SECURITY CAPITAL CORP/DE/
Form 10-K
April 02, 2004

Use these links to rapidly review the document
TABLE OF CONTENTS
Index To Consolidated Financial Statements

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

OR

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: 1-7921

SECURITY CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3003070**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Three Pickwick Plaza, Suite 310
Greenwich, Connecticut 06830
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(203) 625-0770**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None.

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act): Yes o No ý

As of June 30, 2003, 6,450,967 shares of the Registrant's voting stock were outstanding, of which 5,277,632 shares were held by affiliates of the Registrant. The aggregate market value of the remaining 1,173,335 shares of voting stock held by non-affiliates (based upon the closing price of the Registrant's Class A Common Stock on June 30, 2003 of $9.15) was approximately $10,736,015.

Portions of Security Capital Corporation's definitive proxy statement to be filed with the Securities and Exchange Commission on or before April 29, 2004 are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

Item 1. Business

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Item 9A. Controls and Procedures

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder

Item 13. Certain Relationships and Related Transactions

Item 14. Principal Accountant Fees and Services

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

PART I

ITEM 1. BUSINESS.

General

Security Capital Corporation ("Security Capital" or "SCC" or the "Company") operates three subsidiaries in three distinct business segments, although the Company has implemented an exit strategy with regard to the seasonal products segment, which is now considered a discontinued operation. Each subsidiary has a high degree of operating autonomy, with its own chief executive officer and management. Management of each company has equity interests and/or options and other incentives based primarily on the performance of its own subsidiary. The parent company management of Security Capital is primarily focused on strategic, financial and other senior level managerial issues, as well as potential new related or other acquisitions.

As a result of a December 2000 acquisition, SCC has an 80% equity interest in WC Holdings, Inc. ("WC"). Security Capital owns, through its 98%-owned subsidiary, Primrose Holdings, Inc., 100% of the outstanding shares of common stock of Primrose School Franchising Company and one related service company (together referred to as "Primrose"). Through its 100%-owned subsidiary, Pumpkin Masters Holdings, Inc., SCC owns 100% of the outstanding shares of Pumpkin, Ltd. (together referred to as "Pumpkin"). Prior to a December 31, 2002 transaction whereby the 20% minority shareholders' stake in Pumpkin Masters Holdings, Inc. was purchased by the Company, Pumpkin Masters Holdings was an 80%-owned subsidiary. Security Capital owns 75% of P.D. Holdings, Inc., which owns 100% of the outstanding shares of Possible Dreams, Ltd. (together referred to as "Possible Dreams"). However, because of the October 22, 2003 Chapter 11 filing in bankruptcy court by Possible Dreams, the Company effectively lost control over this subsidiary as of that date, and therefore the results of operations and financial position for Possible Dreams have ceased to be included in the Company's consolidated statements of income or consolidated balance sheet after that date. For all reporting periods presented in this Report on Form 10-K, it has been reported in the consolidated statements of income as a discontinued operation.

The three business segments of SCC are employer cost containment and health services, educational services, and seasonal products, but the seasonal products segment is now reported as a discontinued operation. The employer cost containment and health services segment consists of WC which provides services to employers and their employees primarily relating to industrial health and safety, industrial medical care, workers' compensation insurance and the direct and indirect costs associated therewith. The educational segment consists of Primrose which is engaged in the franchising of educational child care centers, with related activities in operations advisory, real estate and site selection services. Primrose also operated one educational child care center during the first five months of 2002, which it closed in May 2002. In January 2003, Primrose opened a new company-owned and operated educational child care center. The Primrose activities are national with the exception of the Northeast and Northwest. The seasonal products segment is now reported as a discontinued operation and consists of Pumpkin and, Possible Dreams prior to the date of deconsolidation. Pumpkin is engaged primarily in the business of designing, out-sourcing and distributing pumpkin carving kits and related Halloween accessories. The Company is actively marketing this subsidiary for sale and expects to conclude a sale during 2004. Possible Dreams did operate as a designer, importer, and distributor of collectible and fine quality figurines and, to a lesser extent, other specialty giftware before its Chapter 11 bankruptcy filing on October 22, 2003 and the subsequent sale of all of its non-real estate assets on November 30, 2003.

WC (Employer Cost Containment and Health Services Segment)

Background

On December 21, 2000, the Company, through its subsidiary, WC Holdings, Inc., acquired Health Power, Inc., a Delaware corporation. The total consideration paid for 100% of Health Power common

stock was $37,446,000. In addition, on April 1, 2001, the Company, through WC's subsidiary CompManagement, Inc. ("CompManagement"), acquired 100% of the outstanding stock of Trigon Administrators, Inc., a third party administrator ("TPA") in Virginia, Maryland and North Carolina. After contractual adjustments, the total consideration paid was $5,495,000. On October 1, 2002, CompManagement acquired all of the outstanding stock of Barron Risk Management Services, Inc., a TPA in Texas that offers various services for the administration of self-insured property and casualty programs. After contractual adjustments, the total consideration was $1,750,000. On October 3, 2003, CompManagement acquired all of the outstanding stock of Octagon Risk Services, Inc. ("Octagon"), a full-service claims administration and consulting services provider for workers' compensation, medical professional liability and general liability based in California. Total consideration paid was $30,000,000; net of cash, cash equivalents, and other investments that were liquidated, the price was $14,650,000 plus acquisition costs of $669,000. In November 2003, WC Holdings, Inc. was merged into Health Power, Inc., WC and the surviving entity was renamed WC Holdings, Inc.

Overview

WC operates through its wholly-owned subsidiary, CompManagement. CompManagement provides various services to corporations and their employees primarily relating to workplace health and safety, occupational medical care, workers' compensation and employee benefits. These services are targeted at improving the health and safety of workplaces and employees, as well as reducing and managing employer long-term costs of workplace health and safety.

CompManagement provides its services to over 53,000 businesses and had 1,221 employees as of December 31, 2003. Approximately 62% of CompManagement's revenue comes from Ohio, 48% post acquisition of Octagon Risk Services, where CompManagement is a market leader. Since 2001, CompManagement has diversified into other states and approximately 38% of its revenue comes from national operations. In addition to Ohio, CompManagement currently has offices in California, Georgia, Illinois, Maryland, Michigan, North Carolina, Pennsylvania, South Carolina, Texas, Virginia, Washington and West Virginia.

CompManagement provides services reducing or containing employers' lost time and other workers' compensation costs and managing workers' compensation claims. These include consulting, training and education services to improve workplace health and safety. CompManagement also provides medical management and administrative services related to workers' compensation claims. In addition to workers' compensation, CompManagement provides the same claim and medical management services for auto, general and medical liability insurance throughout the United States.

CompManagement Services

CompManagement offers services in two general categories: (1) claims administration services related to workers' compensation, auto, general and medical liability claims (these services are typically referred to as "third party administration" or "TPA" services) and (2) medical management of workers' compensation claims, or "MCO" services.

Non-medical Services

CompManagement provides group rating services, risk management, medical cost containment and claims management services to employers with respect to workers' compensation, auto, general and medical liability claims as well as claims administration services for short-term disability and Family Medical Leave Act ("FMLA") claims. CompManagement's TPA services include the review and processing of an employer's workers' compensation claims, the design of individual programs to improve an employer's experience ratings, assisting employers before the Ohio Industrial Commission and The Ohio Bureau of Workers' Compensation (the "OBWC"), the performance of risk analysis for an employer's

experience rating, the review of premium audits on behalf of employers and analysis of employers for inclusion in group rating plans. CompManagement also acts as a TPA of workers' compensation claims for self-insured employers. Each employer selects the types of services it desires and then enters into a contract with CompManagement to provide such services. These contracts are generally for a one-year period.

CompManagement currently provides its TPA services to approximately 17,000 employers located throughout California, Georgia, Illinois, Maryland, Michigan, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Virginia, Washington and West Virginia. Many Ohio employers have entered into contracts with CompManagement because of their participation in group rating plans sponsored by trade associations of which such employers are members. Larger organizations may choose to self-insure their workers' compensation risk and, in such cases, CompManagement serves as the program administrator.

MCO Services

CompManagement provides medical management services for workers' compensation claims, primarily to Ohio employers, as well as to a smaller number of employers located in Georgia, Maryland, Virginia, North Carolina and Texas. CompManagement owns and operates a state-wide MCO under Ohio's Health Partnership Program. CompManagement currently serves approximately 52,000 employers located throughout Ohio. As an OBWC-certified and URAC-accredited (American Accreditation HealthCare Commission, Inc.) MCO, CompManagement provides medical management services for workers' compensation cases resulting from injuries suffered by employees arising out of the course and scope of their employment, as required by law. Because all workers' compensation claim liabilities are paid by the OBWC, CompManagement does not assume any risk for the payment of medical or disability benefits to employees with respect to their claims.

MCO services provided in Ohio by CompManagement are offered pursuant to a contract with the OBWC. Under this contract, CompManagement is responsible for providing, among other things, a state-wide health care provider network; treatment guidelines and utilization review procedures; peer review and quality assurance programs; provider sanction and termination procedures; medical and vocational case management programs; utilization management programs; medical bill adjudication and payment procedures; dispute resolution procedures; provider, employer and employee relations and education programs; and health care fraud detection and reporting programs.

Under its current OBWC contract, CompManagement receives an administrative fee equal to 4% of the annual workers' compensation premiums for employers assigned to its MCO. The administrative fee is paid monthly and is subject to setoffs if CompManagement does not meet certain criteria with respect to first report of injuries, bill submissions or data accuracy, or if CompManagement makes a misfiling of death claims. CompManagement is also eligible to earn an additional quarterly incentive fee of up to 3% of the annual workers' compensation premiums for employers assigned to its MCO based upon its attainment of certain return-to-work measurements established in the contract. In 2003, CompManagement also earned an additional 0.25% of the annual workers' compensation premiums because it enrolled a certain number of employers in the OBWC transitional work grant program by December 31, 2003.

CompManagement owns or has arrangements with other state-wide health care provider networks in Ohio, Maryland, North Carolina, Texas and Virginia consisting of physicians, hospitals and ancillary providers. These networks include certain occupational health-based physician groups, which serve as its "anchor medical groups." The provider panel is credentialed using a multi-faceted peer review committee. CompManagement has a provider services department, which recruits new providers for its own network and offers educational materials and training seminars.

Customers and Marketing

CompManagement markets its TPA and MCO services through its direct sales force of 58 persons who contact prospective and existing employer groups. In addition, CompManagement has relationships with over 500 independent insurance agencies and brokers. CompManagement maintains service centers in California, Georgia, Illinois, Maryland, Michigan, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Virginia, Washington and West Virginia.

Competition

The workers' compensation cost containment and medical management industry is fragmented and competitive. The market share in this industry is concentrated among a few companies, including CompManagement. The primary competitors of CompManagement are Gates McDonald and Frank Gates, which offer one or more services similar to those offered by CompManagement and numerous independent companies, typically operating on a regional basis. Some of CompManagement's competitors are significantly larger and have greater financial and marketing resources than CompManagement. The principal competitive factors are the range of services offered and responsiveness to customer needs. CompManagement competes principally on the basis of its specialization in the non-health claims management area, breadth of services, attention to customer service and independence from insurance carriers.

Government Regulation

Regulation of CompManagement's TPA business varies on a state-by-state basis and ranges from no specific government regulation or oversight to specific licensing requirements. Its business is substantially dependent on the workers' compensation systems in Ohio and the other states in which it operates.

CompManagement's MCO is certified and regulated by the OBWC under Ohio's Health Partnership Program. Its MCO is not, however, subject to Ohio's laws governing health insuring corporations, since it is not responsible for payment of health care claims or benefits, nor is it otherwise responsible for risk-bearing activities commonly associated with organizations licensed under Ohio's insurance laws.

OBWC is required to pay to CompManagement an administrative fee for its medical management and administrative services, as well as an incentive payment, provided that CompManagement meets the performance criteria required by OBWC. These performance criteria are established in the MCO contract and primarily relate to the attainment of certain claim management and return to work measurements. The administrative and incentive payments to CompManagement are based on claims volume and a percentage of the total premium payments of employers managed by the MCO, respectively.

CompManagement believes that its MCO is presently in compliance in all material respects with all applicable laws, regulations and certification requirements.

Employees

As of December 31, 2003, CompManagement had approximately 1,221 employees, of which 829 were employed in connection with its TPA operations; 308 were employed in connection with its MCO operations; and 84 were employed in connection with corporate-wide administrative functions, including finance, human resources, information systems/information technology and management. CompManagement's employees are not represented by a union, and CompManagement considers its relationship with its employees to be good.

6

Primrose (Educational Services Segment)

Background

On April 6, 1999, the Company acquired all the assets and assumed certain liabilities of Primrose School Franchising Company, Inc., a Georgia corporation established in September 1988 and engaged in the franchising of educational child care centers, and of two related companies engaged in real estate services for franchisees and in operating one educational child care center. The consideration paid in connection with the acquisition of the foregoing companies aggregated $27,388,000.

Overview

Primrose is the exclusive franchiser of Primrose Schools, an industry leader in educational childcare services. The previous company-owned Primrose school was closed on May 31, 2002. A new company-owned unit opened in January 2003 and will serve an important role in testing new curricula and initiatives.

As of December 31, 2003, Primrose consisted of 118 franchised locations in the southern, central and western United States. Additionally, as of that date, Primrose had awarded 38 franchise units that were in various stages of development and construction and seven option agreements for future development.

Educational Services

Primrose has established a position as a major provider of educational childcare in the upscale niche of the childcare industry. Primrose is a franchised system of private, curriculum-based pre-schools which provide child care services for children six weeks to five years old and after-school programs for children five through 12 years old. The primary strategies of Primrose are aimed at delivering a consistent, high quality educational product throughout all its schools. The overall franchise system and product are tightly controlled and uniform.

Primrose provides a proven early childhood curriculum and programming to its franchisees. These include detailed monthly educational lesson plans, management guidelines and other collateral materials. Primrose integrates nationally recognized packaged curriculums with its own copyrighted Balanced Learning^{sm} programs.

Primrose provides its franchisees with detailed manuals that cover all aspects of operating a Primrose School. The Primrose Schools curriculum and operating systems have been approved for national accreditation by the Commission on International and Trans-Regional Accreditation, the Southern Associations of Schools and Colleges and the North Central Association. Primrose has an Advisory Board made up of credentialed specialists in early childhood education.

Operational and Business Services

Primrose provides new franchisees with pre-opening training at corporate headquarters and existing franchised schools. Primrose has an ongoing operations support infrastructure that includes comprehensive business, operational and marketing plans for franchisees. Operations consultants provide consulting services and visit schools on a continual basis to ensure that Primrose's quality standards are maintained.

A complete internal and external equipment package is provided by Primrose for franchisees' use in their schools. This package includes furniture, educational programs and materials, playground equipment, school supplies and custom childcare management software.

Real Estate Services

Primrose provides real estate services to Primrose franchisees, including design based on proprietary prototype building and site plans, site selection assistance and development consulting.

Marketing Services

Marketing efforts are directed in two areas: (i) creating consumer demand for Primrose educational child care services at the end-user level; and (ii) creating demand for Primrose School franchises among potential franchisees. Primrose markets its franchise schools to households in which parents are working professionals and which require more than just "day care" through targeted marketing with numerous mediums, including direct mail, radio, newspapers, internet and various magazines. Its franchise opportunities are targeted towards successful individuals with management experience and entrepreneurial desires. Primrose receives favorable publicity generated by its quality service and advertises in newspapers, trade publications, magazines, presentations and by word of mouth.

Financing Services

Primrose has alliances with national lending sources to provide competitive financing for franchisees. These strategic partnerships provide a degree of familiarity and efficiency to the financing process for Primrose franchisees.

Sources of Revenues

Primrose derives revenue from royalty income, franchise fees, real estate services and development fees. It formerly owned and operated one educational childcare center, which it closed in May 2002. With respect to this former school and to its new owned and operated center, Primrose School at Bentwater, which opened in January 2003, Primrose derives its revenue from the collection of educational childcare fees.

Trademarks and Other Proprietary Rights

Primrose owns and maintains trademarks and copyrights relating to its programs, characters, logos and building plans. Additionally, Primrose strives to protect itself, franchisees, parents and children through a strong, comprehensive franchise agreement that explicitly spells out the responsibilities of both Primrose and the franchisee. This agreement gives Primrose the ability to enforce its standards, helping to ensure system-wide quality and consistency.

Competition and Markets

Primrose Schools competes in the center-based for-profit sector of the childcare industry. Its principal competitors are Kids R Kids and Crème de la Crème. The industry is highly fragmented with an estimated 100,000 plus licensed childcare centers, of which only a small percentage consist of national for-profit child care "chains" such as Primrose. Management believes the fragmented nature of the industry, together with an increasing demand for educational childcare, provides growth opportunities for well-managed child centers with professional, owner-operated childcare providers.

Management believes that the principal elements defining competitiveness are curriculum, product quality and consistency, well-trained staffing, strong customer service and good business center management. Although Primrose competes favorably with respect to these factors, some of Primrose School's competitors are larger and have greater financial resources, with a larger number of facilities and a broader national or regional presence.

Government Regulation

Primrose is subject to various federal, state and local laws affecting Primrose as well as a variety of regulatory provisions relating to zoning of school sites, sanitation, curriculum, health and safety. As a franchisor, Primrose is subject to state and federal laws regulating various aspects of franchise operations and sales. These laws impose registration and disclosure requirements on franchisors in the offer and sale

of franchises. In certain cases, they also apply substantive standards to the relationship between franchisor and franchisee, relating primarily to defaults, termination, non-renewal of franchises and the potential impact of new Primrose schools on enrollment levels at existing Primrose sites.

Litigation

Various federal and state labor laws govern Primrose's relationships with its employees. These include such matters as minimum wage requirements, overtime and other working conditions. Environmental requirements have not had a material effect on the operations of Primrose's company-operated school or the schools of Primrose's franchisees. Significant additional government-imposed increases in paid leaves of absence or mandated health benefits could, however, be detrimental to the economic viability of franchisee-operated and company-operated Primrose Schools.

Employees

Primrose had 60 employees at December 31, 2003. Primrose's employees are all full-time employees. None of the employees of Primrose is represented by a labor union, and Primrose considers its relationship with its employees to be good.

Pumpkin (Formerly a Portion of Seasonal Products Segment now reported in Discontinued Operations)

Background

On June 27, 1997, the Company acquired substantially all of the assets and assumed certain liabilities of Pumpkin Ltd. d/b/a Pumpkin Masters, Inc., a Colorado corporation established in 1986 and engaged in the design, manufacture and distribution of pumpkin carving kits (comprised primarily of tools and patterns) and related accessories. The consideration paid in connection with the acquisition was approximately $7,700,000.

Overview

Pumpkin is a leading designer, manufacturer and distributor of specialty products and related accessories targeted primarily at the Halloween and, to a lesser degree, Easter seasonal markets. Pumpkin outsources all of its manufacturing, assembling and packaging activities. Pumpkin distributes its products primarily throughout the United States but also in Canada and Europe to over 7,000 retail locations, including mass merchandiser, craft, grocery, hardware, garden and drug stores, and through mail order catalogues. Its business is highly seasonal in nature with approximately 88% of its annual shipments occurring in the third quarter.

Products

Pumpkin designs, markets and distributes specialty products for Halloween and, to a lesser degree, Easter. Pumpkin's core product is a patented pumpkin carving kit. The Pumpkin Masters product line includes a variety of pumpkin carving kits containing different combinations of tools, saws and patterns for different ages and skill levels. The tools include patented saws and a patented Scraper Scoop for cleaning out the inside of a pumpkin. In addition, Pumpkin also currently sells and distributes a full line of Halloween products, including pumpkin carving and decorating (both adults and kids), trick-or-treat, home décor, and accessory items. For the Easter market, Pumpkin introduced its Exceptional Easter decorating kits beginning with Easter 2001.

The pumpkin carving kit consists of two slender carving saws, a poker, a drill and ready-to-use patterns and instructions. Patterns are transferred onto pumpkins by poking along the design lines with the poker. Carving is as simple as sawing from dot-to-dot. Pumpkin has patents for the entire kit, as well as the

additional tools that are sold separately. Pumpkin also offers a similar carving kit designed specifically for younger children. The patterns are protected by copyright or are used under license.

Design

Creative design and product innovation are critical to the long-term success of Pumpkin. Pumpkin maintains a creative team of four people who are responsible for developing new products and designing patterns for each Halloween season.

Distribution and Suppliers

Pumpkin has a retail customer base of over 1,500 retailing companies and mail order houses. Its products are sold in the United States, Canada and Europe through its own personnel and a network of independent manufacturers' representatives and distributors. Retail outlets include mass-market, supermarket, drug and variety, hobby and craft, party and home improvement chain customers.

Pumpkin also sells directly to smaller non-retail accounts through direct mail catalogs and sells to distributors both directly and through the independent manufacturers' representatives. Pumpkin has appointed exclusive distributor representatives in Canada and Europe.

Third party vendors conduct all of Pumpkin's manufacturing and shipping activities. Since 1988, Pumpkin has used the same core group of domestic vendors to provide substantially all of its materials and to assemble, warehouse and ship its products. However, as of February 2003, Pumpkin has a new domestic vendor for warehousing, assembling and shipping product. Pumpkin is upgrading the vendor to raise the quality and service to both Pumpkin and Pumpkin's customers. Pumpkin uses vendors that are experienced in their respective fields and that manufacture each product to Pumpkin's specifications. Pumpkin has identified back-up and secondary sources for all major materials and services; however, the sudden loss or interruption of supply or service from one of the major vendors could have a material adverse effect on Pumpkin's results of operations and financial condition. Pumpkin currently splits some of its production between primary and back-up vendors. In addition, Pumpkin manufactures approximately 30 percent of its product in China. Pumpkin's import operations may be adversely affected by, among other things, political instability resulting in the disruption of trade from exporting countries, regulatory changes, increases in transportation costs or delay, any significant fluctuation in the value of the United States dollar against foreign currencies and restrictions on the transfer of funds.

Based upon specific customer forecasted demand, Pumpkin begins manufacturing operations in January for the following Halloween season. The investment in inventory buildup is considerable, requiring Pumpkin to forecast customer demand accurately. To date, Pumpkin has been successful in forecasting demand with few write-downs of excess inventory or write-offs of obsolete inventory.

Patents and Other Proprietary Rights

Pumpkin owns over 20 issued U.S. patents. The patents will expire at various times between 2007 and 2021. It also owns numerous registered trademarks and copyrights. Pumpkin believes that its proprietary products, protected by patents and other intellectual property rights, are integral to its success, and, accordingly, vigorously pursues intellectual property protection of its products and any perceived infringements of its intellectual property rights. If Pumpkin were to lose its patent protection prior to the expiration of the patents, it could have a material adverse effect on Pumpkin's results of operations and financial condition.

Competition and Markets

Within the market for pumpkin carving products, Pumpkin currently enjoys a substantial market share. Pumpkin believes that its ownership of patents on its pumpkin carving kits is a significant barrier to entry into its market niche.

Pumpkin has several competitors in the pumpkin carving product market. Its principal competitors are HMS Manufacturing and Paper Magic Group. The principal elements defining competitiveness are price, product design, patents, brand-identity and distribution. Although Pumpkin believes that it competes favorably with respect to these factors, some of Pumpkin's competitors are larger than Pumpkin and have greater financial resources, with a wider range of non-Halloween products and broader distribution channels.

Employees

Pumpkin employed 28 people as of December 31, 2003, 22 of whom were full-time salaried employees, two of whom were part-time hourly employees and four who were contract labor/independent contractors. None of its employees is represented by a labor union, and Pumpkin considers its relationship with its employees to be good.

Possible Dreams (Formerly a Portion of Seasonal Products Segment Now reported in Discontinued Operations)

Overview

On October 22, 2003, Possible Dreams, Ltd. filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. Since that time, the Company has operated as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. Because of this filing, the Company effectively lost control over this subsidiary as of that date, and therefore the results of operations for Possible Dreams have ceased to

be included in the Company's consolidated statements of income or consolidated balance sheet after that date. For all reporting periods presented in this Report on Form 10-K, Possible Dreams, Ltd. has been reported in the consolidated statements of income as a discontinued operation.

On November 30, 2003, Possible Dreams, Ltd. sold all of its non-real estate assets to Willitts Designs International, Inc. for $5,976,000 in cash. The cash proceeds were used to pay down Possible Dreams' senior bank indebtedness. This asset sale was approved by the United States Bankruptcy Court for the Eastern Division of the District of Massachusetts in a ruling under a single closed bidding procedure previously filed with the court concurrent with Possible Dreams' filing for protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern Division of the District of Massachusetts. Possible Dreams also sold its remaining assets, land and a building in Foxboro, Massachusetts, in February 2004 for $1,859,000, which will be used for payments to unsecured creditors as approved by United States Bankruptcy Court.

Possible Dreams was a major designer, importer and distributor of fine quality collectibles and other specialty giftware. Possible Dreams was especially known for its handcrafted collectible Clothtique branded product line. Possible Dreams' products included the Clothtique Santa Collection, Clothtique Couture, The Clothtique Fine Arts Collection, Clothtique Champions and Clothtique Snowmen, as well as a variety of Angels and ornaments. Other branded lines included Flights of Fancy, Spring Surprises, Celtic Collection and Cagey Critters. Possible Dreams distributed its products throughout the United States to approximately 12,500 independent gift retailers, as well as to department stores, mail order houses and card and gift chains.

Available Information

Security Capital Corporation files annual, quarterly and current reports, proxy statements and other information with the Securities and ExchangeCommission ("SEC"). You may read and copy any document Security Capital files at the SEC's public reference room at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a Web site (www.sec.gov) that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Security Capital Corporation) file electronically with the SEC. Security Capital Corporation makes available free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers, and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC, by contacting Diane M. LaPointe, Investor Relations, at (203) 625-0770.

ITEM 2. PROPERTIES.

CompManagement, a wholly-owned subsidiary of WC, leases a 70,000 square foot office building in Dublin, Ohio, which is used as its principal office facilities. The lease for the building is for a term of 15 years, which began in 1997, provides for annual rent payments and requires CompManagement to pay all operating expenses for the building. The lease also provides for, among other things, three renewal options of five years each, an option to purchase the building and a right of first offer with respect to the sale of such building. The lease restricts CompManagement's ability to distribute funds and/or assets to WC or another affiliate unless CompManagement meets certain tangible net worth requirements. CompManagement also leases office space in other locations within Ohio, as well as California, Georgia, Illinois, Maryland, Michigan, North Carolina, Pennsylvania, South Carolina, Texas, Virginia, Washington and West Virginia. These spaces are used as regional offices and service centers for its operations.

In June 2003, Primrose leased a facility with approximately 13,000 square feet in Acworth, Georgia, as its new corporate headquarters.

Primrose School at Bentwater, also located in Acworth, Georgia, leased a building containing a total of 8,000 square feet and land where Primrose is now maintaining its company-owned and operated educational childcare operations.

Prior to June 2003, Primrose leased a 4,500 square foot building in Cartersville, Georgia where it maintained all its operations, sales and administrative facilities. Also, prior to June 2003, Primrose leased 2,000 square feet in a nearby building where it maintains its real estate and development facilities.

Primrose Country Day School previously leased land and buildings containing a total of 8,000 square feet located in Georgia where it had formerly maintained its educational child care operations. The lease on this property terminated in June 2002. That school was closed in May 2002.

Pumpkin leases 10,671 square feet of office space in Denver, Colorado for its sales and administrative operations.

The Company entered into a lease for corporate holding company office space in Greenwich, Connecticut in November 2003 with rental payments to commence on March 1, 2004. The lease for the building is for a term of seven years and four months, provides for annual rent payments and requires the Company to pay all operating expenses for its prorata share of the building. The lease also provides for one renewal option for a period of five years.

The Company believes its owned and leased properties are adequate for its current needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is party to several legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses to these actions, such that the resolution of such matters will not have a material adverse effect on the financial position or future operating results of the Company.

The Company's subsidiary, CompManagement, Inc., is party to a lawsuit brought by the Cleveland Bar Association which alleges that certain practices by this subsidiary and its hearing representatives in Ohio constitute the unauthorized practice of law. This matter will be resolved by the Ohio Board of Commissioners on the Unauthorized Practice of Law and by the Supreme Court of Ohio. CompManagement, Inc. believes that its practices do not differ from any other Ohio workers' compensation TPA and do not constitute the practice of law. The Company believes that the ultimate outcome of this action will not have a material adverse effect on the financial position or operating results of the Company.

The Company's former subsidiary, Possible Dreams, is in Chapter 11 proceedings. Although the Company has no involvement in the proceedings and did not guarantee any of the liabilities of Possible Dreams, there are certain receivables that the Company has from Possible Dreams which may ultimately be settled for less than their full value. The Company believes that it has provided adequate reserves against these receivables to provide for any such reduced settlement. The Company also has a potential liability for an outstanding severance claim which it has agreed to pay in an amount equal to any portion not fully paid by the estate of Possible Dreams in its Chapter 11 liquidation settlement of such claim and has accrued for its possible outcome in current liabilities on its consolidated balance sheet at December 31, 2003. The Company believes that the ultimate outcome of these proceedings will not have a material adverse effect on the financial position or operating results of the Company.

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

None.

PART II

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

The Class A Common Stock of Security Capital is traded on the American Stock Exchange (the "AMEX") under the symbol "SCC". The following table states the high and low sales prices for the Class A Common Stock on the AMEX for the quarterly periods indicated:

2003 PRICE RANGE	2002 PRICE RANGE

QUARTER	HIGH	LOW	QUARTER	HIGH	LOW
First ended March 31	$ 8.34	$ 6.25	First ended March 31	$ 10.00	$ 9.50
Second ended June 30	$ 9.15	$ 6.33	Second ended June 30	$ 10.00	$ 9.40
Third ended September 30	$ 9.95	$ 6.70	Third ended September 30	$ 10.10	$ 8.85
Fourth ended December 31	$ 7.14	$ 6.00	Fourth ended December 31	$ 9.15	$ 8.00

As of March 22, 2004, there were approximately 775 stockholders of record of the Class A Common Stock and 6,450,587 shares outstanding, and 12 stockholders of record of the Common Stock and 380 shares outstanding. On such date, the closing price of the Class A Common Stock on the AMEX was $7.62.

The Company has not paid any dividends to common stockholders for several years and has no current plans to pay any dividends in the foreseeable future. The Company has entered into various financing arrangements at the subsidiary level that may limit the ability to pay dividends to the parent company, thus limiting the parent company's ability to pay dividends to its stockholders.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth certain selected consolidated financial data for the Company. This selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 8. of this Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7. of this Form 10-K. All years have been restated to reflect the discontinued operations.

	YEARS ENDED DECEMBER 31,				
	2003 (5)	2002 (4)(5)	2001 (4)(5)	2000 (4)(5)	1999 (4)(5)
	(in thousands, except per share data)				
Revenues(2)	$ 94,432	$ 72,703	$ 61,286	$ 8,145	$ 4,228
Income (loss) from continuing operations(1), (2), (3), and (6)	5,352	5,123	678	(203)	680
Discontinued operations, net(1)	(1,969)	2,073	2,157	1,628	1,255
Income before cumulative effect of change in accounting principle(1), (2) and (3)	3,383	7,196	2,835	1,425	1,935
Cumulative effect of change in accounting principle, net(4)		(3,402)			
Net income(1), (2), (3) and (4)	3,383	3,794	2,835	1,425	1,935
Less preferred stock accretion	(457)	(401)	(352)	(309)	(206)
Income available to common stockholders(1), (2), (3) and (4)	$ 2,926	$ 3,393	$ 2,483	$ 1,116	$ 1,729
Basic earnings (loss) per common share from continuing operations	$ 0.76	$ 0.73	$ 0.05	$ (0.08)	$ 0.08
Basic earnings (loss) per common share from discontinued operations	(0.31)	0.32	0.34	0.25	0.20

	YEARS ENDED DECEMBER 31,				
Basic earnings per common share before cumulative effect of change in accounting principle	0.45	1.05	0.39	0.17	0.28
Cumulative effect of change in accounting principle		(0.52)			
Basic earnings per common share after cumulative effect of change in accounting principle	$ 0.45	$ 0.53	$ 0.39	$ 0.17	$ 0.28
Diluted earnings (loss) per common share from continuing operations	$ 0.69	$ 0.66	$ 0.04	$ (0.08)	$ 0.08
Diluted earnings (loss) per common share from discontinued operations	(0.31)	0.29	0.31	0.25	0.20
Diluted earnings per common share before cumulative effect of change in accounting principle	0.38	0.95	0.35	0.17	0.28
Cumulative effect of change in accounting principle		(0.48)			
Diluted earnings per common share after cumulative effect of change in accounting principle	$ 0.38	$ 0.47	$ 0.35	$ 0.17	$ 0.28
Dividends per share of common stock					

As of December 31	2003	2002	2001	2000	1999
Total assets	$ 123,138	$ 100,711	$ 107,285	$ 100,557	$ 55,320
Long-term obligations	26,611	18,612	36,760	38,890	19,870
Redeemable convertible preferred stock	3,725	3,268	2,867	2,515	2,206
Total stockholders' equity	$ 33,604	$ 30,678	$ 27,285	$ 24,789	$ 23,672

(1) During the fourth quarter of 2003, income from continuing operations and net income included a loss on sale of investments of $251,000 by WC for investments liquidated which were acquired as part of the Octagon acquisition in October 2003. During the third quarter of 2003, a deferred tax asset of $2,420,000 was written off when it was deemed no longer realizable upon the deconsolidation of Possible Dreams from the Company's consolidated tax basis.

(2) 2002 revenue and net income included an incentive bonus of approximately $925,000 and $546,000, respectively, from the Ohio Bureau of Workers' Compensation earned at year-end 2002.

(3) During the second quarter of 2002, net income included a net gain on the early extinguishment of debt associated with the Primrose refinancing of $808,000 relating to the repurchase of warrants, net of the write-off of original issue discount and deferred financing costs associated with the original debt.

(4) During 2002, the Company completed the transitional test for impairment of goodwill using the two-step process prescribed by SFAS 142. The first step was a screen for potential impairment which indicated that goodwill in the seasonal products segment was impaired as of January 1, 2002. The second step measured the amount of the impairment. An impairment was recognized in the

seasonal products segment, and the impairment charge (net of tax benefit) has been reflected as the cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with prescribed guidance in SFAS 142. (See Note 2 to the Consolidated Financial Statements.) In addition, the Company ceased recording amortization expense relating to goodwill effective January 1, 2002. Such amounts were $3,158,000, $1,424,000 and $1,192,000 for the years ended December 31, 2001, 2000 and 1999, respectively, inclusive of discontinued operation.

(5) In October 2003, WC acquired Octagon. In October 2003, Possible Dreams ceased to be considered a subsidiary of the Company due to its bankruptcy filing. In October 2002, WC acquired Baron Risk Management Inc. In April 2001, WC acquired Trigon Administrators, Inc. In December 2000, the Company acquired WC Holdings and WC acquired Health Power, Inc. In April 1999, the Company acquired Primrose.

(6) Gross profit is excluded from this presentation because as of December 31, 2003, the Company is accounting for its seasonal products segment as discontinued operations.

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

The following discussion should be read in conjunction with the financial statements of the Company and the related notes thereto appearing in Item 8. "Financial Statements and Supplementary Data" in this Report on Form 10-K.

Critical Accounting Policies

There are certain accounting policies that the Company believes are critical to its business and the understanding of its financial statements. The development and selection of these policies have been discussed with the Audit Committee and are discussed below. In addition, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's accounting policies are disclosed in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K. The more critical of these policies include revenue recognition, accounting for goodwill and other intangible assets and use of management estimates.

Revenue Recognition

Employer cost containment and health services segment contract revenues are derived from claims management, administrative, consulting and managed care administration services that are recorded as earned based on the requirements and duration of the related contracts. Revenues from the managed care administration services are recognized on a monthly basis based on the contracted administrative fee with the Ohio Bureau of Workers' Compensation. In addition, contract revenues are recorded for certain incentive awards when the claims are processed to which the incentive are related, and a bonus award is recorded in the year earned. Revenues on certain contracts have been deferred and are recognized in income on a pro rata basis over the related contract periods, which typically range between three and 12 months. Commission expense associated with these contracts is also deferred and recognized as an expense on a pro rata basis over the related contract periods. For services related to group rating contracts, fees are paid to the group's sponsor and netted against contract revenues. Contract revenues received in advance are included in deferred revenues.

The educational services segment recognizes royalties based on a percentage of the monthly revenues of the franchisees. Franchise fees are collected at various intervals prior to the opening of a school and are deferred until the franchised school has been certified for occupancy, which is generally concurrent with the commencement of operations. Assignment fees are earned for site identification and preparation for the construction of the school, including zoning permits. Assignment fees are recognized upon the closing of the purchase of the property by the franchisees and the funding of their construction loans. Transfer fees are earned upon sale of an existing franchise to either another franchisee or to a separate third party. Real estate services fees are earned for consulting services related to engineering and architectural design services provided to the franchisees during the construction of the school. The real estate services fees are recognized upon the certification of occupancy of the school, which is generally within one to two weeks of the commencement of operations. Forfeited franchise fees are earned if a franchise agreement is terminated. The Company typically collects any termination fee specified in the franchise agreement and recognizes it as income at that time. If the franchisee has an assignment agreement, it will also be terminated and any termination fee specified in the agreement will be recognized as income at that time. All fees received prior to being earned are recorded as unearned revenue.

Revenues from product sales in the Company's discontinued operations (formerly the seasonal products segment) are recognized in the period in which the merchandise is shipped. Customers who purchase certain minimum quantities receive extended payment terms.

Goodwill and Other Intangible Assets

Acquisitions are accounted for under the "purchase method" requiring the Company to record acquired tangible and intangible assets and assumed liabilities at fair value. The valuation of acquired assets and the resulting goodwill require certain estimates and assumptions that affect amounts reported in the Company's financial statements. Amounts recorded for tangible and definite-lived intangible assets affect future results of operations through depreciation and amortization expense.

In addition, all acquired assets, including goodwill, are subject to tests for impairment. Starting January 1, 2002, the Company, under Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), must test goodwill for impairment at least annually, or more frequently if indications of possible impairment, exist, by comparing the net assets of each "reporting unit" with the current fair value of the reporting unit. If the current fair value of the reporting unit is less than its carrying amount, then a second test must be performed. Under the second test, the current fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit, including an amount for any "implied" goodwill. If implied goodwill exceeds the net carrying amount of goodwill, no impairment loss is recorded. Otherwise, an impairment loss is recognized for the difference.

During 2002, the Company completed the transitional test for impairment of goodwill using the two-step process prescribed by SFAS 142. The first step was a screen for potential impairment which indicated that goodwill in the seasonal products segment was impaired as of January 1, 2002. The second step measured the amount of the impairment. An impairment was recognized in the seasonal products segment, and the impairment charge of $3,402,000 (net of tax benefit) has been reflected as the cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with prescribed guidance in SFAS 142. At December 31, 2003 and 2002, the Company completed its annual tests for goodwill impairment, and at those dates no further impairment charge, beyond the previously-recorded impairment charge upon adoption on January 1, 2002, was necessary.

The methodology used in performing these tests is a discounted cash flow approach to determine fair value. The discount rate used for each reporting unit was determined by assessing the appropriate risk level of the cash flows of the respective reporting units and adjusting the risk-free rate by a factor dependent upon this risk assessment. The terminal period cash flow of the respective reporting units was based upon assigning what management believed to be appropriate multiples of earnings before income taxes, depreciation and amortization for companies of similar size and in the industry in which the each of the units operates.

Use of Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Significant estimates included within the financial statements include sales return and discount reserves, allowance for doubtful accounts, inventory obsolescence reserves, bankruptcy accrual, the Company's ability to utilize carry forward tax benefits, and the fair value and economic lives of intangible assets, including those assumptions made in the course of performing the SFAS 142 impairment tests of goodwill, as discussed above under "Goodwill and Other Intangible Assets."

Results of Operations 2003 Compared to 2002

Security Capital reported income from continuing operations of $5,352,000 and net income of $3,383,000 for the year ended December 31, 2003. This compares to income from continuing operations of

$5,123,000, income before cumulative effect of change in accounting principle of $7,196,000 and net income of $3,794,000 for the year ended December 31, 2002. The poor performance of the former seasonal products segment, now classified as discontinued operations, further depressed 2003's net income. Discontinued operations loss was $1,969,000 for the year ended December 31, 2003 as compared to income of $2,073,000 during the prior year. 2003's loss from discontinued operations also included a $2,420,000 write-off of a deferred tax asset considered no longer realizable after the deconsolidation for tax purposes of the subsidiary in which it arose.

During 2002, the Company completed the transitional test for impairment of goodwill using the two-step process prescribed by SFAS 142, and impairment was recognized in the seasonal products segment. The impairment charge of $3,402,000 (net of tax benefit) was reflected as the cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with prescribed guidance in SFAS 142. There was no cumulative effect of change in accounting principle in 2003.

Income from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle was $11,152,000, $10,332,000 and $2,797,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company reported basic and diluted earnings per common share from continuing operations of $0.76 and $0.69, respectively, for the year ended December 31, 2003 as compared to basic and diluted earnings per common share of $0.73 and $0.66, respectively, for the year ended December 31, 2002. The Company reported basic and diluted earnings per common share of $0.45 and $0.38, respectively, for the year ended December 31, 2003 as compared to basic and diluted earnings per common share before cumulative effect of change in accounting principle of $1.05 and $0.95, respectively, and after cumulative effect of change in accounting principle of $0.53 and $0.47, respectively, for the year ended December 31, 2002.

Beginning in early 2004, the Company experienced a decline in operating results for a portion of the employer cost containment and health services segment. This portion of the business has been affected by competitive pressures as well as by changes in the formula mandated by the Ohio Bureau of Workers Compensation, which will reduce the employer cost containment and health services' segment income from operations by approximately $850,000 and the overall Company's net income by approximately $510,000 in 2004 and that this will continue in future years.

Revenues for the year ended December 31, 2003, as compared to the same period of the prior year, increased by $21,729,000 or 30% to $94,432,000. The increase was driven primarily by the employer cost containment and health services segment. This segment's $20,138,000 or 31% increase resulted from the inclusion of revenues from the Octagon operations acquired in October 2003, the inclusion of revenues from the Barron operations in Texas acquired in late 2002, the addition of the City of Baltimore workers' compensation administration contract signed in September 2002, the opening of the Atlanta office in October 2002, and the addition of the Virginia Municipal League and Southeast U.S. contracts in the first quarter of 2003.

Educational services segment revenues increased by $1,591,000 or 19% to $9,834,000 for the year ended December 31, 2003 as compared to the prior year. This increase was primarily attributable to royalty revenue increases. Total royalty revenue of the educational segment earned from system revenues increased by $1,166,000 or 17% to $8,077,000 for the year ended December 31, 2003 as compared to the prior year, due to same school revenue increases and the revenue contributions made by the 13 new schools opened since December 31, 2002. As an additional performance measure of the increasing success of the educational services segment's concept, the Company monitors the revenues generated by its franchisees. Total education system revenue, or gross revenue of all educational-based child care center franchisees, increased by $16,173,000 or 16% to $115,365,000 for the year ended December 31, 2003 as compared to the prior year. This increase was generated as a result of a 12% increase in the number of

educational-based childcare centers, which was 118 and 105 as of December 31, 2003 and 2002, respectively.

Selling, general and administrative expense increased by $22,107,000 or 39% to $79,459,000 for the year ended December 31, 2003 as compared to the prior year, almost entirely due to increases in the employer cost containment and health services segment. This increase was primarily due to an increase in this segment's additional expense directly associated with the start-up of new revenue streams from the Octagon operations (acquired in October 2003), the Texas operations (acquired in late 2002), the City of Baltimore contract (occurring in September 2002) and the opening of the Atlanta office (occurring in October 2002), to expenses relating to support of a national sales initiative and expenses related to the unauthorized practice of lawsuit litigation.

Amortization and depreciation expense increased by $174,000 or 8% to $2,441,000 for the year ended December 31, 2003, as compared to the prior year. This was primarily due to higher amortization expense in the employer cost containment and health services segment resulting from the acquisition of amortizable intangible assets as part of the Octagon acquisition in October 2003. The higher levels of amortization expense were, however, partially offset by decreases in depreciation expense in both the employer cost containment and health services segment

and in the educational services segment. The lower depreciation in the employer cost containment and health services segment was due to certain office furniture and equipment in the main Ohio offices being fully depreciated by the end of 2002. The lower depreciation in the educational services segment was due to the lower depreciation at the new company-owned school opened in 2003 compared to that of the former company-owned school, which was closed in mid-2002.

Interest expense decreased by $2,068,000 or 57% to $1,565,000 for the year ended December 31, 2003 as compared to the prior year. The employer cost containment and health services segment's interest expense decreased due to lower debt levels for the first nine months of the year preceding the Octagon acquisition and its concurrent financing, and as a result of scheduled term debt repayments and lower borrowing rates. The educational services segment's interest expense also declined for the year ended December 31, 2003 as compared to the prior year due to the refinancing of that segment's debt on April 5, 2002.

Income tax expense increased by $524,000 or 13% to $4,693,000 for the year ended December 31, 2003 as compared to the year ended December 31, 2002, mainly due to the increase in pre-tax income. The effective tax rate was 42.1% and 40.4% for the years ended December 31, 2003 and 2002, respectively.

Discontinued Operations

The segment previously reported as seasonal products has been reclassified to discontinued operations at December 31, 2003 in accordance with the requirements of SFAS 144. This former segment is comprised of Possible Dreams and Pumpkin.

Because of the October 22, 2003 Chapter 11 filing in bankruptcy court by Possible Dreams, the Company effectively lost control over this subsidiary as of that date, and therefore the results of operations for Possible Dreams have ceased to be included in the Company's consolidated statements of income or consolidated balance sheet after that date. For all reporting periods presented in this Report on Form 10-K, it has been reported in the consolidated statements of income as a discontinued operation.

Although the Company has no involvement in Possible Dreams' Chapter 11 proceedings and did not guarantee any of the liabilities of Possible Dreams, there are certain receivables that the Company has from Possible Dreams which may ultimately be settled for less than their full value. The Company believes that it has provided adequate reserves against these receivables to provide for any such reduced settlement. The Company also has a potential liability for an outstanding severance claim which it has agreed to pay in an amount equal to any portion not fully paid by the estate of Possible Dreams in its Chapter 11 liquidation

settlement of such claim and has reserved for its possible outcome in current liabilities on its December 31, 2003.

During the fourth quarter of 2003, the Company committed to a plan to sell the operations of Pumpkin Masters and hired an investment bank to draft plans for the immediate sale of the unit. Pumpkin Masters was included in the seasonal products segment. During the fourth quarter, the investment bankers began actively soliciting offers for the sale of Pumpkin Masters and together with management have determined that the sale of Pumpkin Masters is probable and will close in 2004. Accordingly, as of December 31, 2003, the assets and operations of pumpkin masters have been classified as a discontinued operation in accordance with Statement of Financial Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS 144"). The comparable assets of both Possible Dreams and Pumpkin have been reclassified in the Consolidated Balance Sheets at December 31, 2002 and December 31, 2001 for comparability.

Discontinued results for the years ended December 31, 2003, 2002 and 2001 are as follows:

	YEARS ENDED DECEMBER 31,