book value (and estimated fair value) of this investment was \$16.4 million, \$16.2 million and \$15.0 million, respectively. The assets of this limited partnership were invested in U.S. Treasury bills at each of March 31, 2008, December 31, 2007 and March 31, 2007.

The Company has invested in another limited partnership, the general partner of which is an affiliate of the Company. The purpose of this limited partnership is to manage a diversified investment portfolio. The Company's investment is

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

accounted for under the equity method of accounting. During the three months ended March 31, 2008 and 2007, the Company invested \$1.0 million and \$0, respectively, in this limited partnership. For the three months ended March 31, 2008, equity loss amounted to \$.1 million. At March 31, 2008, December 31, 2007 and March 31, 2007, the net book value (and estimated fair value) of this investment was \$2.9 million, \$2.0 million and \$0, respectively.

The Company has invested \$4.3 million to acquire a 4.6% ownership interest in a provider of interactive instructional assessment systems for K-12 and other education markets. The Company accounts for this investment under the cost method of accounting, which records the investment at the historical cost. Under the cost method, the Company will not estimate a fair value if there are not identifiable events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. In accordance with the terms of this investment, the Company accrues an 8% preferred return thereon, which is included in other assets. At March 31, 2008, December 31, 2007 and March 31, 2007, the accrued and unpaid preferred return was \$.2 million, \$.2 million and \$0, respectively.

8. Inventories

The classification of inventories is as follows (in thousands):

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>	<u>March 31,</u> <u>2007</u>
Raw materials	\$ 7,313	7,028	7,370
Work in process	1,784	1,601	1,662
Finished goods	36,517	35,015	31,882
Less inventory reserves	<u>(1,458)</u>	<u>(1,347)</u>	<u>(1,305)</u>
Net inventories	<u>\$ 44,156</u>	<u>42,297</u>	<u>39,609</u>

9. Long-term Debt

On February 26, 2008, the Company and its primary lenders executed an amendment to its \$45.0 million Revolving Credit Facility. The primary provisions of the amendment: (i) extend the term of the Revolving Credit Facility from October 15, 2008 to January 31, 2013; (ii) provide the Company the option to expand the capacity of the facility from \$45.0 million to \$60.0 million during the term of the agreement; (iii) relieve the Company of certain monthly reporting obligations; (iv) modify the pricing structure to provide interest rates more favorable to the Company; and (v) update certain financial covenants to standards relevant to the Company's current financial condition.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

10. Stockholders' Equity and Comprehensive Earnings

Changes in stockholders' equity for the three months ended March 31 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Balance at January 1	\$ 115,681	94,391
Net earnings	4,999	4,519
Exercise of stock options, including related tax benefit of \$29 and \$42 for 2008 and 2007, respectively	90	165
Stock option compensation	5	24
Other comprehensive earnings:		
Retirement benefit adjustment, net of tax	75	-
Unrealized investment loss, net of tax	(204)	-
Foreign currency translation adjustment	(492)	118
Preferred dividends	(2,156)	(2,159)
Balance at March 31	\$ <u>117,998</u>	<u>97,058</u>

Comprehensive earnings for the three months ended March 31 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Net earnings	\$ 4,999	4,519
Retirement benefit adjustment, net of tax	75	-
Unrealized investment loss, net of tax	(204)	-
Foreign currency translation adjustment	(492)	118
Comprehensive earnings	\$ <u>4,378</u>	<u>4,637</u>

11. Stock Options

The Company established the 1997 Employee and Director Stock Plan in 1997 ("1997 Plan"). The 1997 Plan provides for granting up to 150,000 options to employees and directors of the Company to purchase shares of Common Stock. The exercise term of the options and vesting requirements shall be for such period as the Board of Directors (or a committee thereof, appointed to administer the 1997 Plan, if any) designates. Following the merger with Nasco International, Inc. on June 17, 2002 (the "Merger"), each option to purchase one share of the Company's Common Stock granted under the 1997 Plan became an option to purchase one share of Common Stock and one share of Series I Preferred Stock of the Company. The Company does not currently intend to grant any additional options under the 1997 Plan.

The Company established the 2002 Employee, Director and Consultant Stock Plan in 2002 ("2002 Plan") under which employees, directors and consultants of the Company are eligible to receive nonincentive and incentive options and stock grants of up to 1,500,000 shares of Common Stock. Options granted under the 2002 Plan generally vest over a three year period and have an exercise term of no longer than five years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on United States Treasury yields in effect at the date of grant consistent with the estimated life of the options. The estimated life of options granted represents the period of time that the options are expected to be outstanding.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

The expected volatility is based on an analysis of historical prices of the Company's stock over a period of time consistent with the estimated life of the options.

A summary of option activity during the three months ended March 31, 2008 is presented below (in thousands, except share and per share data):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2007	65,045	\$ 6.08		
Granted	-	-		
Expired	-	-		
Forfeited	-	-		
Exercised	<u>(15,500)</u>	4.27		
Outstanding at March 31, 2008	<u>49,545</u>	6.65	1.78	\$ 179
Exercisable at March 31, 2008	<u>47,545</u>	6.48	1.85	173

No options were granted during each of the three months ended March 31, 2008 and 2007. The intrinsic value of options exercised during each of the three months ended March 31, 2008 and 2007 totaled less than \$.1 million. Cash received from option exercises for each of the three months ended March 31, 2008 and 2007 totaled \$.1 million.

A summary of the status of the Company's nonvested options at March 31, 2008, and changes during the three months ended March 31, 2008, is presented below:

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2007	2,000	\$ 9.86
Granted	-	-
Vested	-	-
Forfeited	<u>-</u>	-
Nonvested at March 31, 2008	<u>2,000</u>	9.86

At March 31, 2008, there was less than \$.1 million of total unrecognized compensation costs related to options. These costs are expected to be recognized within the Condensed Consolidated Statements of Earnings in 2008. No options vested during the three months ended March 31, 2008.

Stock option compensation recognized within the Condensed Consolidated Statements of Earnings amounted to less than \$.1 million for each of the three months ended March 31, 2008 and 2007.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008
(Unaudited)

12. Defined Benefit Pension Plan

On December 31, 2005, the Company froze the benefits under its pension plan for all hourly employees and certain salaried employees.

The Company contributed \$.3 million to the pension plan for the three months ended March 31, 2008. The Company did not contribute to the pension plan for the three months ended March 31, 2007. The Company expects to contribute \$1.1 million to the pension plan in 2008.

The following table presents the components of net periodic benefit cost for the three months ended March 31 (in thousands):

	<u>2008</u>	<u>2007</u>
Service cost	\$ 81	77
Interest cost	213	201
Expected return on plan assets	(203)	(193)
Amortization of prior service cost	-	(1)
Recognized net actuarial loss	<u>125</u>	<u>100</u>
Net periodic benefit cost	<u>\$ 216</u>	<u>184</u>

13. Fair Value Accounting

SFAS No. 157 was issued in September 2006 and adopted by the Company as of January 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. In addition, SFAS No. 157 establishes a three-tiered hierarchy for inputs used in measuring fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are ones that market participants would use in pricing a financial instrument. Unobservable inputs are ones that reflect the belief about the assumptions that market participants would use in pricing a financial instrument based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- **“Level 1”:** Valuations are based on unadjusted quoted prices in active markets for identical, unrestricted assets. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets does not involve any meaningful degree of judgment. For the Company, assets utilizing Level 1 inputs generally include marketable securities, including common and preferred stocks.
- **“Level 2”:** Valuations are based on quoted prices in markets that are not deemed to be sufficiently “active”, or involve direct or indirect observable market inputs, such as prices for similar securities.
- **“Level 3”:** Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Valuation under Level 3 generally involves a significant degree of judgment.

The estimated fair values (and carrying amounts) of the Company’s invested assets as of March 31, 2008 are as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	\$ <u>3,305</u>	<u>-</u>	<u>-</u>	<u>3,305</u>

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008
(Unaudited)

The Company's investments in limited partnerships of \$19.3 million at March 31, 2008 are accounted for under the equity method of accounting, and, therefore, are not within the scope of SFAS No. 157.

14. Segment Reporting

The Company's business activities are organized into two business segments, educational and commercial. The educational segment relates to instructional teaching aids and materials, which are distributed to educational institutions principally in North America, for kindergarten through grade 12 classes, and for nursing school and emergency medical instructors. Products in the educational segment are marketed primarily through catalogs. The growth potential of the educational segment is directly related to school enrollments and the strength of government funding of education. The commercial segment relates to agricultural products, sterile sampling containers and systems, materials for nursing home activities and novelty and gift products. Products in the commercial segment are marketed through catalogs nationwide and through a worldwide dealer network covering more than 60 countries. Market growth in the commercial segment is principally impacted by the general economic conditions of world agriculture, the increasing size of the aged population, as well as increasing global awareness of food and water quality standards. The Company evaluates the performance of these segments based on segment net sales and gross profit.

The following table presents segment information for the three months ended March 31 (in thousands):

	<u>2008</u>	<u>2007</u>
Net sales:		
Educational	\$ 41,774	39,847
Commercial	<u>8,658</u>	<u>8,377</u>
Net sales	<u>\$ 50,432</u>	<u>48,224</u>
Gross profit:		
Educational	\$ 17,343	16,598
Commercial	3,523	3,400
Other costs of sales	<u>(970)</u>	<u>(1,035)</u>
Gross profit	<u>\$ 19,896</u>	<u>18,963</u>

Other costs of sales primarily include freight costs incurred in the procurement of inventories and shipment of customer orders not allocable to a particular segment.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(Unaudited)

The following table presents segment identifiable asset information as of March 31, 2008, December 31, 2007 and March 31, 2007 (in thousands):

	March 31, 2008	December 31, 2007	March 31, 2007
Identifiable assets:			
Educational	\$ 74,744	72,942	67,031
Commercial	6,506	6,099	5,762
Other corporate assets	<u>73,008</u>	<u>70,394</u>	<u>61,445</u>
Identifiable assets	<u>\$ 154,258</u>	<u>149,435</u>	<u>134,238</u>

Educational assets include \$14.2 million, \$14.4 million and \$13.8 million of goodwill at each of March 31, 2008, December 31, 2007 and March 31, 2007, respectively. Commercial assets included \$.1 million of goodwill at each of March 31, 2008, December 31, 2007 and March 31, 2007.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

This discussion and analysis of financial condition and results of operations reviews the results of operations of the Company, on a consolidated basis, for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This discussion and analysis of financial condition and results of operations has been derived from, and should be read in conjunction with, the unaudited Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements contained herein.

The Company is a leading manufacturer and global distributor of educational, health, medical technology and agricultural products, primarily offered through more than 45 separate catalogs.

The following is a summary of key events for the three months ended March 31, 2008:

- increase in net sales of 4.6% in the first quarter of 2008, as compared to the same period in 2007;
- increase in gross profit of 4.9% in the first quarter of 2008, as compared to the same period in 2007; the gross profit margin increased to 39.5% in 2008 from 39.3% for the comparable period in 2007;
- increase of 8.9% in earnings before income taxes to \$8.0 million in the first quarter of 2008, as compared to \$7.4 million for the same period in 2007;
- increase of 20.5% in net earnings applicable to common stockholders to \$2.8 million in the first quarter of 2008, as compared to \$2.4 million for the same period in 2007; diluted earnings per common share were \$.16 in the first quarter of 2008, compared to \$.13 in the comparable period in 2007;
- increase of \$1.0 million in investments in limited partnerships that manage diversified investment portfolios; aggregate investment in such limited partnerships totaled \$19.3 million at March 31, 2008, compared to \$15.0 million at March 31, 2007;
- aggregate investment in marketable securities was \$3.3 million at March 31, 2008, compared to \$0 invested in marketable securities at March 31, 2007; no investments in marketable securities were made in the quarters ended March 31, 2008 or 2007;
- the Company and its primary lender amended the credit agreement for its existing \$45.0 million revolving credit facility to, among other things, (i) extend the term of the credit agreement to January 2013, and (ii) modify the credit pricing structure and certain covenant terms; and
- semi-annual dividend payments were made on March 31, 2008 totaling \$4.3 million on the Company's Series I Preferred Stock and Series J Preferred Stock, of which \$2.2 million was accreted during the first quarter of 2008.

A key strength of the Company's business is its ability to generate cash consistently. The Board of Directors and management use cash generated as a measure of the Company's performance. The Company uses the cash generated from operations to strengthen the balance sheet, including making investments and reducing liabilities such as pension and debt obligations, paying dividends on its preferred stocks and completing prudent acquisition opportunities. The Company's management believes that examining the ability to generate cash provides investors with additional insight into the Company's performance.

The following table sets forth selected financial data (i) as a percentage of net sales for the three months ended March 31, 2008 and 2007 and (ii) the percentage change in those reported items between the comparable quarterly periods in 2008 and 2007:

	<u>% of Net Sales</u>		<u>Balance</u>
	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Net sales	100.0 %	100.0 %	4.6 %
Cost of sales	<u>60.5</u>	<u>60.7</u>	4.4
Gross profit	39.5	39.3	4.9
Selling and administrative expense	<u>23.5</u>	<u>24.1</u>	1.7
Earnings from operations	16.0	15.2	10.0
Other (expense) income:			
Interest expense	(.6)	(.7)	(11.7)
Other, net	<u>.5</u>	<u>.7</u>	(33.9)
	(.1)	(.0)	(324.0)
Earnings before income taxes	15.9	15.2	8.9
Income taxes:			
Current	4.6	3.2	52.9
Deferred	<u>1.4</u>	<u>2.7</u>	(47.9)
	6.0	5.9	6.1
Net earnings	<u>9.9 %</u>	<u>9.3 %</u>	10.6

FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS

The Company is subject to seasonal influences with peak levels occurring in the second and third quarters of the fiscal year primarily due to increased educational shipments coinciding with the start of the new school year in the Fall. As a result, the Company typically recognizes approximately 60% of its annual net earnings in the second and third quarters of its fiscal year. Inventory levels increase in March through June in anticipation of the peak shipping season. The majority of shipments are made between June and August, and the majority of cash receipts are collected from August through October.

Quarterly results may also be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in costs of products sold, the mix of products sold and general economic conditions. Results for any quarter are not indicative of the results for any subsequent fiscal quarter or for a full fiscal year.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2008 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2007

Net Sales

Net sales for the first quarter of 2008 increased 4.6% to \$50.4 million from \$48.2 million for the comparable period in 2007. Sales growth was balanced among the Company's catalogs and business units, domestically and in Canada. International shipments to foreign accounts, which equate to approximately 15% of net sales, grew 19.1% compared to the same quarter last year, aided by the effects of the U.S. dollar in foreign markets.

Net sales for the educational segment, totaling \$41.8 million, increased 4.8% in the first quarter of 2008 from \$39.8 million in the comparable period in 2007. The commercial segment recorded net sales of \$8.6 million for the first quarter of 2008, increasing 3.3% from \$8.4 million for the first quarter of 2007. Sales growth in both the educational and commercial segments relates to organic growth in existing product lines, including the Company's proprietary product lines, and each segment benefited from the growth in international sales.

Gross Profit

Gross profit for the first quarter of 2008 increased 4.9% to \$19.9 million from \$19.0 million in 2007. The increase in gross profit for the first quarter of 2008 is primarily attributed to the 4.6% increase in net sales. The gross profit margin increased to 39.5% for the first quarter of 2008 from 39.3% for the comparable period in 2007. The gross margin improvement is driven by the sales strength of the Company's proprietary product lines, which have higher gross profit margins than other products, in both domestic and international markets, and successful efforts to manage net shipping costs.

The educational segment gross profit for the first quarter of 2008 increased 4.5% to \$17.3 million from \$16.6 million for the comparable period in 2007. The educational segment gross profit margin decreased to 41.5% in the first quarter of 2008 from 41.7% in the first quarter of 2007, primarily resulting from the product mix in the respective quarters. The commercial segment gross profit for the first quarter of 2008 increased 3.6% to \$3.5 million compared to \$3.4 million for the first quarter of 2007. The commercial segment yielded a gross profit margin of 40.7% in the first quarter of 2008, as compared to 40.6% in first quarter of 2007, primarily attributable to the product mix.

Other costs of sales, which the Company does not allocate by segment, including freight costs incurred in the procurement of inventories and shipment of customer orders, declined 6.3% in the first quarter of 2008 compared to 2007 primarily as a result of long-term efforts to control net shipping costs, including the negotiation of favorable shipping contract terms.

Selling and Administrative Expense

Selling and administrative expense for the first quarter of 2008 increased 1.7% to \$11.8 million from \$11.6 million in the comparable period in 2007. As a percent of net sales, selling and administrative expenses amounted to 23.4% for the first quarter of 2008, as compared to 24.1% in the first quarter of 2007. Expenses include advertising and catalog costs, warehouse and shipping activities, customer service and general administrative functions. Selling and administrative expenses for the first quarter of 2008 were primarily impacted by: (i) an increase in salaries and wages of \$.2 million, or 3.3%, as a result of increases in annual employee compensation and the number of employees; and (ii) maintaining other selling and administrative costs, including group health care costs and advertising costs at levels approximating those for the first quarter of 2007.

The Company recorded less than \$.1 million in compensation expense for each of the first quarters of 2008 and 2007 related to grants of stock options to certain employees and directors.

The Company incurred expenses of \$.3 million and \$.2 million to Geneve for certain administrative services for the quarters ended March 31, 2008 and 2007, respectively.

Interest Expense

Interest expense for the first quarter of 2008 decreased 11.7% to \$288 thousand from \$326 thousand for the first quarter of 2007. The decrease in interest expense is principally due to the decrease in the average effective interest rate on outstanding debt under the Company's primary line of credit to 4.9% for the first quarter of 2008, compared to 6.5% for the first quarter of 2007. Interest expense of \$.1 million in the each of the first quarters of 2008 and 2007 relates to other long-term accruals established in the fourth quarter of 2006 in connection with the transfer of ownership of certain assets.

Weighted average rates under the Company's credit agreements were 4.3%, 6.8% and 6.8% at March 31, 2008, December 31, 2007 and March 31, 2007, respectively.

Income Tax Provision

Aristotle and its qualifying domestic subsidiaries are included in the Federal income tax return and certain state income tax returns of Geneve. The provision for income taxes for the Company is determined on a separate return basis in accordance with the terms of a tax sharing agreement with Geneve, and payments for current Federal and certain state income taxes are made to Geneve.

The income tax provision for the first quarter of 2008 was \$3.0 million compared to \$2.8 million for the comparable period in 2007. These tax provisions reflect effective tax rates of 37.6% and 38.6% for the first quarters of 2008 and 2007, respectively. For each of the first quarters of 2008 and 2007, the difference between the Federal statutory income tax rate of 35% and the effective income tax rate results principally from state income taxes, net of the Federal benefit, and the differential between the

Federal tax rate and the tax rates in the foreign jurisdictions in which the Company operates. Cash of \$1.3 million from operations was retained in the Company primarily as a result of the utilization of Federal net operating tax loss carryforwards (“NOLs”) during the three months ended March 31, 2007. In the first quarter of 2007, the Company generated Federal taxable income in an amount sufficient to utilize the remaining balance of NOLs, thereby providing the Company with a Federal tax benefit of \$1.3 million. The Company no longer has historical NOLs; thus, the Company will utilize cash to pay its Federal income tax obligations.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2008, the Company had working capital of \$86.2 million, increasing from \$77.4 million at December 31, 2007. At March 31, 2007, the Company had working capital of \$70.3 million. Cash and cash equivalents decreased \$1.1 million in the first quarter of 2008, ending the period at \$4.5 million. Cash and cash equivalents decreased \$3.8 million in the first quarter of 2007, ending the period at \$2.0 million. The change in cash and cash equivalents during the first quarter of 2008 as compared to the same period in 2007 is primarily due to the following activities:

- The Company used cash of \$2.0 million for operations during the first quarter of 2008 compared to \$1.3 million for the comparable period of 2007. The increase in cash used in operations in the first quarter of 2008 compared to the first quarter of 2007 was principally the result of (i) a \$.5 million increase in net earnings, (ii) a \$.8 million decrease in deferred tax asset utilization, and (iii) a \$.7 million incremental increase in working capital components.

The changes in current assets and liabilities are typical for the first quarter of the fiscal year as the Company is preparing for its peak business cycle, which occurs during the second and third quarters of the fiscal year. For more information on the seasonality of the Company’s business, please refer to the “Fluctuations in Quarterly Results of Operations” section above.

- The Company used cash of \$2.3 million for investing activities in the first quarter of 2008, compared to \$1.3 million in the first quarter of 2007. In the first quarter of 2008, the Company used cash of \$1.3 million to fund the purchase of fixed assets, including \$.7 million for renovation of an existing facility. In the first quarter of 2007, the Company used \$.8 million to fund a portion of the construction of a new 60,000 square foot facility for Nasco’s plastics operations.

Capital expenditures to replace and upgrade existing capital equipment and install new equipment and fixtures to provide additional operating efficiencies totaled \$.6 million and \$.5 million in the first quarters of 2008 and 2007, respectively.

In the first quarter of 2008, the Company increased its investment in an investment limited partnership by \$1.0 million. No similar cash investment was made during the first quarter of 2007.

- Financing activities provided cash of \$3.2 million in the first quarter of 2008, compared to using cash of \$1.2 million for the comparable period in 2007. In the first quarter of 2008, borrowings under the Company’s primary credit facility of \$7.5 million were due to seasonal working capital requirements, and the \$4.3 million payment of the preferred stock cash dividends on March 31, 2008. In the first quarter of 2007, borrowings under the Company’s primary credit facility of \$3.0 million were due to seasonal working capital requirements, and the \$4.3 million payment of the preferred stock cash dividends on March 31, 2007.

On October 15, 2003, the Company entered into a five-year, non-amortizing, \$45.0 million Revolving Credit Facility. The Revolving Credit Facility provides the Company with seasonal working capital, letters of credit and funds for appropriate acquisitions of businesses similar in nature to the Company’s current business segments. This debt carries a variable rate of interest that is based on Prime or LIBOR rates plus applicable margins. On February 26, 2008, the Company and its primary lenders executed an amendment to the Revolving Credit Facility. The primary provisions of the amendment: (i) extend the term of the Revolving Credit Facility from October 15, 2008 to January 31, 2013; (ii) provide the Company the option to expand the capacity of the facility from \$45.0 million to \$60.0 million during the term of the agreement; (iii) relieve the Company of certain monthly reporting obligations; (iv) modify the pricing structure to provide interest rates more favorable to the Company; and (v) update certain financial covenants to standards relevant to the Company’s current financial condition. At March 31, 2008, the weighted average interest rate on this debt was 3.8%. The Revolving Credit Facility currently has a committed weighted average rate of interest (including applicable margins) of 3.9%. Such rate commitments expire on various dates through June 16, 2008. Rates are renewable by the Company during the term of the Revolving Credit Facility for interest periods of one to six months. The Company’s Revolving Credit Facility is collateralized by certain accounts receivable, inventories and property, plant and equipment, and shares of a certain subsidiary’s outstanding capital stock and ownership interests of certain of the Company’s limited liability subsidiaries. The Revolving Credit Facility contains various financial and operating covenants, including, among other things, requirements to maintain certain financial ratios and restrictions on additional indebtedness, common stock dividend

payments, capital disposals and intercompany management fees. The Company was in compliance with all financial covenants as of March 31, 2008.

In 2008, capital expenditures to replace and upgrade existing equipment and install new equipment and fixtures to provide additional operating efficiencies are expected to be \$2.3 million. In addition, the Company anticipates capital expenditures of \$1.6 million for the completion of a building renovation in Fort Atkinson, WI.

Capital resources in the future are expected to be used for the development of catalogs and product lines, to acquire additional businesses and for other investing activities. The Company anticipates that there will be sufficient financial resources to meet projected working capital and other cash requirements for at least the next twelve months. Management of the Company believes it has sufficient capacity to maintain current operations and support a sustained level of future growth.

INFLATION

Inflation has had and is expected to have only a minor effect on the Company's operating results and its sources of liquidity. Inflation, including as it related to the increased cost of fuel and plastic materials, did not significantly impact the Company's operating results and its sources of liquidity in each of the first quarters of 2008 and 2007.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and notes thereto. Actual results could differ from those estimates. The Company believes that the following accounting policies affect the more significant judgments and estimates used in the preparation of the Condensed Consolidated Financial Statements:

Prepaid Catalog Costs and Amortization - The Company accumulates all direct costs, less applicable vendor rebates, incurred in the development, production and circulation of catalogs on the Condensed Consolidated Balance Sheets until the related catalog is mailed, at which time such catalog costs are amortized into selling and administrative expense over the estimated sales realization cycle of one year, using the ratio of current period revenues to the total of current and future period revenues for each catalog.

Deferred Income Taxes - The Company accounts for income taxes under the asset and liability method, wherein deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Goodwill - The Company evaluates goodwill for impairment at least annually, or more frequently if events or circumstances indicate that the assets may be impaired, by applying a fair value based test and, if impairment occurs, the amount of impaired goodwill is written off immediately. The Company evaluates goodwill for impairment based on the expected future cash flows or earnings projections. Goodwill is deemed impaired if the estimated discounted cash flows or earnings projections do not substantiate the carrying value. The estimation of such amounts requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and selection of an appropriate discount rate, as applicable. The use of different assumptions would increase or decrease discounted future operating cash flows or earnings projections and could, therefore, change the impairment determination. The Company evaluated its goodwill at December 31, 2007, and determined that there was no impairment of goodwill.

Defined Benefit Plans - The Company accounts for the benefits under its defined benefit pension plan using actuarial models required by SFAS No. 87, *"Employers' Accounting for Pensions."* These models use an attribution approach that generally spreads individual events over the service lives of the employees in the plan. Examples of "events" are plan amendments and changes in actuarial assumptions such as discount rate, expected return on plan assets and rate of compensation increases. The principle underlying the required attribution approach is that employees render service over their service lives on a relatively consistent basis and, therefore, the statement of earnings effects of pension benefits are earned in, and should be expensed in, the same pattern.

In calculating net periodic benefit cost and the related benefit obligation, the Company is required to select certain actuarial assumptions. These assumptions include discount rate, expected return on plan assets and rate of compensation increase. The discount rate assumptions reflect the prevailing market rates for long-term, high-quality, fixed-income debt instruments that, if the obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company uses long-term historical actual return experience with consideration of the expected investment mix of the plan's assets, as well as future estimates of long-term investment returns, to develop its assumptions of the expected return on plan assets. The rate of compensation increase is based on historical experience and the Company's long-term plans for such increases.

Revenues - Customarily applying FOB-shipping point terms, the Company recognizes revenue upon shipment of products to its customers, which corresponds to the time when risk of ownership transfers. The point of shipment is typically from one of the Company's distribution centers or, on occasion, a vendor's location as a drop shipment. All drop shipment sales are recorded at gross selling price as the Company acts as principal in the transactions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial instruments include cash and cash equivalents, marketable securities, investments, accounts receivable, accounts payable, accrued liabilities and debt. As described below, credit risk, market risk and interest rate risk are the primary sources of risk in the Company's accounts receivable, investments and debt.

QUALITATIVE

Credit Risk: The Company provides credit in the normal course of business to its customers, which are primarily educational institutions or distributors. No single customer accounted for more than 10% of the Company's sales in each of the first quarters of 2008 and 2007. The Company performs ongoing credit evaluations of its customers, maintains allowances for potential credit losses and generally does not require collateral to support its accounts receivable balances.

Market Risk: The Company's exposure to market risk relates to the quality of holdings of its marketable securities and limited partnership investments. The fair market value of the marketable securities and limited partnerships' investments is subject to increases or decreases in value resulting from the performance of the securities issuers, from upgrades or downgrades in the credit worthiness of the securities issuers and from changes in general market conditions. The Company seeks to manage its exposure to market risk by investing in accordance with standards established by the Investment Committee of the Board of Directors. The standards of the Investment Committee are: (i) preservation of capital; (ii) provision of adequate liquidity to meet projected cash requirements; (iii) minimization of risk of principal loss through diversified short and medium term investments; and (iv) maximization of yields in relationship to the guidelines, risk, market conditions and tax considerations.

Interest Rate Risk: Changes in interest rates can potentially impact the Company's profitability and its ability to realize assets and satisfy liabilities. Interest rate risk is resident primarily in debt, which typically has variable interest rates based on Prime or LIBOR rates. Assuming no other change in financial structure, an increase of 1% in the Company's variable interest rate for debt would decrease pre-tax earnings for 2008 by approximately \$.1 million. This amount is determined by considering the impact of a 1% increase in interest rates on the average debt estimated to be outstanding on the Company's primary credit facility in 2008.

QUANTITATIVE

The Company's debt as of March 31, 2008 is as follows (in millions, except percentage data):

	MATURITY LESS THAN ONE YEAR	MATURITY GREATER THAN ONE YEAR
Amount	\$.3	\$ 16.1
Weighted average interest rate	5.4%	4.3%
Fair market value	\$.3	\$ 16.1

The fair market value of debt equals the face amount of debt outstanding because the underlying rate of interest on substantially all of the Company's debt is variable based upon Prime or LIBOR rates. The carrying value of the Company's other long-term accruals approximates fair value because the Company has no reason to believe that the value of the related long-term

assets will increase or decrease from the sales price thereof at their respective transaction dates.

ITEM 4T. CONTROLS AND PROCEDURES

The President and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission ("SEC") rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the President and the Chief Financial Officer, as appropriate, and allow timely decisions regarding required disclosure.

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

FORWARD-LOOKING STATEMENTS

The Company believes that this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, expectations, predictions, and assumptions and other statements which are other than statements of historical facts. These forward-looking statements are based on management's current expectations and are subject to, and are qualified by, risks and uncertainties that could cause actual results or business conditions to differ materially from those projected or suggested in such forward-looking statements.

The Company cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors including, but not limited to, the following: (i) the ability of the Company to obtain financing and additional capital to fund its business strategy on acceptable terms, if at all; (ii) the ability of the Company on a timely basis to find, prudently negotiate and consummate additional acquisitions; (iii) the ability of the Company to manage any to-be acquired businesses; (iv) there is not an active trading market for the Company's securities and the stock prices thereof are highly volatile, due in part to the relatively small percentage of the Company's securities which is not held by the Company's majority stockholder and members of the Company's Board of Directors and/or management; (v) the ability of the Company to retain its Federal net operating tax loss carryforward position; and (vi) other factors identified in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2007. As a result, the Company's future development efforts involve a high degree of risk. For further information, please see the Company's filings with the SEC, including its Forms 10-K, 10-K/A, 10-Q and 8-K.

There have been no material changes from the risk factors previously disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

No matters were submitted to a vote of the Company's security holders during the first quarter of 2008.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

EXHIBIT NUMBER	DESCRIPTION
31.1	Rule 13a-14(a)/15d-14(a) Certifications.
31.2	Rule 13a-14(a)/15d-14(a) Certifications.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 12, 2008

/s/ Steven B. Lapin

Steven B. Lapin
President and Chief Operating Officer
(Principal Executive Officer)

Date: May 12, 2008

/s/ Dean T. Johnson

Dean T. Johnson
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Rule 13a-14(a)/15d-14(a) Certifications.
31.2	Rule 13a-14(a)/15d-14(a) Certifications.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.