PROASSURANCE CORP
Form DEF 14A
April 11, 2016

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary proxy statement

¨ **Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**

x Definitive proxy statement

¨ Definitive additional materials

¨ Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

ProAssurance Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PROASSURANCE CORPORATION

100 Brookwood Place

Birmingham, Alabama 35209

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

to be held May 25, 2016

To our Stockholders:

The Annual Meeting of Stockholders of ProAssurance Corporation (ProAssurance) will be held at 9:00 a.m., Central Daylight Time, on Wednesday, May 25, 2016, in the Fifth Floor Boardroom at the headquarters of ProAssurance, located at 100 Brookwood Place, Birmingham, Alabama 35209, for the following purposes:

(1) To elect three (3) directors of ProAssurance, as Class III directors, to serve until the 2019 annual meeting and until their successors are elected and qualified;

(2) To ratify the appointment of Ernst & Young LLP as independent auditors;

(3) An advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement; and

(4) To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The Board of Directors set April 1, 2016 as the record date for the annual meeting. You are entitled to notice of, and to vote at, the annual meeting only if you were a holder of record of shares of ProAssurance s Common Stock at the close of business on the record date. The stock transfer books will not be closed.

We may adjourn the annual meeting without notice other than announcement at the meeting or adjournments thereof, and any business for which notice is hereby given may be transacted at any such adjournment.

We have provided details concerning those matters to come before the annual meeting in the accompanying proxy statement. Whether you plan to attend the annual meeting or not, please sign, date and return the enclosed proxy card in the envelope provided. Returning your proxy card does not deprive you of your right to attend the annual meeting and to vote your shares in person.

A copy of ProAssurance s Annual Report to the Stockholders for the year ended December 31, 2015, is enclosed, and is also available in the Investor Relations section of our website at www.ProAssurance.com. We hope you will find it informative.

By order of the Board of Directors,

Jeffrey P. Lisenby

Secretary

April 11, 2016

PROASSURANCE CORPORATION

100 Brookwood Place

Birmingham, Alabama 35209

PROXY STATEMENT

Annual meeting of Stockholders

to be held May 25, 2016

INTRODUCTION

We are furnishing this proxy statement and proxy card to the stockholders of ProAssurance Corporation, which we sometimes refer to as ProAssurance or the Company, on behalf of ProAssurance s Board of Directors on or about April 11, 2016. Our Board of Directors is soliciting your proxy to vote your shares at the annual meeting of ProAssurance s stockholders to be held at 9:00 a.m., Central Daylight Time, on Wednesday, May 25, 2016, in the Fifth Floor Boardroom of our headquarters located at 100 Brookwood Place, Birmingham, Alabama 35209, or at any adjournment or postponement thereof.

What is a proxy?

A proxy is a person or persons whom you designate to vote your stock. If you designate someone as your proxy in a written document, that document is called a proxy card.

Who pays for the proxy solicitation?

ProAssurance will pay the expenses of the preparation of proxy materials and the solicitation of proxies for the annual meeting. Certain of our directors, officers or employees may solicit your proxy and they will receive no additional compensation for such solicitation. We will reimburse brokers and other nominees for costs incurred by them in mailing proxy materials to beneficial owners in accordance with applicable rules.

What is the purpose of the annual meeting?

As outlined in the meeting notice, at the annual meeting the stockholders will be asked to elect three (3) members to the Board of Directors of ProAssurance, as Class III directors, to serve until the 2019 annual meeting, and to ratify the appointment of Ernst & Young LLP as independent auditors. Additionally, stockholders will be asked to cast an advisory vote on the approval of our executive compensation as disclosed in this proxy statement.

How does the Board of Directors recommend that I vote?

The Board of Directors recommends a vote FOR electing all nominees for director (Proposal 1); FOR ratifying the appointment of Ernst & Young LLP as our independent auditors (Proposal 2); and FOR the approval of the compensation of our named executive officers as disclosed in this proxy statement (Proposal 3).

What is the record date and what does it mean?

The Board of Directors set April 1, 2016 as the record date for the annual meeting. You are entitled to notice of and to vote at the annual meeting if you own shares as of the close of business on our record date.

How many shares are entitled to vote at the annual meeting?

At the close of business on the record date there were 62,481,757 issued shares of our common stock, par value $0.01 per share (Common Stock). Of that amount, we hold 9,158,415 shares as treasury shares that cannot be voted at the meeting. You are entitled to one vote in person or by proxy on all matters properly to come before the annual meeting for each share of our Common Stock that you own on the record date.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of one-third of the shares of Common Stock entitled to vote at the meeting will constitute a quorum to conduct business at the annual meeting. Proxies received but marked as abstentions and broker non-votes (which occur when proxies for shares held by brokers or nominees for beneficial owners are received but not voted on a matter) will be included in the calculation of the number of shares considered to be present at the meeting.

How do I vote?

If you are a record owner of our Common Stock you may vote your shares by attending the meeting and voting in person or you may appoint a proxy to vote your shares on matters properly presented at the annual meeting in any of three ways:

- by signing and returning the enclosed proxy card in the enclosed envelope; or
- by using the internet in accordance with instructions on the enclosed proxy card; or
- by using a touchtone telephone and following the instructions on the enclosed proxy card.

If you properly cast your vote, and your vote is not subsequently revoked, your vote will be voted in accordance with your instructions. Stockholders appointing proxies via the internet and by telephone should understand that there may be costs associated with proxy appointments in such manners, such as usage charges from internet access providers and telephone companies, which must be borne by the stockholder.

How do I vote if my shares are in street name?

If you hold shares in street name (that is, through a bank, broker or other nominee), your shares must be voted in accordance with instructions provided by the nominee. If your shares are held in the name of a nominee and you would like to attend the annual meeting and vote in person, you may contact the person in whose name your shares are registered and obtain a proxy from that person and bring it to the annual meeting.

How do I know if I hold my shares in street name?

If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of those shares, and your shares are considered held in street name. However, if your shares are registered directly in your name with our transfer agent, you are considered the record owner of those shares.

How do I appoint my proxy on the internet?

You can appoint your proxy at www.proxyvote.com, regardless of how you hold your shares. You will need to have the Control Number from your proxy notice or proxy card available.

Will my proxy appointment on the internet be secure and accurate?

The internet and telephone procedures are designed to authenticate stockholders identities, to allow stockholders to give their voting instructions and to confirm that stockholders instructions have been recorded properly. We have been advised that the internet and telephone procedures that have been made available to you are consistent with the requirements of applicable law.

What is the deadline for submitting my proxy?

Proxy appointments must be received by 11:59 p.m., Central Daylight Time, on May 24, 2016. Submitting your proxy via the internet or by telephone will not affect your right to vote in person should you decide to attend the annual meeting.

Can I revoke my proxy?

Yes. You may revoke your proxy prior to the annual meeting by either (i) submitting to ProAssurance a properly executed proxy bearing a later date, (ii) by providing different telephone or internet instructions at a later date, or (iii) by giving written notice of revocation to the Secretary of ProAssurance. You may also revoke your proxy by voting your shares at the annual meeting. The mailing address of ProAssurance is P.O. Box 590009, Birmingham, Alabama 35259-0009, and the street address is 100 Brookwood Place, Birmingham, Alabama 35209.

Are the materials for the annual meeting available on the internet?

Yes. The materials for ProAssurance s 2016 Annual Meeting of Stockholders (the 2015 Annual Report to the Stockholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2015, proxy statement and proxy card) are available on the internet at www.proxyvote.com. Our proxy statement and proxy card for the annual meeting and our 2015 Annual Report also will be available through the Investor Relations section of our website at www.ProAssurance.com until at least May 24, 2017. Our Annual Report to the Stockholders and Annual Report on Form 10-K, and other materials on our website are not proxy soliciting materials.

How do I receive a printed copy of the materials for the annual meeting?

You may obtain a printed copy of this proxy statement, our 2015 Annual Report to the Stockholders and 2015 Annual Report on Form 10-K (including the financial statements and financial statement schedules but without exhibits) without charge by contacting Frank B. O Neil at our address shown above, by telephone at (205) 877-4400 or (800) 282-6242, or by e-mail at Investor@ProAssurance.com. Copies of exhibits to the Annual Report on Form 10-K will be provided upon specific request subject to a charge to cover the cost of producing the copies. You may also request a copy through www.proxyvote.com using your Control Number.

How can I get information or documents regarding corporate governance at ProAssurance?

Our Board of Directors has adopted charters for our Audit Committee, Compensation Committee, and Nominating/Corporate Governance Committee, as well as Corporate Governance Principles and our Code of Ethics and Conduct. All of these documents and policies are available in the Corporate Governance section of our website, www.ProAssurance.com. Printed copies of our committee charters, Corporate Governance Principles, and Code of Ethics and Conduct may be obtained by contacting Frank B. O Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, by telephone at (205) 877-4400 or (800) 282-6242 or by e-mail at Investor@ProAssurance.com.

SOLICITATION BY BOARD OF DIRECTORS

Our Board of Directors is soliciting your proxy to vote at the 2016 annual meeting. In addition to the solicitation of proxies by mail and the internet, solicitation may be made by certain of our directors, officers or employees telephonically, electronically or by other means of communication. We have not retained a proxy solicitor to assist in the solicitation of proxies, but if we decide to do so we will pay for the fees and other expenses of the solicitor.

PROPOSAL 1 ELECTION OF DIRECTORS

The term for our Class III directors will expire at the 2016 annual meeting. The Board of Directors has nominated Bruce D. Angiolillo, Esq., John J. McMahon, Jr., Esq. and W. Stancil Starnes, Esq. for election to the Board of Directors at the 2016 annual meeting as Class III directors.

At the annual meeting, you will be asked to elect the following persons as Class III directors to hold office for terms ending at the annual meeting of stockholders to be held in 2019:

Bruce D. Angiolillo, Esq. (Age 63) is a first time nominee to the Board of Directors. He is a retired partner of Simpson Thacher & Bartlett LLP, New York, New York. Mr. Angiolillo joined Simpson Thacher in 1980 and developed a practice in the areas of securities and other complex commercial litigation before his retirement on December 31, 2014. Following his retirement at Simpson Thacher, Mr. Angiolillo was employed from January 1, 2015 until June 30, 2015, as general counsel for TK Holdings, Inc., which is a subsidiary of Takata Corporation, a global automotive parts manufacturer and supplier based in Auburn Hills, Michigan.

John J. McMahon, Jr., Esq. (Age 73) has served as a director of ProAssurance since February 2002. Mr. McMahon has served as Chairman of Ligon Industries, a manufacturer of waste water treatment equipment, aluminum castings and hydraulic cylinders, following his service as Chairman of the executive committee of McWane, Inc. in Birmingham, Alabama, from 1999 until December 31, 2005. Mr. McMahon formerly served as a director of Protective Life Corporation, a public insurance holding company until its sale in February 2015.

W. Stancil Starnes, Esq. (Age 67) was elected to the Board of Directors on September 2007 and serves as its Chairman. Mr. Starnes was appointed as Chief Executive Officer of ProAssurance on July 2, 2007. Mr. Starnes currently serves as a director of Infinity Property and Casualty Corporation (NASDAQ: IPCC), a public insurance holding company based in Birmingham, Alabama, where he serves on the audit, compensation and executive committees. He serves as a director of National Commerce Corp. (NASDAQ: NCOM), a public bank holding company based in Birmingham, Alabama.

The persons named in our board s proxy card have advised us that, unless a contrary direction is indicated on your proxy card, they intend to vote the shares appointing them as proxies in favor of the named nominees. If the nominees should be unable to serve, and the Board of Directors knows of no reason to anticipate that this will occur, the persons named in the proxy card will vote for such other person or persons as may be recommended by our Nominating/Corporate Governance Committee and designated by the Board of Directors, or the Board of Directors may decide not to elect an additional person as a director. The persons named in the proxy card will have no authority to vote for the election of any person other than the nominees or their substitutes in the election of directors.

All of the nominees have been approved, recommended and nominated for election to the Board of Directors by our Nominating/Corporate Governance Committee and by our Board of Directors in accordance with our Corporate Governance Principles. In addition, all nominees have tendered their irrevocable conditional resignations in accordance with our By-Laws and Corporate Governance Principles, as further discussed below.

Our By-Laws require majority voting for the election of directors in uncontested elections (elections where the number of nominees is not greater than the number of directors to be elected). Directors in uncontested elections must receive a greater number of votes for his or her election than votes withheld from such election. Our By-Laws provide that directors in contested elections are elected under a plurality vote standard in which nominees receiving the most votes are elected, regardless of how many shares are voted against the nominee. A contested election is one in which there are more nominees than directors to be elected. The election of directors pursuant to this Proposal 1 is an uncontested election.

With respect to the election of directors, you may vote for all of the nominees or withhold authority to vote for any or all of the nominees. The New York Stock Exchange (NYSE) prohibits brokers from voting uninstructed shares in a proposal relating to, among other corporate governance items, the majority voting of directors. **As a result, if you hold your shares in street name with your broker and you do not specifically instruct your broker how to vote on the election of the directors, your broker will not vote for you on Proposal 1 (election of directors).** The vote required for Proposal 1 (election of directors) is a majority of the votes present in person or by proxy at the meeting and entitled to vote on the proposal, with majority meaning that the number of shares voted for a director s election exceeds the number of shares voted against such director s election. Abstentions and broker non-votes will have no effect on the outcome of the voting on the proposal.

Under the laws of Delaware, ProAssurance s state of incorporation, if an incumbent director is not elected, that director continues to serve as a holdover director until the director s successor is duly elected and qualified, even if there are more votes withheld than cast for the director. As a result, the Board of Directors has adopted a policy that requires each nominee for election as a director to tender, as a condition to the Board of Directors nomination of that director, a written irrevocable resignation as a director to be effective after the annual meeting at which such person is nominated for election to the Board of Directors if the following conditions are satisfied: (1) such person is nominated as a director in an uncontested election; (2) such person receives a greater number of withheld votes from his or her election than votes for such election; and (3) such resignation is accepted by the Board of Directors. If any nominee in an uncontested election does not receive the required vote for election, the Board of Directors will decide whether to accept or reject the resignation previously tendered by such nominee. The Board of Directors may consider all factors it deems relevant in deciding whether to reject a tendered resignation, including, but not limited to, the following: (i) any stated reasons why stockholders withheld votes from such nominee, (ii) any alternatives for curing the underlying cause of the withheld votes, (iii) if the nominee is a current director, the director s tenure, (iv) the nominee s qualifications, (v) the nominee s past and expected future contributions to ProAssurance, and (vi) the overall composition of the Board of Directors, including whether accepting the resignation would cause ProAssurance to fail to meet any applicable SEC or NYSE requirements. The Board of Directors is required to act on the resignation within ten days following certification of the stockholder vote indicating that such person received a greater number of withheld votes in the uncontested election. A director who is elected in an uncontested election but who received a greater number of withheld votes will serve as a director until the Board accepts such director s resignation.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE **FOR** THE NOMINEES NOMINATED FOR ELECTION AS DIRECTORS BY THE BOARD OF DIRECTORS.

Board of Directors

Our Certificate of Incorporation provides that our Board of Directors is comprised of at least three and not more than twenty-four directors, as determined by the Board of Directors. The Certificate of Incorporation requires that our directors be divided into three classes as nearly equal as possible and that the directors serve staggered terms of three years. The remaining directors may fill any vacancies on the Board of Directors resulting from the death, resignation or removal of a director or from any increase in the number of directors. A director elected by the directors to fill a vacancy on the Board of Directors holds office until the next election of the class of directors for which such director has been chosen. The Board of Directors is currently comprised of ten directors.

The Board of Directors has nominated Bruce D. Angiolillo, John J . McMahon, Jr. and W. Stancil Starnes for election to the Board of Directors at the 2016 annual meeting as Class III directors as set forth above under the caption Proposal 1 Election of Directors. Messrs. McMahon and Starnes are currently Class III directors whose terms will expire at the annual meeting. Mr. Angiolillo has been nominated to succeed Dr. William J. Listwan whose term as a Class III Director will expire at the annual meeting and who will retire from the Board of Directors because of age requirements in our Bylaws. Information regarding the nominees is set forth above and information regarding the directors continuing in office is set forth below, all of which was confirmed by them for inclusion in this proxy statement. Information regarding stock ownership by the nominees and continuing directors is set forth in the table under the caption Beneficial Ownership of Our Common Stock included elsewhere in this proxy statement.

Class I Directors Continuing in Office Term Expiring in 2017

Samuel A. Di Piazza, Jr. (Age 65) has served as a director of ProAssurance since January 2014. Mr. Di Piazza is a member of the Board of Trustees of Mayo Clinic and was appointed its Chairman in February 2014. Mr. Di Piazza served as Vice Chairman of the Institutional Clients Group of Citibank from 2011 until his retirement from Citibank in February 2014. Prior to his service with Citibank, Mr. Di Piazza was a partner with

PricewaterhouseCoopers LLP (and its predecessor, Coopers & Lybrand) for thirty years. Mr. Di Piazza currently serves as a director for AT&T Inc. (NYSE:T) (and for DIRECTV prior to its merger with AT&T) and Jones Lang Lasalle, Inc. (NYSE:JLL); and formerly served as a director of Apollo Education Group, Inc. (NASDAQ:APOL).

Robert E. Flowers, M.D. (Age 66) has served as a director of ProAssurance since June 2001 and became our lead director in May 2012. Prior to June 2001, Dr. Flowers served as a director of our insurance subsidiary, ProAssurance Indemnity Company, Inc. (formerly, The Medical Assurance Company, Inc.) from 1985 to 2001, and as a director of its former holding company, Medical Assurance, Inc. (1995-2001). Dr. Flowers practiced as a physician with Gynecology Associates of Dothan P.C., Dothan, Alabama, prior to his retirement in 2001.

Ann F. Putallaz, Ph.D. (Age 70) has served as a director of ProAssurance since June 2001. Prior to 2001, Ms. Putallaz served as a director of our predecessor, Professionals Group, Inc. (1996-2001), and as its Vice-Chairman (1999-2001). Ms. Putallaz received her Ph.D. in economics in 1974 and has served in various capacities for firms engaged in the investment management business since 1983. Ms. Putallaz is currently Principal of AFP Consulting, LLC. She retired from Munder Capital Management, an investment advisor to The Munder Funds, an open end investment company registered under the Investment Company Act of 1940 where she served as Director of Data & Communication Services.

Class II Directors Continuing in Office Term Expiring in 2018

M. James Gorrie (Age 53) has served as a director of ProAssurance since May 2012. Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie, Inc. in Birmingham, Alabama, a construction firm with recent annual revenues in excess of $2 billion. He holds a B.S. in Building Science from Auburn University and serves as a Director of First Commercial Bank (a division of Synovus Bank, one of the largest community banks in the Southeast) and Energen Corporation (NYSE: EGN) in Birmingham, a public oil and gas exploration and production company.

Frank A. Spinosa, D.P.M. (Age 61) has served as a director of ProAssurance since May 2012. Dr. Spinosa is a board-certified podiatrist and has practiced as a partner of Shelter Island Podiatry Associates in Shelter Island, New York. Dr. Spinosa served as a member of the Board of Trustees of the American Podiatric Medical Association through March 2016. Dr. Spinosa is also a past president of the American Podiatric Medical Association and a past president of the New York State Podiatric Medical Association. He has taught as an Associate Professor of Radiology at the New York College of Podiatric Medicine.

Ziad R. Haydar, M.D. (Age 53) has served as a director of ProAssurance since May 2015. He is Senior Vice President and Chief Clinical Officer of Ascension Health in St. Louis Missouri. Ascension Health is the largest not-for-profit and largest Catholic health system in the United States. Dr. Haydar began his tenure at Ascension Health in 2010 as its Vice President Clinical Excellence and Physician Integration until he was promoted to Vice President and Chief Medical Officer in 2011 until his appointment to his current position in July 2015. Prior to 2010, Dr. Haydar was an executive with Baylor Health Care System in Dallas Texas. Dr. Haydar received his M.D. degree from American University in Beirut, trained in Family Medicine at the Medical University of South Carolina, and completed a fellowship in Geriatrics and Gerontology at Johns Hopkins University School of Medicine.

Thomas A. S. Wilson, Jr., M.D. (Age 54) has served as a director of ProAssurance since May 2012. Dr. Wilson is a board-certified neurosurgeon with Neurosurgical Associates, P.C., in Birmingham, Alabama. He holds a B.S. in natural science and mathematics from Washington & Lee University and an M.D. from Vanderbilt University. He completed an internship in general surgery and a residency in neurosurgery at Bowman Gray School of Medicine, Wake Forest University.

Independent Directors

As required by the New York Stock Exchange Corporate Governance Listing Standards (NYSE Rules), a majority of the directors on our Board of Directors are required to be independent directors. Our Board of Directors has determined that the following directors are independent directors:

Samuel A. Di Piazza, Jr.
Robert E. Flowers, M.D.
M. James Gorrie
Ziad R. Haydar, M.D.
William J. Listwan, M.D.
John J. McMahon, Jr.
Ann F. Putallaz, Ph.D.
Frank A. Spinosa, D.P.M.
Thomas A. S. Wilson, Jr., M.D.

The Nominating/Corporate Governance Committee has determined that Bruce D. Angiolillo, if elected at the annual meeting, will be an independent director. In 2015, the Board of Directors determined that Anthony R. Tersigni was independent during his service on the Board of Directors and Audit Committee prior to the election of his successor at the 2015 annual meeting.

Since 2012, our Board evaluates the independence of our directors by reviewing each related party relationship or transaction involving a director or nominee for a director using a subjective and principles-based approach. To find that a director or nominee is independent, the Board must affirmatively determine that he or she has no material relationship with the Company that will preclude his or her independence after using a three step approach that: (1) identifies all relationships and transactions between the director or nominee and the Company; (2) analyzes those relationships under certain criteria, including the NYSE Rules, the recommendations for corporate governance (Governance Guidelines) published by Institutional Shareholder Services (ISS) and Glass Lewis & Co., LLC, and specific committee independence requirements under Internal Revenue Code Section 162(m) and SEC Rule 16b-3; and (3) analyzes any remaining relationship to determine whether such relationship precludes a finding of independence in the Board s business judgment. The Board considered the following relationships in its evaluation of the independence of our non-management directors.

The NYSE Rules provide that a director cannot be independent if he or she is a current employee, or a member of his or her immediate family is a current executive officer, of another company that has made payments to, or received payments from, ProAssurance during the past three (3) years in an amount that exceeds the greater of $1 million or two percent (2%) of that other company s consolidated gross revenues during each fiscal year ended in such period.

Anthony R. Tersigni, EdD, FACHE is the President and Chief Executive officer of Ascension Health Alliance or Ascension. Ascension is the parent holding company for Ascension Health (AH) and Ascension Health Insurance, Ltd. (AHIL). Ziad R. Haydar, M.D. is Senior Vice President and Chief Clinical Officer of AH. Effective January 1, 2011, ProAssurance entered into a Program Agreement with AH (the Program) pursuant to which a branded joint insurance program was created to insure the professional liability of certain physicians and healthcare providers affiliated with the Ascension health system, which is comprised of over 100 non-profit hospitals and other healthcare providers (the System). The Program, marketed under the name Certitude®, is administered and underwritten by ProAssurance s insurance subsidiaries. Policies issued under the Program are reinsured by AHIL. In 2013, 2014 and 2015, ProAssurance s insurance subsidiaries wrote premiums through the Program in the amount of $22,427,745, $25,775,624 and $30,781,333 respectively, of which $5,136,372, $8,002,392 and $8,489,894 respectively, was paid by Ascension affiliates on behalf of the physicians. ProAssurance paid a reinsurance premium to AHIL in the amount of $12,089,305 in 2013, $14,390,619 in 2014, and $16,323,034 in 2015, and AHIL paid to ProAssurance a ceding commission of $1,905,981 in 2013, $1,938,507 in 2014, and $2,177,930 in 2015. In 2015, AHIL also paid a subsidiary of ProAssurance a ceded premium of $483,431 under a reinsurance treaty that provides a buffer layer for excess professional liability insurance written by AHIL. The Board found that Dr. Haydar is not precluded from being independent because the amount of payments to and from ProAssurance was significantly below the two percent (2%) of the consolidated revenues of Ascension and thereby did not meet the bright line tests for independence under the NYSE Rules. Furthermore, the Board found that Dr. Haydar is not precluded from being independent

under the Governance Guidelines, which prohibit any material transaction relationship using the same thresholds applied solely to the recipient of the payments, because the payments actually made by Ascension on behalf of physicians and providers are less than 2% of our revenues in 2015. Based on these determinations, the Board found Dr. Haydar to be an independent director.

Frank A. Spinosa, D.P.M., is a member of the Board of Trustees of the American Podiatric Medical Association (the Association) and served as its President for the year that ended March 23, 2015. Dr. Spinosa is not and has not been an employee of the Association, but he received an honorarium in the amount of $159,500 for his services as President of the Association, all of which was paid in 2014. The Association and ProAssurance s subsidiary, Podiatry Insurance Company of America (PICA), are parties to a License Agreement effective March 1, 2011 (the License Agreement), pursuant to which PICA is required to pay the Association $100,000 per annum for the Association s endorsement of PICA s medical professional liability insurance and for the right to use the Association s name, logo and member list in marketing the endorsed products. PICA has also agreed to pay at least $25,000 per annum in support of the Annual Scientific Meeting; to provide a PICA Risk Management Program at such meeting; and to provide a premium discount to PICA insured podiatric physicians who attend the Risk Management Program. Finally, PICA has agreed to support the Association s Young Member Program at the rate of $174,000 per annum. In 2013, 2014 and 2015, PICA paid the Association $446,250, $505,175 and $290,000 respectively, pursuant to the License Agreement and as miscellaneous donations. The current budget for the Association contemplates annual revenues of approximately $13.8 million. Based on these amounts, the Board found that Dr. Spinosa was not precluded from being independent under NYSE Rules because the payments to and from ProAssurance in the last three years were below the threshold of $1,000,000. Furthermore, the Board found that Dr. Spinosa is not precluded from being independent based on its understanding of the Governance Guidelines, which prohibit any material transaction relationship using the same thresholds applied solely to the recipient of the payments. In addition, we have had discussions with ISS about these payments to the Association and their historical context and importance to the business of PICA, and we were advised that ISS considers these payments transactional in nature so that they should not preclude a finding that Dr. Spinosa is independent.

Three of our directors have purchased medical professional liability insurance from the Company either directly or indirectly through their respective practice entities during the last three years (Drs. Listwan, Spinosa and Wilson), and Dr. Spinosa s spouse is a physician insured by the Company. Dr. Listwan purchased insurance from the Company until December 31, 2013, and he paid premiums of less than $3,000 in 2013. Dr. Spinosa and his spouse have purchased individual policies of medical professional liability insurance from PICA during the last three years as follows: 2013-2014 Dr. Spinosa $5,052 and spouse $7,352; 2014-2015 Dr. Spinosa $8,024 and spouse $7,978; 2015-2016 Dr. Spinosa $8,266 and spouse $8,266. Dr. Wilson purchased individual policies of medical professional liability insurance from an insurance subsidiary of ProAssurance in each of the last three years as follows: 2013-2014 $47,993; 2014-2015 $47,993; and 2015-2016 $42, 274. Dr. Wilson is also an executive officer of Neurosurgical Associates, P.C., which is insured by one of ProAssurance s insurance subsidiaries with a current premium of approximately $134,383. All insurance policies were obtained in the ordinary course of business at rates that are consistent with our filed rates and customary underwriting practices. The premiums paid with respect to the individual physicians or the practice entities do not exceed the lower $1,000,000 standard of materiality set forth in the NYSE Rules.

Our Board has consistently found that it is customary and appropriate for our physician directors to obtain their professional liability insurance from our insurance subsidiaries and that the purchase of insurance from our subsidiaries will not impair the independence of a director so long as the premiums paid are less than the $1,000,000 limitation in the NYSE Rules. In addition, the Board determined that the purchase of insurance did not create any material interest in the transaction such that it would have an effect on the independence of a director. For this reason, the Board also determined that the purchase of insurance should not be considered a material relationship based on our understanding of the Governance Guidelines since it does not influence these directors objectivity in a manner that would impair their ability to satisfy fiduciary standards.

Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie (B&G). B&G is a controlling member of Hangar 24, LLC (Hangar 24) of which ProAssurance owns 20% and B&G owns 60%.

The sole purpose of Hangar 24 is to share the cost of the hangar leased from the Birmingham Airport Authority where ProAssurance keeps its corporate aircraft. Hangar 24 pays the rent on the hangar. ProAssurance reimburses Hangar 24 for its share of the rent and reimburses Hangar 24 for the cost of the fuel used by its aircraft. The Board of Directors determined that this relationship did not preclude Mr. Gorrie s independence because the amounts paid for rent and fuel reimbursement do not exceed the greater of $1,000,000 or 2% of the recipient s gross revenues and it does not meet the materiality threshold for material transactions under the Governance Guidelines.

Mr. McMahon is an executive officer and a controlling stockholder of Ligon Industries (Ligon). Ligon and ProAssurance (through their subsidiaries) are parties to an Aircraft Interchange Agreement dated April 5, 2012. Pursuant to this agreement, ProAssurance has the right to use the Ligon aircraft at its election on the condition that ProAssurance allows Ligon to use the ProAssurance aircraft for the same amount of time. The Board of Directors determined that this relationship did not preclude Mr. McMahon s independence because the value of the exchange between Ligon and ProAssurance did not exceed the greater of $1,000,000 or 2% of the recipient s gross revenues and it does not meet the materiality threshold for material transactions under the Governance Guidelines.

The Board of Directors has determined that the relationship between Ascension and ProAssurance did not impair the independence of either Dr. Tersigni or Dr. Haydar; the relationship between PICA and the American Podiatric Medical Association did not impair the independence of Dr. Spinosa; that the purchase of medical professional liability insurance by our directors and their relatives did not impair the independence of Drs. Listwan, Spinosa and Wilson; that the relationship between ProAssurance and B&G did not impair the independence of Mr. Gorrie; and that the relationship between ProAssurance and Ligon did not impair the independence of Mr. McMahon.

The NYSE rules provide that a director cannot be independent if he or she, or an immediate family member of such director, has received compensation (other than director and committee compensation) during any 12-month period of more than $120,000 from, ProAssurance or any of its subsidiaries in any of the last three years.

Dr. Spinosa s spouse has served on the physicians committee of PICA and received compensation and reimbursement of expenses from PICA in the following amounts during the last three years: 2013 $14,215 (including $4,751 for reimbursement of expenses), 2014 $15,548 (including $5,648 for reimbursement of expenses), and 2015 $3,648 (including $2,148 reimbursement of expenses). Dr. Spinosa did not receive any compensation from PICA or any other subsidiary of ProAssurance during this period. The Board determined that the payments to Dr. Spinosa s spouse did not impair his independence because the amount of the fees did not exceed the $120,000 threshold and because his spouse is not dependent on PICA for her primary source of compensation. The Board also determined that payments made to Dr. Spinosa s spouse in 2015 should not violate the Governance Guidelines which prohibit compensation for professional services in excess of $10,000 per year to a director s spouse.

We have engaged Dr. Listwan as a consultant under a Consulting and Confidentiality Agreement that provides that Dr. Listwan will provide nonexclusive services to ProAssurance relating to review of insurance cases, facilitating ProAssurance s relationship with the Wisconsin Medical Society, providing consultation services with respect to claims, underwriting, and risk management, and providing other services as requested in consideration of an annual retainer of $44,000. At its meeting on December 2, 2015, the Board of Directors reviewed this consulting arrangement and determined that Dr. Listwan satisfies the current independence criteria for directors because: (i) Dr. Listwan is not an employee of ProAssurance or any of its subsidiaries based on the Board s review of the terms of Dr. Listwan s engagement as a consultant and its consideration of Internal Revenue Service regulations defining employees and independent contractors for purposes of FICA (Federal Insurance Contributions Act) withholding, and the factors used by our Human Resources Department to determine whether a service provider receives a statement on Form W-2 (an employee) or Form 1099 (independent contractor) with respect to its compensation for services; and (ii) the compensation payable to Dr. Listwan for services as a consultant would not exceed the limitation on non-director compensation under the NYSE Rules. Based on the above analysis, the Board of Directors determined that Dr. Listwan should be

considered an independent director under the NYSE Rules notwithstanding the Governance Guidelines, which provide that a director will be deemed an Affiliated Outside Director if he or she receives compensation in excess of $10,000 for professional services.

The Board of Directors has determined that the payment of consulting fees to Dr. Spinosa s spouse and Dr. Listwan should not impair the independence of Drs. Spinosa and Listwan.

Other Relationships Considered.

The Board of Directors evaluated the independence of the members on both the Audit Committee and Compensation Committee. Mr. Di Piazza s and Dr. Putallaz s only relationship with the Company is their service on the Board and the Audit Committee. The Board of Directors also carefully evaluated the independence of Dr. Tersigni and his successor on the Audit Committee, Dr. Spinosa, with respect to the above described relationships and determined that such relationships should not impair the ability of either of them to be independent under the NYSE and SEC standards for members of the Audit Committee. As a result, the Board determined that each of these directors was permitted to serve on the Audit Committee under the requirements of the SEC and NYSE rules.

Dr. Flowers, Mr. McMahon and Mr. Gorrie serve on the Compensation Committee. Dr. Flowers only relationship with the Company is his service on the Board as Lead Director and a member of the Compensation Committee. As a result, the Board determined that Dr. Flowers was permitted to serve on the Compensation Committee under the requirements of the SEC rules. In reviewing Mr. McMahon s and Mr. Gorrie s qualifications to serve on the Compensation Committee, the Board evaluated the above described relationships as required by the NYSE Rules mandated by SEC Rule 10C-1. The Board determined that the existence of these relationships did not impact the ability of either Mr. McMahon or Mr. Gorrie to satisfy his objectivity in the boardroom or ability to satisfy his fiduciary duty to the Company s stockholders under the NYSE Rules, as well as under the Governance Guidelines.

Qualification of Directors

The Nominating/Corporate Governance Committee and Board of Directors are responsible for determining the appropriate composition of our Board and for the selection of individual candidates. Our Corporate Governance Principles do not establish any specific minimum qualifications or skills that an individual candidate must possess. Rather, the Corporate Governance Principles direct our Nominating/Corporate Governance Committee to take into account all factors it considers appropriate, including a candidate s reputation for ethical business dealings, knowledge, skill, experience, expertise and the extent to which the candidate would fill a present need in the composition of the Board.

We have recruited directors whom we believe bring to our Board of Directors a diverse set of qualifications related to our business and its products. More specifically:

- Our primary product has historically been professional liability insurance for healthcare providers. We believe that it is important to have on our Board healthcare professionals who are, or have been, consumers of our insurance products and who understand the business and professional needs of our customers.

- We believe that it is important to have on our Board persons with business experience, particularly businesses in the insurance and financial services sectors, and with experience in the governance of publicly traded companies.

- We believe that it is important that our Board reflect the core values that guide us in fulfilling our mission to Protect Others, informed by our Guiding Principle of Treated Fairly. Those values are integrity, leadership, relationships, and enthusiasm.

The following discussion addresses the experience, qualifications, attributes and skills that have led us to conclude that our director nominees and our current directors should serve on our Board.

Healthcare Providers: Our Board currently has five physicians who are independent directors: Robert Flowers, M.D., Ziad R Haydar, M.D., William Listwan, M.D., Frank Spinosa, D.P.M. and Thomas Wilson, Jr., M.D. Each of our physician-directors is board certified in a different medical specialty and actively practices medicine, with the exception of Dr. Flowers, who retired from his obstetrics and gynecology practice in Dothan, Alabama, after more than 20 years and Dr. Haydar who is on the management term of Ascension Health as its Chief Clinical Officer. Dr. Listwan, who has practiced internal medicine in Wisconsin for over 30 years, served as a board member and President of the Wisconsin Medical Society and is currently on the volunteer faculty of the Medical College of Wisconsin in Milwaukee and employed as a part-time Medical Director for Molina Health Care. Dr. Spinosa served as a board member and is a past president of the American Podiatric Medical Association. Dr. Spinosa is also a past President of the New York State Podiatric Medical Association, and has taught at the New York Collection of Podiatric Medicine. Dr. Wilson is a board-certified neurosurgeon who has been in practice for over 20 years and has authored numerous publications and presentations.

The presence of our independent physician-directors reflects our commitment to local market presence and to our physician heritage. Dr. Flowers has served on our regional claims committee in Alabama for over 20 years. Dr. Listwan served on the board and claims committee of our Wisconsin predecessor from 1980 until its merger with ProAssurance in 2006. These physicians regularly attend regional claims committee meetings and assist the Board of Directors in understanding professional liability and risk management issues affecting and of concern to physicians and other healthcare professionals in our professional liability insurance markets.

Dr. Haydar brings valuable healthcare and business knowledge to the Board of Directors. Dr. Haydar is a Senior Vice-President and Chief Clinical Officer of Ascension Health, which is the largest not-for-profit, and largest Catholic health system in the United States. Dr. Haydar leads Ascension s Clinical Excellence initiatives directed at patient safety within the organization.

In addition to our physician directors, our Chief Executive Officer, W. Stancil Starnes, represented practicing physicians in the defense of medical malpractice claims for over 30 years. Mr. Starnes brings to the Board a deep understanding of the legal and professional issues involved in resolving claims and how best to deliver the claims defense that is the key component of our insurance products.

Samuel A. Di Piazza, Jr. has served on the Board of Trustees of Mayo Clinic since 2010 and was appointed Chairman of the Board of Trustees on February 21, 2014. Mayo Clinic is a nonprofit worldwide leader in medical care, research and education. The Board of Trustees is the governing body of Mayo Clinic and has overall responsibility for the charitable, clinical practice, scientific and educational mission and purposes of Mayo Clinic.

Business Experience: Mr. Starnes has served as our Chief Executive Officer since July 2007, and it has been our practice for our Chief Executive Officer to serve on our Board of Directors. Mr. Starnes is a director of Infinity Property and Casualty Corporation, a public insurance holding company, and National Commerce Corporation, a public bank holding company.

Mr. McMahon was a director of Protective Life Corporation, which was a public insurance holding company until its sale in February 2015. Mr. McMahon s career has focused on the leadership of business enterprises including McWane Cast Iron Pipe Company, a privately held manufacturer of cast iron pipe, and Ligon Industries, a manufacturer of waste treatment equipment, aluminum castings and hydraulic cylinders. His leadership ability is reflected by his election to serve as a trustee of the University of Alabama, a director of UAB Health Systems, and a trustee of Birmingham Southern College.

Dr. Putallaz, who obtained a Ph.D. in economics in 1974, has served in various capacities for firms engaged in the investment management business since 1983. Prior to that time she was a lecturer in the Economics Department of the University of Michigan. She currently serves in a volunteer capacity for the CFA Institute, working on initiatives related to the Global Investment Performance Standards® or GIPS®. In that capacity, she chairs the GIPS® Executive Committee. Ms. Putallaz, who serves on our Audit Committee, brings her knowledge and expertise to the financial and investment aspects of ProAssurance.

Mr. Gorrie also brings valuable business perspective to the Board of Directors. Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie, a construction firm with recent annual revenues in excess of $2 billion.

Mr. Di Piazza served in numerous leadership positions during his career with PricewaterhouseCoopers LLP, including serving as the firm s Global Chief Executive Officer and a member of its Global Leadership Team, serving as Chairman and Senior Partner at PricewaterhouseCoopers, and serving as the leader of local offices in Chicago, New York City and Birmingham. Following his tenure at PricewaterhouseCoopers, Mr. Di Piazza served as a leader of the Citi International Client Group at Citigroup, where he was Vice Chairman at the time of his retirement in February 2014. The Citi International Client Group provides corporate, institutional, public sector and high net worth international clients with a full range of wholesale banking products and services.

Additional Qualifications: In selecting individual candidates, ProAssurance also has considered other relevant experience of our directors including:

Practice of Law: A background in law is of significant value in understanding the legal issues impacting ProAssurance as a publicly traded company and as a holding company for regulated insurance companies. Messrs. McMahon and Starnes both had experience in the private practice of law prior to entering their business careers. Mr. Starnes served as senior and managing partner of the law firm of Starnes & Atchison LLP in Birmingham, Alabama, where he was extensively involved with ProAssurance and its predecessors in the defense of medical liability claims for over 25 years. Mr. Angiolillo was a partner at Simpson, Thacher & Bartlett LLP in New York for approximately 30 years until his retirement in 2014 where his practice involved securities and other complex commercial litigation.

Public Company Experience: Apart from ProAssurance and its predecessor companies, Messrs. McMahon, Starnes, Di Piazza, and Gorrie have all served as members of the Board of Directors of one or more publicly traded companies, and each has gained valuable experience through leadership of, and service on, various standing committees of each Board on which they have served.

Qualification to Serve on the Audit Committee: Members of the audit committee of a publicly traded company are required to be independent and to possess specific financial qualifications. SEC and NYSE rules require that members of an audit committee be financially literate, and that one member be an audit committee financial expert. In selecting directors, we consider the candidate s ability to serve on the Audit Committee. All members of our Audit Committee have been found to be independent by our Board of Directors under the NYSE Rules and SEC requirements. Mr. Di Piazza, Dr. Putallaz and Dr. Spinosa meet the financial literacy requirements as a result of their training, employment, and general financial expertise. Mr. Di Piazza has been designated as our audit committee financial expert based upon his expertise and his experience in accounting and experience from his leadership positions at PricewaterhouseCooopers LLP. In addition to his positions at PricewaterhouseCoopers, Mr. Di Piazza has served as a trustee of the London based International Financial Reporting Standards Foundation and a trustee of the US based Financial Accountancy Foundation.

Diversity: Our Board of Directors is committed to diversity on the Board and within the Company. We believe our directors provide diversity in business experience and geographic representation. As vacancies arise on our Board, we consider diversity as a factor in the selection of a new director.

Board Leadership

Our Board of Directors has determined that it is in our best interest for Mr. Starnes to serve as our Chairman of the Board and our Chief Executive Officer. Our Board believes it is in our best interest to have one individual to lead our company and to establish its strategic goals and objectives under the supervision and direction of the Board of Directors. Our Board also believes that having Mr. Starnes serve as our Chairman and Chief Executive Officer facilitates his ability to establish priorities for our Board and management in achieving such goals and objectives.

Our Corporate Governance Principles require our non-management directors to hold executive sessions at which neither management nor the Chief Executive Officer is present. The Corporate Governance Principles further provide that the executive sessions of non-management directors are to be held on a regularly scheduled basis, not less frequently than two times each year, and that at least one of the executive sessions will be attended by independent directors only. In December 2011, we formally established the position of lead director to preside at each executive session. At the annual meeting in May 2015, the independent directors selected Dr. Flowers as the independent director to preside at the executive sessions. During 2015, our independent directors held an executive session after each quarterly Board meeting.

Risk Oversight

As an insurance holding company, our business is principally conducted by insurance subsidiaries that are subject to insurance laws and regulations in their respective domiciliary states and in the states in which they do business. State insurance regulatory regimes are intended to protect policyholders by vesting in the insurance regulator administrative and supervisory authority to address risks relating to the solvency of insurers and their ability to pay claims as well as to the marketing of insurance products and rates charged for such products. The insurance regulations identify key business risks associated with the insurance business and provide guidance as to the management of these risks. In addition, the NAIC has recently recommended that the states adopt new laws to require the assessment and reporting of risks associated current and future business plans for insurers and their holding companies.

We have taken steps to catalogue and identify these and additional risks for purposes of enterprise risk management (ERM). Our Chief Executive Officer is in charge of risk oversight. We have also established a risk management framework that recognizes the risks inherent in our operating segments as well as the risks associated with the operations of our holding company. The risk management process is managed by an ERM Committee comprised of persons responsible for our key risk areas, including adequacy of loss reserves; defense of claims and the litigation process; the quality of investments supporting our reserves and capital; compliance with regulatory and financial reporting requirements; and concentration in our insurance lines of business. Our Chief Executive Officer and ERM Committee are responsible for identifying material risks associated with these and other risk areas and for establishing and monitoring risk management solutions that address levels of risk appetite and risk tolerance that are recommended by the committee and reviewed by the Board.

The Board of Directors is responsible for ensuring that our ERM process is in place and functioning. The Board has divided primary ERM oversight responsibility between the Audit Committee and the Nominating/Corporate Governance Committee as follows:

- The Audit Committee has the primary oversight responsibility for risks relating to financial reporting and compliance. We have established lines of communication between the Audit Committee and our independent auditor, internal auditor and management that enable the Audit Committee to perform its oversight function.

- The Nominating/Corporate Governance Committee has the primary responsibility for oversight of those risks covered by the ERM process that are not the responsibility of the Audit Committee. The Nominating/Corporate Governance Committee reviews the ERM process established by management s ERM Committee and monitors the functioning of the process. It also reviews recommendations of our ERM Committee as to materiality thresholds for risks covered in the ERM process and as to the levels of risk appetite and risk tolerance with respect to covered risks.

Meetings and Committees of the Board of Directors

Our Board of Directors held four meetings during 2015. Our By-Laws establish four standing committees of the Board of Directors: the Nominating/Corporate Governance Committee; the Compensation Committee; the Audit Committee; and the Executive Committee, each of which is described below. Each of our incumbent directors attended all of the meetings of the Board of Directors and the committees of the board on which he or she served during 2015 (in each case, which were held during the period for which he or she was a director).

Neither our Board of Directors nor our Nominating/Corporate Governance Committee has implemented a formal policy regarding director attendance at annual meetings of our stockholders. However, our Board of Directors typically holds its annual meeting directly following the annual stockholders meeting, and it is customary for our directors to attend the annual stockholders meeting. All of our directors attended the annual meeting of our stockholders held on May 27. 2015.

Nominating/Corporate Governance Committee

Our Nominating/Corporate Governance Committee currently consists of four independent directors, and operates pursuant to a written charter, which is available in the Corporate Governance section of our website, www.ProAssurance.com. The primary purposes of the Nominating/Corporate Governance Committee are to:

- identify individuals qualified to become directors and recommend to the Board of Directors for its consideration the candidates for all directorships to be filled by the Board of Directors or to be elected by the stockholders;
- advise the Board of Directors with respect to the board composition, procedures and committees;
- develop and recommend to the Board of Directors a set of corporate governance principles applicable to ProAssurance;
- oversee the evaluation of the Board of Directors and the evaluation of ProAssurance s management;
- oversee the risks covered by ProAssurance s ERM process that are not the responsibility of the Audit Committee; and
- otherwise take a leadership role in shaping the corporate governance of ProAssurance.

The Nominating/Corporate Governance Committee is empowered to engage a third party search firm to assist in identifying and evaluating director candidates. However, the committee did not hire any search firm during 2015 and, accordingly, paid no fees to any such company.

Under our Corporate Governance Principles, the Nominating/Corporate Governance Committee will consider a nominee proposed by a stockholder for a vacancy on our board when such nomination has been submitted in accordance with the provisions contained in our By-Laws, which are described under the caption Proposals of Stockholders in this proxy statement. A vacancy does not exist where:

- the Board of Directors desires to re-nominate an incumbent director for an additional term and the director consents to stand for re-election and to serve on our Board of Directors if elected; or
- the Nominating/Corporate Governance Committee has recommended to our Board of Directors a candidate to fill a vacancy and, prior to the receipt of a properly submitted stockholder nomination, such nominee has agreed to stand for election and serve on our Board if elected.

Our Board of Directors may elect not to fill a vacancy arising on the Board. The Board of Directors may elect not to recommend a director candidate nominated by a stockholder even if such director candidate is the only candidate submitted to the Nominating/Corporate Governance Committee to fill a vacancy.

The Nominating/Corporate Governance Committee is responsible for determining the appropriate composition of our Board and for the selection of individual candidates consistent with such determination. Our Corporate Governance Principles do not establish any specific requirements of minimum qualifications or skills that an individual candidate must possess other than the maximum age requirements described in the Corporate Governance Principles. Rather, the Corporate Governance Principles direct our Nominating/Corporate Governance Committee to take into account all factors it considers appropriate, including a candidate s reputation for ethical business dealings, knowledge, skill, experience, expertise, and the extent to which the candidate would fill a present need in the composition of the Board.

Subject to the qualifications described above, our Nominating/Corporate Governance Committee will consider a director candidate nominated by a stockholder in the same manner as candidates brought before the Nominating/Corporate Governance Committee from other sources. Generally, the Nominating/Corporate Governance Committee initially evaluates a prospective nominee on the basis of his or her résumé and other background information that has been made available to the Nominating/Corporate Governance Committee. A member of the Nominating/Corporate Governance Committee will contact for further review those candidates who the committee believes are qualified, who may fulfill a specific board need and who the committee believes would otherwise best make a contribution to the Board. If, after further discussions with the candidate and other further review and consideration as necessary, the Nominating/Corporate Governance Committee believes that it has identified a qualified candidate, it will make a recommendation to the Board.

The charter of the Nominating/Corporate Governance Committee provides for at least three members, each of whom must be an independent director. The current members of our Nominating/Corporate Governance Committee are John J. McMahon, Jr. (Chairman), Ziad R. Haydar, M.D., Frank A. Spinosa, D.P.M., and Thomas A. S. Wilson, Jr., M.D. Our Board of Directors has found that each member of our Nominating/Corporate Governance Committee is independent within the meaning of the NYSE Rules.

During 2015, our Nominating/Corporate Governance Committee met three times.

Compensation Committee

Our Compensation Committee currently consists of three independent directors, and operates pursuant to a written charter, which is available in the Corporate Governance section of our website, www.ProAssurance.com. The primary purposes of the Compensation Committee are to:

- represent and assist the Board of Directors in discharging its oversight responsibility relating to compensation matters, including determining the compensation arrangements for the Chief Executive Officer and reporting its determination to the Board of Directors for ratification by a majority of independent directors; and

- review and discuss with management the disclosure under the caption Compensation Discussion and Analysis and prepare the report of the Compensation Committee with respect to such disclosure, each of which is to be included in our annual proxy statement.

The Compensation Discussion and Analysis and the Report of the Compensation Committee begin on page 23 of this proxy statement.

The charter of the Compensation Committee charges the committee with the responsibility to determine and approve, subject to ratification by a majority of independent directors, the Chief Executive Officer s compensation level based on the committee s evaluation of the Chief Executive Officer s performance in light of the corporate goals and objectives relevant to the Chief Executive Officer s compensation as approved by the committee. The charter also charges the Compensation Committee with the responsibility to, among other duties, review the competitiveness of the executive compensation programs of ProAssurance; approve change of control agreements or severance plans for executive officers of ProAssurance; administer the policy for the recoupment of unearned incentive compensation based on financial statements required to be restated; and make recommendations for director compensation to our Board of Directors. The charter further provides that the Compensation Committee has the exclusive authority to retain outside compensation consultants and advisors as it deems appropriate to fulfill its responsibilities in accordance with the NYSE Rules and SEC Rule 10C-1. In selecting a compensation consultant, the Compensation Committee must consider the six independence factors set forth by the NYSE, as further discussed in Executive Compensation Compensation Discussion and Analysis beginning on page 23 of this proxy statement.

The current practice of the Compensation Committee is to retain an outside consultant from time to time to gather data from peer companies and to use such data as a point of reference when reviewing ProAssurance s compensation practices. The Compensation Committee, with the assistance of ProAssurance s management and

its consultant, identifies the peer companies to be used in the compensation analysis. The peer companies are publicly held property and casualty specialty insurance organizations that are comparable to ProAssurance in total assets, market capitalization, revenues and operating margin.

After reviewing peer companies data, the compensation consultant provides a report to the committee that describes market practices with regard to executive compensation and identifies any gaps between the market and ProAssurance s executive compensation practices. In addition, from time to time the Compensation Committee retains a compensation consultant to provide a review and analysis of particular aspects of ProAssurance s compensation program, and the committee in making its recommendations also considers reports of these studies. The Compensation Committee customarily makes its compensation recommendations to our Board of Directors at its regularly scheduled meeting in the first quarter of each year.

ProAssurance s senior management makes no recommendations with respect to compensation of the Chief Executive Officer. The Compensation Committee is exclusively responsible for making compensation recommendations for adoption by the Board of Directors as to changes in base salary for the Chief Executive Officer and the number and type of long-term incentive compensation awards to be granted to the Chief Executive Officer. The Compensation Committee also approves the annual incentive award guidelines for non-equity incentive compensation to be paid to the Chief Executive Officer. The committee s charter requires that all decisions of the Compensation Committee with respect to the Chief Executive Officer s compensation are subject to ratification by a majority of the independent directors.

In accordance with its charter, the Compensation Committee makes recommendations as to compensation of our directors. It has been the practice of the Compensation Committee to engage a compensation consultant to perform a review of the compensation of our Board of Directors bi-annually and to compare with peer companies the compensation of directors for their service on the Board of Directors and for their service on the various committees. The Compensation Committee considers the consultant s report in making recommendations to the Board of Directors for changes in director compensation.

The Compensation Committee also administers equity and non-equity incentive plans with respect to awards granted under these plans, which plans currently include the 2014 Annual Incentive Compensation Plan and the 2014 Equity Incentive Plan.

During 2015, our Compensation Committee met two times. The charter of the Compensation Committee provides for at least three members, each of whom must be an independent director (1) within the meaning of NYSE Rules, including, but not limited to the independence factors set forth in SEC Rule 10C-1(b), (2) a non-employee director within the meaning of SEC Rule 16b-3 and (3) an outside director within the meaning of the regulations under Section 162(m) of the Internal Revenue Code. The current members of the Compensation Committee are Robert E. Flowers, M.D. (Chairman), M. James Gorrie and John J. McMahon, Jr. Our Board of Directors has determined that each member of the Compensation Committee is independent and meets the requirements of the Compensation Committee charter. No member of the Compensation Committee has any interlocking relationships required to be disclosed under federal securities laws.

This year s report of the Compensation Committee is on page 34 of this proxy statement.

Audit Committee

Our Audit Committee currently consists of three independent directors, and operates pursuant to a written charter that is available in the Corporate Governance section of our website, www.ProAssurance.com. The primary purposes of our Audit Committee are to represent and assist the Board of Directors in discharging its oversight responsibility relating to:

- the accounting, reporting and financial practices of ProAssurance and its subsidiaries, including the integrity of our financial statements;
- the surveillance of our administration and financial controls and compliance with legal and regulatory requirements;

- the outside auditor s qualifications and independence;
- ProAssurance s policies on risk assessment and risk management with respect to financial reporting issues; and
- the performance of our internal auditors.

The Audit Committee also prepares the Report of the Audit Committee, which begins on page 20 of this proxy statement as required by the SEC rules.

Our Audit Committee is responsible for carrying out all of the duties and responsibilities required for audit committees under the Exchange Act and the NYSE Rules. A description of the specific duties and responsibilities of our Audit Committee can be found in its charter. Our Audit Committee and Board of Directors have established a procedure which establishes a confidential means for communications of complaints or concerns with respect to accounting, internal controls and auditing matters to be submitted to the committee, which is described under the caption titled Other Matters Policies on Reporting of Concerns Regarding Accounting and Other Matters and Communicating with Directors in this proxy statement.

The charter of the Audit Committee provides for at least three members, each of whom must be an independent director. Samuel A. Di Piazza, Jr. is the Chairman, and Ann F. Putallaz, Ph.D. and Frank Spinosa, D.P.M. are the other members of our Audit Committee. Our Nominating/Corporate Governance Committee and our Board of Directors have determined that each member of the Audit Committee is independent within the meaning of the rules of both the SEC and NYSE; that each member of the Audit Committee is financially literate as such qualification is defined under the rules of the NYSE; and that Samuel A. Di Piazza, Jr. is an audit committee financial expert within the meaning of the rules of the SEC. Dr. Spinosa and Dr. Putallaz are not presently serving on the audit committee of another company. Mr. Di Piazza is currently on the audit committee of AT&T, Inc.

During 2015, the Audit Committee met ten times.

Executive Committee

Our Executive Committee has the authority during intervals between the meetings of the Board of Directors to exercise all powers and authority of the Board of Directors in the management of our business and affairs, except that the Executive Committee may not:

- alter or repeal any resolution adopted by the Board of Directors that by its terms is not subject to amendment or repeal by the Executive Committee or any resolution relating to the establishment or membership of the Executive Committee;
- act with respect to matters required to be passed upon by the full Board of Directors, the independent directors, or by a committee comprised of independent directors; or
- otherwise change the nature of our interests in our partner companies.

Therefore, the nature of our holdings could vary significantly from period to period.

Our consolidated financial results also may vary significantly based upon which partner companies are included in our financial statements. For example:

- For the year ended December 31, 2008, we consolidated the results of operations of Clarient in continuing operations. In our Form 10-K for the year ended December 31, 2007, we consolidated the results of operations of Acsis, Alliance Consulting, Clarient and Laureate Pharma in continuing operations. We sold three of our majority-owned partner companies Acsis, Alliance Consulting and Laureate Pharma on May 6, 2008.

Our business model does not rely, or plan, upon the receipt of operating cash flows from our partner companies. Our partner companies currently provide us with no cash flow from their operations. We rely on cash on hand, liquidity events and our ability to generate cash from capital raising activities to finance our operations.

We need capital to develop new partner company relationships and to fund the capital needs of our existing partner companies. We also need cash to service and repay our outstanding debt, finance our corporate overhead and meet our existing funding commitments. As a result, we have substantial cash requirements. Our partner companies currently provide us with no cash flow from their operations. To the extent our partner companies generate any cash from operations, they generally retain the funds to develop their own businesses. As a result, we must rely on cash on hand, liquidity events and new capital raising activities to meet our cash needs. If we are unable to find ways of monetizing our holdings or to raise additional capital on attractive terms, we may face liquidity issues that will require us to curtail our new business efforts, constrain our ability to execute our business strategy and limit our ability to provide financial support to our existing partner companies.

Fluctuations in the price of the common stock of our publicly traded holdings may affect the price of our common stock.

Fluctuations in the market prices of the common stock of our publicly traded holdings are likely to affect the price of our common stock. The market prices of our publicly traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance. For example, the aggregate market value of our holdings in Clarient (Nasdaq: CLRT), our only public company holding, at December 31, 2007, was approximately $86.8 million, and at December 31, 2008, was approximately $75.8 million, reflecting a decrease in the per-share market price partially offset by an increase in our ownership of 4.2 million shares.

Intense competition from other acquirors of interests in companies could result in lower gains or possibly losses on our partner companies.

We face intense competition from other capital providers as we acquire and develop interests in our partner companies. Some of our competitors have more experience identifying, acquiring and selling companies and have greater financial and management resources, brand name recognition or industry contacts than we have. Despite making most of our acquisitions at a stage when our partner companies are not publicly traded, we may still pay higher prices for those equity interests because of higher valuations of similar public companies and competition from other acquirers and capital providers, which could result in lower gains or possibly losses.

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We may be unable to obtain maximum value for our holdings or sell our holdings on a timely basis.

We hold significant positions in our partner companies. Consequently, if we were to divest all or part of our holdings in a partner company, we may have to sell our interests at a relative discount to a price which may be received by a seller of a smaller portion. For partner companies with publicly traded stock, we may be unable to sell our holdings at then-quoted market prices. The trading volume and public float in the common stock of Clarient, our only publicly traded partner company, are small relative to our holdings. As a result, any significant open-market divestiture by us of our holdings in these partner companies, if possible at all, would likely have a material adverse effect on the market price of their common stock and on our proceeds from such a divestiture. Additionally, we may not be able to take our partner companies public as a means of monetizing our position or creating shareholder value.

Registration and other requirements under applicable securities laws may adversely affect our ability to dispose of our holdings on a timely basis.

Our success is dependent on our executive management.

Our success is dependent on our executive management team s ability to execute our strategy. A loss of one or more of the members of our executive management team without adequate replacement could have a material adverse effect on us.

Our business strategy may not be successful if valuations in the market sectors in which our partner companies participate decline.

Our strategy involves creating value for our shareholders by helping our partner companies build value and, if appropriate, accessing the public and private capital markets. Therefore, our success is dependent on the value of our partner companies as determined by the public and private capital markets. Many factors, including reduced market interest, may cause the market value of our publicly traded partner companies to decline. If valuations in the market sectors in which our partner companies participate decline, their access to the public and private capital markets on terms acceptable to them may be limited.

Our partner companies could make business decisions that are not in our best interests or with which we do not agree, which could impair the value of our holdings.

Although we may seek a controlling equity interest and participation in the management of our partner companies, we may not be able to control the significant business decisions of our partner companies. We may have shared control or no control over some of our partner companies. In addition, although we currently own a controlling interest in some of our partner companies, we may not maintain this controlling interest. Acquisitions of interests in partner companies in which we share or have no control, and the dilution of our interests in or loss of control of partner companies, will involve additional risks that could cause the performance of our interests and our operating results to suffer, including:

- the management of a partner company having economic or business interests or objectives that are different than ours; and
- partner companies not taking our advice with respect to the financial or operating difficulties they may encounter.

Our inability to control our partner companies also could prevent us from assisting them, financially or otherwise, or could prevent us from liquidating our interests in them at a time or at a price that is favorable to us. Additionally, our partner companies may not act in ways that are consistent with our business strategy. These factors could hamper our ability to maximize returns on our interests and cause us to recognize losses on our interests in these partner companies.

We may have to buy, sell or retain assets when we would otherwise not wish to do so in order to avoid registration under the Investment Company Act.

The Investment Company Act of 1940 regulates companies which are engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities. Under the Investment Company Act, a company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of the value of its total assets (excluding government securities and cash items) on an unconsolidated basis, unless an exemption or safe harbor applies. We refer to this test as the 40% Test. Securities issued by companies other than majority-owned partner companies are generally considered investment securities for purpose of the Investment Company Act, unless other circumstances exist which actively involve the company holding such interests in the management of the

underlying company. We are a company that partners with growth-stage technology and life sciences companies to build value; we are not engaged primarily in the business of investing, reinvesting or trading in securities. We are in compliance with the 40% Test. Consequently, we do not believe that we are an investment company under the Investment Company Act.

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We monitor our compliance with the 40% Test and seek to conduct our business activities to comply with this test. It is not feasible for us to be regulated as an investment company because the Investment Company Act rules are inconsistent with our strategy of actively helping our partner companies in their efforts to build value. In order to continue to comply with the 40% Test, we may need to take various actions which we would otherwise not pursue. For example, we may need to retain a majority interest in a partner company that we no longer consider strategic, we may not be able to acquire an interest in a company unless we are able to obtain majority ownership interest in the company, or we may be limited in the manner or timing in which we sell our interests in a partner company. Our ownership levels also may be affected if our partner companies are acquired by third parties or if our partner companies issue stock which dilutes our majority ownership. The actions we may need to take to address these issues while maintaining compliance with the 40% Test could adversely affect our ability to create and realize value at our partner companies.

Recent economic disruptions and downturns may have negative repercussions for the Company.

Recent events in the United States and international capital markets, debt markets and economies generally may negatively impact the Company s ability to pursue certain of its tactical and strategic initiatives, such as: accessing additional public or private equity or debt financing for itself or for its partner companies and selling the Company s interests in its partner companies on terms acceptable to the Company and in time frames consistent with our expectations.

We have material weaknesses in our internal control over financial reporting and cannot provide assurance that additional material weaknesses will not be identified in the future. Our failure to effectively maintain our internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause us to fail to meet our reporting obligations, cause investors to lose confidence in our reported financial information and/or have a negative affect on our stock price.

We have determined that we had deficiencies in our internal control over financial reporting as of December 31, 2008 that constituted material weaknesses as defined by the Public Company Accounting Oversight Board s Audit Standard No. 5. These material weaknesses are identified in Item 9A, Controls and Procedures.

We cannot assure that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, or could result in material misstatements in our financial statements. These misstatements could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and/or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

If we do not meet the New York Stock Exchange continued listing requirements, our common stock may be delisted.

The New York Stock Exchange (NYSE) listing standards require us, among other things, to maintain an average closing price of at least $1.00 per share of common stock during any consecutive 30-trading-day period. On November 4, 2008, we were notified by the NYSE that we were not in compliance with the NYSE listing standard relating to minimum average share price. We have notified the NYSE of our intent to cure the deficiency; and, if necessary, we will undertake a reverse split of our common stock in order to do so. Based on currently applicable NYSE rules, we must bring our share price and average share price back above $1.00 on or before September 1, 2009, subject to possible extension, to regain compliance with the NYSE s price condition, or our common stock will be subject to suspension and delisting procedures. During the cure period and subject to compliance with NYSE s other continued listing standards, our common stock will continue to be listed on the NYSE.

A delisting of our common stock from the NYSE would negatively impact us because it would, unless we were able to obtain a listing for our common stock on another national or regional securities exchange, trigger a situation where the holders of our currently outstanding convertible debentures would have the right to cause us to redeem the convertible debentures held by such holders at face value. It is uncertain whether the Company would be able to make such a redemption, based upon its available cash on hand, cash equivalents and other potential sources of funding. In addition, any delisting by the NYSE could or would also: (i) reduce the liquidity and market price of our common stock; (ii) reduce the number of investors willing to hold or acquire our common stock, which could negatively impact

our ability to raise equity financing; (iii) limit our ability to use a registration statement to offer and sell freely tradable securities, thereby preventing us from accessing the public capital markets, and (iv) impair our ability to provide equity incentives to our employees.

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There could be negative effects if we do effect a reverse split of our Common Stock.

If we undertake a reverse split of our stock in order to address the NYSE compliance issue described above, the immediate effect of a reverse stock split would be to reduce the number of shares of our outstanding common stock and to increase the trading price of our common stock. However, we cannot predict the specific effect of any reverse stock split upon the market price of our common stock. Based on the data we have reviewed it appears that sometimes a reverse stock split improves stock performance and sometimes it does not, and sometimes a reverse stock split improves overall market capitalization and sometimes it does not. We cannot assure you that the trading price of our common stock after the reverse stock split will rise in proportion to the reduction in the number of shares of our common stock outstanding as a result of the reverse stock split. Also, we cannot assure you that a reverse stock split would lead to a sustained increase in the trading price of our common stock. The trading price of our common stock may change due to a variety of factors, such as our operating results and other factors related to our business and general market conditions. We also cannot predict other possible negative effects of a reduction in the number of our common shares outstanding on the Company or on individual stockholders.

Risks Related to our Partner Companies

Most of our partner companies have a history of operating losses or limited operating history and may never be profitable.

Most of our partner companies have a history of operating losses or limited operating history, have significant historical losses and may never be profitable. Many have incurred substantial costs to develop and market their products, have incurred net losses and cannot fund their cash needs from operations. We expect that the operating expenses of certain of our partner companies will increase substantially in the foreseeable future as they continue to develop products and services, increase sales and marketing efforts, and expand operations.

Our partner companies face intense competition, which could adversely affect their business, financial condition, results of operations and prospects for growth.

There is intense competition in the technology and life sciences marketplaces, and we expect competition to intensify in the future. Our business, financial condition, results of operations and prospects for growth will be materially adversely affected if our partner companies are not able to compete successfully. Many of the present and potential competitors may have greater financial, technical, marketing and other resources than those of our partner companies. This may place our partner companies at a disadvantage in responding to the offerings of their competitors, technological changes or changes in client requirements. Also, our partner companies may be at a competitive disadvantage because many of their competitors have greater name recognition, more extensive client bases and a broader range of product offerings. In addition, our partner companies may compete against one another.

Our partner companies may fail if they do not adapt to the rapidly changing technology and life sciences marketplaces.

If our partner companies fail to adapt to rapid changes in technology and customer and supplier demands, they may not become or remain profitable. There is no assurance that the products and services of our partner companies will achieve or maintain market penetration or commercial success, or that the businesses of our partner companies will be successful.

The technology and life sciences marketplaces are characterized by:

- rapidly changing technology;
- evolving industry standards;
- frequent new products and services;
- shifting distribution channels;
- evolving government regulation;
- frequently changing intellectual property landscapes; and
- changing customer demands.

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Our future success will depend on our partner companies ability to adapt to these rapidly evolving marketplaces. They may not be able to adequately or economically adapt their products and services, develop new products and services or establish and maintain effective distribution channels for their products and services. If our partner companies are unable to offer competitive products and services or maintain effective distribution channels, they will sell fewer products and services and forego potential revenue, possibly causing them to lose money. In addition, we and our partner companies may not be able to respond to the rapid technology changes in an economically efficient manner, and our partner companies may become or remain unprofitable.

Our partner companies may grow rapidly and may be unable to manage their growth.

We expect some of our partner companies to grow rapidly. Rapid growth often places considerable operational, managerial and financial strain on a business. To successfully manage rapid growth, our partner companies must, among other things:

- rapidly improve, upgrade and expand their business infrastructures;
- scale up production operations;
- develop appropriate financial reporting controls;
- attract and maintain qualified personnel; and
- maintain appropriate levels of liquidity.

If our partner companies are unable to manage their growth successfully, their ability to respond effectively to competition and to achieve or maintain profitability will be adversely affected.

Based on our business model, some or all of our partner companies will need to raise additional capital to fund their operations at any given time. We may not be able to fund some or all of such amounts, and such amounts may not be available from third parties on acceptable terms, if at all.

We cannot be certain that our partner companies will be able to obtain additional financing on favorable terms, if at all. Because our resources and our ability to raise capital are limited, we may not be able to provide our partner companies with sufficient capital resources to enable them to reach a cash flow positive position. We also may fail to accurately project the capital needs of our partner companies for purposes of our cash flow planning. If our partner companies need to but are not able to raise capital from us or other outside sources, then they may need to cease or scale back operations. In such event, our interest in any such partner company will become less valuable.

Recent economic disruptions and downturns may negatively affect our partner companies plans and their results of operations.

Many of our partner companies are largely dependant upon outside sources of capital to fund their operations. Disruptions in the availability of capital from such sources will negatively affect the ability of such partner companies to pursue their business models and will force such companies to revise their growth and development plans accordingly. Any such changes will, in turn, affect the ability of the Company to realize the value of its capital deployments in such companies.

In addition, the downturn in the economy as well as possible governmental responses to such downturn and/or to specific situations in the economy could effect the business prospects of certain of our partner companies, including, but not limited to, in the following ways: weaknesses in the financial services industries; reduced business and/or consumer spending; and/or systematic changes in the ways the healthcare system operates in the United States.

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Our partner companies are subject to independent audits and the results of such independent audits could adversely impact our partner companies.

As reported in its Form 10-K for the year ended December 31, 2008, Clarient s independent auditors have determined that there is substantial doubt about Clarient s ability to continue as a going concern. The going concern explanatory paragraph in Clarient s audit opinion could have a negative impact on:

- Clarient s ability to extend, renew or refinance its bank credit facility or to secure additional debt or equity financing in order to fund anticipated working capital needs and capital expenditures and to execute its strategy;
- Clarient s relationships with existing customers or potential new customers; and
- Clarient s stock price.

If any of such events were to occur, the value of our holdings in Clarient could be adversely impacted.

Some of our partner companies may be unable to protect their proprietary rights and may infringe on the proprietary rights of others.

Our partner companies assert various forms of intellectual property protection. Intellectual property may constitute an important part of our partner companies assets and competitive strengths. Federal law, most typically, copyright, patent, trademark and trade secret laws, generally protects intellectual property rights. Although we expect that our partner companies will take reasonable efforts to protect the rights to their intellectual property, the complexity of international trade secret, copyright, trademark and patent law, coupled with the limited resources of these partner companies and the demands of quick delivery of products and services to market, create a risk that their efforts will prove inadequate to prevent misappropriation of our partner companies technology, or third parties may develop similar technology independently.

Some of our partner companies also license intellectual property from third parties, and it is possible that they could become subject to infringement actions based upon their use of the intellectual property licensed from those third parties. Our partner companies generally obtain representations as to the origin and ownership of such licensed intellectual property; however, this may not adequately protect them. Any claims against our partner companies proprietary rights, with or without merit, could subject our partner companies to costly litigation and the diversion of their technical and management personnel from other business concerns. If our partner companies incur costly litigation and their personnel are not effectively deployed, the expenses and losses incurred by our partner companies will increase and their profits, if any, will decrease.

Third parties have and may assert infringement or other intellectual property claims against our partner companies based on their patents or other intellectual property claims. Even though we believe our partner companies products do not infringe any third-party s patents, they may have to pay substantial damages, possibly including treble damages, if it is ultimately determined that they do. They may have to obtain a license to sell their products if it is determined that their products infringe another person s intellectual property. Our partner companies might be prohibited from selling their products before they obtain a license, which, if available at all, may require them to pay substantial royalties. Even if infringement claims against our partner companies are without merit, defending these types of lawsuits takes significant time, may be expensive and may divert management attention from other business concerns.

Certain of our partner companies could face legal liabilities from claims made against their operations, products or work.

The manufacture and sale of certain of our partner companies products entails an inherent risk of product liability. Certain of our partner companies maintain product liability insurance. Although none of our partner companies to date have experienced any material losses, there can be no assurance that they will be able to maintain or acquire adequate product liability insurance in the future and any product liability claim could have a material adverse effect on our partner companies revenue and income. In addition, many of the engagements of our partner companies involve projects that are critical to the operation of their clients businesses. If our partner companies fail to meet their contractual obligations, they could be subject to legal liability, which could adversely affect their business, operating results and financial condition. The provisions our partner companies typically include in their contracts, which are designed to limit their exposure to legal claims relating to their services and the applications they develop, may not protect our partner companies or may not be enforceable. Also, as consultants, some of our partner companies depend

on their relationships with their clients and their reputation for high-quality services and integrity to retain and attract clients. As a result, claims made against our partner companies work may damage their reputation, which in turn could impact their ability to compete for new work and negatively impact their revenue and profitability.

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Our partner companies success depends on their ability to attract and retain qualified personnel.

Our partner companies are dependent upon their ability to attract and retain senior management and key personnel, including trained technical and marketing personnel. Our partner companies also will need to continue to hire additional personnel as they expand. Some of our partner companies may have employees represented by labor unions. Although our partner companies have not been the subject of a work stoppage, any future work stoppage could have a material adverse effect on their respective operations. A shortage in the availability of the requisite qualified personnel or work stoppage would limit the ability of our partner companies to grow, to increase sales of their existing products and services, and to launch new products and services.

Government regulations and legal uncertainties may place financial burdens on the businesses of our partner companies.

Failure to comply with applicable requirements of the FDA or comparable regulation in foreign countries can result in fines, recall or seizure of products, total or partial suspension of production, withdrawal of existing product approvals or clearances, refusal to approve or clear new applications or notices and criminal prosecution. Manufacturers of pharmaceuticals and medical diagnostic devices and operators of laboratory facilities are subject to strict federal and state regulation regarding validation and the quality of manufacturing and laboratory facilities. Failure to comply with these quality regulation systems requirements could result in civil or criminal penalties or enforcement proceedings, including the recall of a product or a cease distribution order. The enactment of any additional laws or regulations that affect healthcare insurance policy and reimbursement (including Medicare reimbursement) could negatively affect our partner companies. If Medicare or private payors change the rates at which our partner companies or their customers are reimbursed by insurance providers for their products, such changes could adversely impact our partner companies.

Some of our partner companies are subject to significant environmental, health and safety regulation.

Some of our partner companies are subject to licensing and regulation under federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials, as well as to the safety and health of manufacturing and laboratory employees. In addition, the federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate headquarters and administrative offices in Wayne, Pennsylvania contain approximately 18,000 square feet of office space in one building. We currently lease our corporate headquarters under a lease with approximately 5.5 years remaining.

Clarient, our only consolidated partner company, leases approximately 78,000 square feet of office and laboratory services space under a ten-year lease with an option to extend the lease term for up to two additional five-year periods, which commenced on December 1, 2005.

Item 3. ***Legal Proceedings***

We, as well as our partner companies, are involved in various claims and legal actions arising in the ordinary course of business. While in the current opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position or results of operations, no assurance can be given as to the outcome of these lawsuits, and one or more adverse rulings could have a material adverse effect on our consolidated financial position and results of operations, or that of our partner companies. See Note 16 for a discussion of ongoing claims and legal actions.

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

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of 2008.

ANNEX TO PART I EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position

			Executive Officer Since
Peter J. Boni	63	President, Chief Executive Officer and Director	2005
James A. Datin	46	Executive Vice President and Managing Director, Life Sciences	2005
Kevin Kemmerer	40	Executive Vice President and Managing Director, Technology	2008
Brian J. Sisko	48	Senior Vice President and General Counsel	2007
Stephen T. Zarrilli	47	Senior Vice President and Chief Financial Officer	2008

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Mr. Boni joined Safeguard as President and Chief Executive Officer in August 2005. Prior to joining Safeguard, Mr. Boni was an Operating Partner for Advent International, a global private equity firm with $10 billion under management, from April 2004 to August 2005; Chairman and Chief Executive Officer of Surebridge, Inc., an applications outsourcer serving the mid-market, from March 2002 to April 2004; Managing Principal of Vested Interest LLC, a management consulting firm, from January 2001 to March 2002; and President and Chief Executive Officer of Prime Response, Inc., an enterprise applications software provider, from February 1999 to January 2001. Mr. Boni is a director of Clarient, Inc.

Mr. Datin joined Safeguard as Executive Vice President and Managing Director, Life Sciences Group in September 2005. Mr. Datin served as Chief Executive Officer of Touchpoint Solutions, Inc., a provider of software that enables customers to develop and deploy applications, content and media on multi-user interactive devices, from December 2004 to June 2005; Group President in 2004, and as Group President, International, from 2001 to 2003, of Dendrite International, a provider of sales, marketing, clinical and compliance solutions and services to global pharmaceutical and other life sciences companies; and Group Director, Corporate Business Strategy and Planning at GlaxoSmithKline, from 1999 to 2001, where he also was a member of the company s Predictive Medicine Board of Directors that evaluated acquisitions and alliances. His prior experience also includes international assignments with and identifying strategic growth opportunities for E Merck and Baxter. Mr. Datin is a director of Clarient, Inc.

Mr. Kemmerer joined Safeguard as Principal, Technology Group, in June 2004, became Senior Vice President, Technology in April 2006, Senior Vice President and Managing Director, Technology in April 2008 and Executive Vice President and Managing Director, Technology in September 2008. Mr. Kemmerer served most recently as Director of Kennet Venture Partners, a venture capital firm for which he worked from November 2000 to June 2004 and previously as Principal, Mergers and Acquisitions of Broadview International, for whom he worked from August 1997 to November 2000.

Mr. Sisko joined Safeguard as Senior Vice President and General Counsel in August 2007. Prior to joining Safeguard, Mr. Sisko served as Chief Legal Officer, Senior Vice President and General Counsel of Traffic.com (at the time, a public company), a former partner company of Safeguard that is a leading provider of accurate, real-time traffic information in the United States, from February 2006 until June 2007 (following its acquisition by NAVTEQ Corporation in March 2007); Chief Operating Officer from February 2005 to January 2006 of Halo Technology Holdings, Inc., a public holding company for enterprise software businesses (Halo Technology Holdings filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in August 2007); ran B/T Business and Technology, an advisor and strategic management consultant to a variety of public and private companies, from January 2002 to February 2005; and was a Managing Director from April 2000 to January 2002, of Katalyst, LLC, a venture capital and consulting firm. Mr. Sisko also previously served as Senior Vice President Corporate Development and General Counsel of National Media Corporation, at the time a New York Stock Exchange-listed multi-media marketing company with operations in 70 countries, and as a partner in the corporate finance, mergers and acquisitions practice group of the Philadelphia-based law firm, Klehr, Harrison, Harvey, Branzburg & Ellers LLP.

Mr. Zarrilli joined Safeguard as Senior Vice President and Chief Financial Officer in June 2008. Prior to joining Safeguard, Mr. Zarrilli co-founded, in 2004, the Penn Valley Group, a middle-market management advisory and private equity firm, and served as a Managing Director until June 2008, and continues to serve as non-executive chairman of the Penn Valley Group. While at the Penn Valley Group, Mr. Zarrilli also served as Acting Senior Vice President, Acting Chief Administrative Officer and Acting Chief Financial Officer of Safeguard from December 2006 to June 2007. Mr. Zarrilli also served as the Chief Financial Officer, from 2001 to 2004, of Fiberlink Communications Corporation, a provider of remote access VPN solutions for large enterprises; as the Chief Executive Officer, from 2000 to 2001, of Concellera Software, Inc., a developer of content management software; as the Chief Executive Officer, from 1999 to 2000, and Chief Financial Officer, from 1994 to 1998, of US Interactive, Inc. (at the time a public company), a provider of internet strategy consulting, marketing and technology services; and, previously, with Deloitte & Touche from 1983 to 1994. Mr. Zarrilli is a director and Chairman of the Audit Committee of NutriSystem, Inc. and a director of Clarient, Inc.

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PART II

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

Safeguard s common stock is listed on the New York Stock Exchange (Symbol: SFE). The high and low sale prices reported within each quarter of 2007 and 2008 are as follows:

	High	Low
Fiscal year 2007:		
First quarter	$ 3.15	$ 2.31
Second quarter	3.28	2.40
Third quarter	2.77	1.87
Fourth quarter	2.55	1.74
Fiscal year 2008:		
First quarter	$ 1.94	$ 1.31
Second quarter	1.74	1.21
Third quarter	1.52	1.07
Fourth quarter	1.26	.46

The high and low sale prices reported in the first quarter of 2009 through March 16, 2009 were $0.86 and $0.34, respectively, and the last sale price reported on March 16, 2009, was $0.40. No cash dividends have been declared in any of the years presented, and Safeguard has no present intention to declare cash dividends.

As of March 16, 2009, there were approximately 32,000 beneficial holders of Safeguard s common stock.

The following graph compares the cumulative total return on $100 invested in our common stock for the period from December 31, 2003 through December 31, 2008 with the cumulative total return on $100 invested for the same period in the Russell 2000 Index and the Dow Jones Wilshire 4500 Index. In light of the diverse nature of Safeguard s business and based on our assessment of available published industry or line-of-business indices, we determined that no single industry or line-of-business index would provide a meaningful comparison to Safeguard. Further, we did not believe that we could readily identify an appropriate group of industry peer companies for this comparison. Accordingly, under SEC rules, we selected the Dow Jones Wilshire 4500 Index, a published market index in which the median market capitalization of the included companies is similar to our own. Safeguard s common stock is included as a component of the Russell 2000 and Dow Jones Wilshire 4500 indices.

Comparison of Cumulative Total Returns

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Assumes reinvestment of dividends. We have not distributed cash dividends during this period.
Assumes an investment of $100 on December 31, 2003.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
November 17, 2008 (1)	35,000	$ 0.5880	N/A	N/A
November 21, 2008 (1)	39,000	$ 0.5277	N/A	N/A

(1) The purchases reported in this table were open market purchases made by an individual who may be considered an affiliated purchaser of the Registrant under Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

Item 6. ***Selected Consolidated Financial Data***

The following table sets forth our selected consolidated financial data for the five-year period ended December 31, 2008. The selected consolidated financial data presented below should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Consolidated Financial Statements and Notes thereto included in this report. The historical results presented herein may not be indicative of future results. During the five-year period ended December 31, 2008, certain consolidated partner companies, or components thereof, were sold. These businesses are reflected in discontinued operations through their respective disposal dates: Acsis, Inc., Alliance Consulting Group Associates, Inc. and Laureate Pharma, Inc. (May, 2008), Pacific Title & Art Studio (March 2007), Clarient s technology business (March 2007), Mantas (October 2006), Alliance Consulting s Southwest region business (July 2006), Laureate Pharma s Totowa, New Jersey operation (December 2005) and CompuCom (October 2004).

	December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
			(In thousands)		

Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 75,051	$ 96,201	$ 60,381	$ 117,633	$ 138,332
Short-term investments	14,701	590	94,155	31,770	33,555
Restricted cash				1,098	561
Cash held in escrow	6,934	22,686	19,398		
Working capital of continuing operations	88,400	97,184	133,643	139,877	164,092
Total assets of continuing operations	232,402	258,075	277,019	220,657	275,141
Long-term debt, net of current portion	345	906	1,939	2,073	5,440
Other long-term liabilities	9,600	9,111	9,276	12,571	10,273
Convertible senior debentures	86,000	129,000	129,000	150,000	150,000
Total shareholders equity	104,710	153,139	211,294	164,975	201,230

Certain amounts for prior periods in the Consolidated Financial Statements have been reclassified to conform with current period presentations.

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Consolidated Statements of Operations Data

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands except per share amounts)				
Revenue	$ 73,736	$ 42,995	$ 27,723	$ 11,439	$ 3,516
Operating Expenses:					
Cost of sales	33,007	26,914	19,824	10,959	5,939
Selling, general and administrative	60,744	50,783	44,924	34,172	34,752
Research and development				1	599
Total operating expenses	93,751	77,697	64,748	45,132	41,290
Operating loss	(20,015)	(34,702)	(37,025)	(33,693)	(37,774)
Other income (loss), net	10,275	(5,089)	5,402	7,073	38,687
Recovery (impairment) related party	5	12	360	28	(3,400)
Interest income	3,097	7,520	6,805	4,975	2,573
Interest expense	(4,732)	(5,489)	(5,203)	(5,195)	(9,131)
Equity loss	(34,697)	(15,178)	(3,732)	(6,597)	(14,534)
Minority interest	3,264	5,749	5,721	6,895	7,685
Net loss from continuing operations before income taxes	(42,803)	(47,177)	(27,672)	(26,514)	(15,894)
Income tax benefit	26	696	1,270		
Net loss from continuing operations	(42,777)	(46,481)	(26,402)	(26,514)	(15,894)
Income (loss) from discontinued operations, net of tax	(9,236)	(19,387)	71,845	(5,556)	(38,926)
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443	$ (32,070)	$ (54,820)
Basic and Diluted Income (Loss) Per Share:					
Net loss from continuing operations	$ (0.35)	$ (0.38)	$ (0.22)	$ (0.22)	$ (0.13)
Net income (loss) from discontinued operations	(0.07)	(0.16)	0.59	(0.05)	(0.33)
Net income (loss)	$ (0.42)	$ (0.54)	$ 0.37	$ (0.27)	$ (0.46)
Shares used in computing basic and diluted income (loss) per share	122,767	122,352	121,476	120,845	119,965

Certain amounts for prior periods in the Consolidated Financial Statements have been reclassified to conform with current period presentations.

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

Cautionary Note concerning Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about Safeguard Scientifics, Inc. (Safeguard or we), the industries in which we operate and other matters, as well as management s beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as projects, expects, anticipates, intends, plans, believes estimates, should, would, could, will, opportunity, potential or may, variations of such words or o convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our forward-looking statements are subject to risks and uncertainties. Factors that could cause actual results to differ materially, include, among others, managing rapidly changing technologies, limited access to capital, competition, the ability to attract and retain qualified employees, the ability to execute our strategy, the uncertainty of the future performance of our partner companies, acquisitions and dispositions of companies, the inability to manage growth, compliance with government regulation and legal liabilities, additional financing requirements, labor disputes and the effect of economic conditions in the business sectors in which our partner companies operate, all of which are discussed in Item 1A. Risk Factors. Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

Overview

Safeguard s charter is to build value in growth-stage technology and life sciences businesses. We provide capital as well as a range of strategic, operational and management resources to our partner companies. Safeguard participates in expansion financings, corporate spin-outs, management buy-outs, recapitalizations, industry consolidations and early-stage financings. Our vision is to be the preferred catalyst for creating great technology and life sciences companies.

We strive to create long-term value for our shareholders by building value in our partner companies. We help our partner companies in their efforts to increase market penetration, grow revenue and improve cash flow in order to create long-term value. We concentrate on companies that operate in two categories:

Technology including companies focused on providing software as a service (SaaS), technology-enabled services and vertical software solutions for the financial services sector, internet-based businesses, healthcare information technology; and

Life Sciences including companies focused on molecular and point-of-care diagnostics, medical devices, regenerative medicine and specialty pharmaceuticals.

Principles of Accounting for Ownership Interests in Partner Companies

We account for our interests in our partner companies and private equity funds using three methods: consolidation, equity or cost. The accounting method applied is generally determined by the degree of our influence over the entity, primarily determined by on our voting interest in the entity.

Consolidation Method. We account for our partner companies in which we directly or indirectly own more than 50% of the outstanding voting securities using the consolidation method of accounting. We reflect the participation of other partner company stockholders in the income or losses of our consolidated partner companies as Minority Interest in the Consolidated Statements of Operations. Minority interest adjusts our consolidated operating results to reflect only our share of the earnings or losses of the consolidated partner companies. If there is no minority interest balance remaining on the Consolidated Balance Sheets related to the respective partner company, we record 100% of the consolidated partner company s losses; we record 100% of subsequent earnings of the partner company to the extent of such previously recognized losses in excess of our proportionate share.

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Equity Method. We account for partner companies whose results are not consolidated, but over whom we exercise significant influence, using the equity method of accounting. We also account for our interests in some private equity funds under the equity method of accounting, depending on our respective general and limited partner interests. Under the equity method of accounting, our share of the income or loss of the company is reflected in Equity Loss in the Consolidated Statements of Operations. We report our share of the income or loss of the equity method partner companies on a one quarter lag.

When the carrying value of our holding in an equity method partner company is reduced to zero, no further losses are recorded in our Consolidated Statements of Operations unless we have outstanding guarantee obligations or have committed additional funding to the equity method partner company. When the equity method partner company subsequently reports income, we will not record our share of such income until it equals the amount of our share of losses not previously recognized.

Cost Method. We account for partner companies which are not consolidated or accounted for under the equity method using the cost method of accounting. Under the cost method, our share of the income or losses of such partner companies is not included in our Consolidated Statements of Operations. However, the effect of the change in market value of cost method partner company holdings classified as trading securities is reflected in Other income (loss), net in the Consolidated Statements of Operations.

Critical Accounting Policies and Estimates

Accounting policies, methods and estimates are an integral part of the Consolidated Financial Statements prepared by management and are based upon management s current judgments. These judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly important because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management s current judgments. While there are a number of accounting policies, methods and estimates affecting our financial statements as described in Note 1 to our Consolidated Financial Statements, areas that are particularly significant include the following:

- Revenue recognition;
- Allowance for doubtful accounts and bad debt expense;
- Impairment of long-lived assets;
- Goodwill impairment;
- Impairment of ownership interests in and advances to companies;
- Income taxes;
- Commitments and contingencies; and
- Stock-based compensation.

Revenue Recognition

During 2008, 2007 and 2006, our revenue from continuing operations was attributable to Clarient.

Revenue for Clarient s diagnostic testing and interpretive services is recognized at the time of completion of such services. Clarient s services are billed to various payors, including Medicare, health insurance companies and other directly billed healthcare institutions and patients. Clarient reports revenue from contracted payors, including certain health insurance companies and healthcare institutions, based on the contracted rate or, in certain instances, Clarient s estimate of such rate. For billings to Medicare, Clarient utilizes the published fee schedules, net of standard discounts commonly referred to as contractual allowances . Clarient reports revenue from non-contracted payors, including certain insurance companies and patients, based on the amount expected to be collected for services provided. Adjustments resulting from actual collections compared to Clarient s estimates are recognized in the period realized.

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Allowance for Doubtful Accounts and Bad Debt Expense

An allowance for doubtful accounts is recorded for estimated uncollectible amounts due from various payor groups such as Medicare and private health insurance companies. The process for estimating the allowance for doubtful accounts associated with Clarient s diagnostic services involves significant assumptions and judgments. Specifically, the allowance for doubtful accounts is adjusted periodically, based upon an evaluation of historical collection experience. Clarient also reviews the age of receivables by payor class to assess its allowance at each period end. The payment realization cycle for certain governmental and managed care payors can be lengthy, involving denial, appeal and adjudication processes, and is subject to periodic adjustments that may be significant. Accounts receivable are periodically written off when identified as uncollectible and deducted from the allowance for doubtful accounts after appropriate collection efforts have been exhausted. Additions to the allowance for doubtful accounts are charged to bad debt expense within Selling, general and administrative expense in the Consolidated Statements of Operations.

Impairment of Long-Lived Assets

We test long-lived assets, including property and equipment and amortizable intangible assets, for recoverability whenever events or changes in circumstances indicate that we may not be able to recover the asset s carrying amount. We evaluate the recoverability of an asset by comparing its carrying amount to the undiscounted cash flows expected to result from the use and eventual disposition of that asset. If the undiscounted cash flows are not sufficient to recover the carrying amount, we measure any impairment loss as the excess of the carrying amount of the asset over its fair value.

The carrying value of net property and equipment at December 31, 2008 was $12.4 million.

Impairment of Goodwill

We conduct an annual review for impairment of goodwill as of December 1st and as otherwise required by circumstances or events. Additionally, on an interim basis, we assess the impairment of goodwill whenever events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Factors that we consider important which could trigger an impairment review include significant underperformance relative to historical or expected future operating results, significant changes in the manner or use of the acquired assets or the strategy for the overall business, significant negative industry or economic trends, or a decline in a company s stock price for a sustained period.

We test for impairment at a reporting unit level (which for us is the same as an operating segment). If we determine that the fair value of a reporting unit is less than its carrying value, we assess whether goodwill of the reporting unit is impaired. To determine fair value, we use a number of valuation methods including quoted market prices, discounted cash flows, valuations of comparable public companies and valuations of acquisitions of comparable companies. Depending on the complexity of the valuation and the significance of the carrying value of the goodwill to the Consolidated Financial Statements, we may engage an outside valuation firm to assist us in determining fair value. As an overall check on the reasonableness of the fair values attributed to our reporting units, we will consider comparing the aggregate fair values for all reporting units with our average total market capitalization for a reasonable period of time.

The carrying value of goodwill at December 31, 2008 was $12.7 million and relates entirely to our Clarient segment. Based on quoted market prices of Clarient s common stock, the fair value of our holdings in Clarient exceeds its carrying value, inclusive of goodwill.

Our partner companies operate in industries which are rapidly evolving and extremely competitive. It is reasonably possible that our accounting estimates with respect to the ultimate recoverability of the carrying value of goodwill could change in the near term and that the effect of such changes on our Consolidated Financial Statements could be material. While we believe that the current recorded carrying value of our goodwill is not impaired, there can be no assurance that a significant write-down or write-off will not be required in the future.

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Impairment of Ownership Interests In and Advances to Companies

On a periodic basis (but no less frequently than at the end of each quarter) we evaluate the carrying value of our equity and cost method partner companies for possible impairment based on achievement of business plan objectives and milestones, the financial condition and prospects of the company, market conditions, and other relevant factors. The business plan objectives and milestones we consider include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. We then determine whether there has been an other than temporary decline in the value of our ownership interest in the company. Impairment to be recognized is measured as the amount by which the carrying value of an asset exceeds its fair value.

The fair value of privately held partner companies is generally determined based on the value at which independent third parties have invested or have committed to invest in these companies or based on other valuation methods, including discounted cash flows, valuations of comparable public companies and valuations of acquisitions of comparable companies. The fair value of our ownership interests in private equity funds is generally determined based on the value of our pro rata portion of the funds net assets and estimated future proceeds from sales of investments provided by the funds managers.

The new carrying value of a partner company is not increased if circumstances suggest the value of the partner company has subsequently recovered.

Our partner companies operate in industries which are rapidly evolving and extremely competitive. It is reasonably possible that our accounting estimates with respect to the ultimate recoverability of the carrying value of ownership interests in and advances to companies could change in the near term and that the effect of such changes on our Consolidated Financial Statements could be material. While we believe that the current recorded carrying values of our equity and cost method companies are not impaired, there can be no assurance that our future results will confirm this assessment or that a significant write-down or write-off will not be required in the future.

Total impairment charges related to ownership interests in and advances to our equity and cost method partner companies were as follows:

	Year Ended December 31,		
Accounting Method	**2008**	**2007**	**2006**
		(In millions)	
Equity	$ 6.6	$	$
Cost	2.3	5.3	
Total	$ 8.9	$ 5.3	$

Impairment charges related to equity method partner companies are included in Equity loss in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies are included in Other income, net in the Consolidated Statements of Operations.

Income Taxes

We are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our Consolidated Balance Sheets. We must assess the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent that we believe recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance in a period, we must include an expense within the tax provision in the Consolidated Statements of Operations. We have recorded a valuation allowance to reduce our deferred tax assets to an amount that is more likely than not to be realized in future years. If we determine in the future that it is more likely than not that the net deferred tax assets would be realized, then the previously provided valuation allowance would be reversed.

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Commitments and Contingencies

From time to time, we are a defendant or plaintiff in various legal actions which arise in the normal course of business. Additionally, we have received distributions as both a general partner and a limited partner from certain private equity funds. In certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for a further distribution to such fund s limited partners (the clawback). We are also a guarantor of various third-party obligations and commitments and are subject to the possibility of various loss contingencies arising in the ordinary course of business (See Note 17). We are required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease our earnings in the period the changes are made.

Stock-Based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, prior to January 1, 2006, we accounted for employee stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, we recorded no compensation expense for stock options issued to employees at fair market value.

On January 1, 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). We measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements. We adopted SFAS No. 123(R) using the modified prospective method. Accordingly, we have not restated prior period amounts. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

We estimate the grant date fair value of stock options using the Black-Scholes option-pricing model which requires the input of highly subjective assumptions. These assumptions include estimating the expected term of the award and the estimated volatility of our stock price over the expected term. Changes in these assumptions and in the estimated forfeitures of stock option awards can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations. The requisite service periods for market-based stock option awards are based on our estimate of the dates on which the market conditions will be met as determined using a Monte Carlo simulation model. Changes in the derived requisite service period or achievement of market capitalization targets earlier than estimated can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations. The requisite service periods for performance-based awards are based on our best estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Changes in the requisite service period or the estimated probability of achievement of performance conditions can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations.

Results of Operations

During the third quarter 2008, we increased our ownership interest in Authentium to the 20.0% threshold at which we believe we exercise significant influence. Accordingly, we adopted the equity method of accounting for our holdings in Authentium. We have adjusted the financial statements for prior periods contained in this Form 10-K to retrospectively apply the equity method of accounting for our holdings in Authentium since the initial date of acquisition in April 2006.

On May 6, 2008, we consummated a transaction (the Bundle Transaction) pursuant to which we sold all of our equity and debt interests in Acsis, Inc. (Acsis), Alliance Consulting Group Associates, Inc. (Alliance Consulting), Laureate Pharma, Inc. (Laureate Pharma), ProModel Corporation (ProModel) and Neuronyx, Inc. (Neuronyx) (collectively, the Bundle Companies). Of the companies included in the Bundle Transaction, Acsis, Alliance Consulting and Laureate Pharma were majority-owned partner companies; Neuronyx and ProModel were minority-owned partner companies.

We have presented the results of operations of Acsis, Alliance Consulting and Laureate Pharma as discontinued operations for all periods presented.

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We present Clarient, our publicly traded consolidated partner company, as a separate segment. The results of operations of our other partner companies in which we have less than a majority interest are reported in our Life Sciences and Technology segments. The Life Sciences and Technology segments also include the gain or loss on the sale of respective partner companies, except for gains and losses included in discontinued operations.

Our management evaluates the Clarient segment s performance based on revenue, operating income (loss) and income (loss) before income taxes, which reflects the portion of income (loss) allocated to minority shareholders. Our management evaluates the Life Sciences and Technology segments performance based on equity income (loss) which is based on the number of partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies and Other income or loss associated with cost method partner companies.

Other items include certain expenses, which are not identifiable to the operations of our operating business segments. Other items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, interest income, interest expense, other income (loss) and equity income (loss) related to private equity holdings. Other Items also include income taxes, which are reviewed by management independent of segment results.

The following tables reflect our consolidated operating data by reportable segment. Segment results include the results of Clarient, our consolidated partner company, and our share of income or losses for entities accounted for under the equity method, when applicable. Segment results also include impairment charges and gains or losses related to the disposition of partner companies, except for those reported in discontinued operations. All significant inter-segment activity has been eliminated in consolidation. Accordingly, segment results reported by us exclude the effect of transactions between us and our consolidated partner company. Our operating results, including net income (loss) before income taxes by segment, were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Clarient	$ 805	$ (7,379)	$ (7,481)
Life Sciences	(23,858)	(15,229)	(2,456)
Technology	(12,947)	(5,249)	(863)
Total segments	(36,000)	(27,857)	(10,800)
Other items:			
Corporate operations	(6,803)	(19,320)	(16,872)
Income tax benefit	26	696	1,270
Total other items	(6,777)	(18,624)	(15,602)
Net loss from continuing operations	(42,777)	(46,481)	(26,402)
Income (loss) from discontinued operations, net of tax	(9,236)	(19,387)	71,845
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443

There is intense competition in the markets in which our partner companies operate, and we expect competition to intensify in the future. Additionally, the markets in which these companies operate are characterized by rapidly changing technology, evolving industry standards, frequent introduction of new products and services, shifting distribution channels, evolving government regulation, frequently changing intellectual property landscapes and changing customer demands. Their future success depends on each company s ability to execute its business plan and to adapt to its respective rapidly changing markets.

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Clarient

The financial information presented below does not include the results of operations of Clarient s technology business, which is included in discontinued operations for all periods presented. Clarient sold this business (which developed, manufactured and marketed the ACIS Automated Image Analysis System) and related intellectual property to Carl Zeiss MicroImaging, Inc. (the ACIS Sale) for cash proceeds of $11.0 million, excluding contingent purchase price of $1.5 million. In 2007 and 2006, prior to its sale in February 2007, the technology business generated revenue of $0.8 million and $5.7 million, and net loss from operations of $0.6 million and $8.7 million, respectively.

See Note 19 for a discussion of certain current and prior year adjustments of expense classifications between Selling, general and administrative expense and Cost of sales.

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Revenue	$ 73,736	$ 42,995	$ 27,723
Operating expenses:			
Cost of sales	33,007	26,914	19,824
Selling, general and administrative	42,329	28,000	20,578
Total operating expenses	75,336	54,914	40,402
Operating loss	(1,600)	(11,919)	(12,679)
Other loss			(39)
Interest, net	(859)	(1,209)	(484)
Minority interest	3,264	5,749	5,721
Net income (loss) from continuing operations before income taxes	$ 805	$ (7,379)	$ (7,481)

Clarient operates primarily in one business, the delivery of critical oncology testing services to community pathologists, biopharmaceutical companies and other researchers.

As of December 31, 2008, we owned a 60.4% voting interest in Clarient.

Year Ended December 31, 2008 versus December 31, 2007

Revenue. Revenue of $73.7 million for the year ended December 31, 2008 increased 71.5% or $30.7 million from $43.0 million in the prior year. The increased revenue resulted from increased volume and favorable mix of oncology diagnostic services provided to Clarient s existing clients and the addition of new clients. Clarient s client base increased to approximately 900 active clients at December 31, 2008, from approximately 675 active clients at December 31, 2007.

During the first quarter of 2008 Clarient expanded the breadth of its diagnostic services to include cancer markers for tumors of the colon, prostate, and lung. Clarient expects to steadily increase its menu of oncology diagnostic services to include markers for additional tumor types and to deepen its market penetration for the diagnostic services that it currently provides. A number of recently published clinical findings have promoted the use of certain biomarkers to predict patient response to a class of colorectal cancer drugs that are focused on blocking the epidermal growth factor receptor (EGFR) signaling pathway. Clarient s ability to perform tests such as K-ras (a newly emerging biomarker) to outline alterations in this major pathway are therefore becoming a more recognized tool in the medical community for predicting an individual s response to drug therapies for colorectal cancers.

Clarient has also steadily increased the depth of its diagnostic services for certain cancer types that Clarient has previously provided, including lymphoma/leukemia. Clarient s expanding capabilities in IHC, flow cytometry, FISH and molecular/PCR, and its marketing of such capabilities, has enabled its revenue growth in the year ended December 31, 2008 as compared to the prior year. Clarient anticipates that its revenue will continue to increase as

Clarient further executes its operational strategy of expanding the breadth and depth of its oncology diagnostic services, and the means by which its services are marketed and delivered to its customers.

Another contributor to its revenue growth has been an overall increase in Medicare reimbursement rates which include cancer diagnostic services, effective January 1, 2008. In addition, many of Clarient s third-party contract rates are based upon Medicare rates, which consequently, also increased. In July 2008, the Medicare rate increase for Technical CPT codes under the Physician Fee Schedule that retroactively took effect as of January 1, 2008 was extended eighteen months through December 31, 2009. Effective January 1, 2009, numerous other CPT codes under the Physician Fee Schedule and Clinical Fee Schedule for services Clarient performs generally increased through December 31, 2009.

Cost of Sales. Cost of sales for the year ended December 31, 2008 was $33.0 million compared to $26.9 million in the prior year, an increase of 22.6%. The $6.1 million increase was driven by an overall increase in revenue, and was primarily related to: additional laboratory personnel costs of $2.1 million, increased laboratory reagents and other supplies expense of $1.4 million, increased allocated facilities expense of $0.4 million, increased cost of tests performed on its behalf by other laboratories of $1.7 million and an increase in shipping expense of $1.2 million.

Gross margin for the year ended December 31, 2008 was 55.2% compared to 37.4% in the prior year. The increase in gross margin was primarily driven by an overall increase in revenue, including higher value oncology diagnostic services. In addition, employee productivity continues to improve based on Clarient s metrics of specimens prepared and tested by month per full-time equivalent employee. Clarient has also realized greater economies of scale in operations through its business growth as compared to the prior year.

Clarient anticipates that gross margins will improve as its testing volume increases, Clarient more effectively utilizes its operating capacity, and more efficiently manages its operations. If the adjusted Medicare reimbursement rates (effective January 1, 2009) are decreased after December 31, 2009, gross margins could be adversely affected.

Selling, General and Administrative Expenses. Selling, general and administrative expenses of $42.3 million for the year ended December 31, 2008 increased 51.2%, or $14.3 million, from $28.0 million for the prior year. The increase was primarily related to a $8.6 million increase in bad debt expense, additional administrative personnel costs of $2.6 million to support its business growth and new in house billing and collection department, additional sales and marketing personnel costs of $1.7 million, a $0.3 million increase in travel-related expenses and a $0.2 million increase in tradeshow and advertising expenses, partially offset by a $1.0 million decrease in third-party billing and collection fees. Accounting and legal fees increased by $0.8 million and $0.6 million, respectively. The increase in accounting fees was primarily associated with the testing of internal controls over financial reporting. The increase in legal fees was primarily associated with SEC compliance, corporate governance, financing arrangements and executive compensation

The increase in bad debt expense is primarily related to Clarient s increase in revenue as compared to the prior year and the impact on cash collections of delays in Clarient s internal billing and collection efforts. Bad debt expense was also impacted by higher loss experience, including significant uncollectible accounts identified during the second half of 2008 which were previously serviced by Clarient s former third-party billing and collection service provider. Clarient expects that bad debt expense as a percentage of revenue in 2009 will be less as compared to 2008 as Clarient further staffs its in house billing and collection department, more effectively manages its billing and collection function and improves the quality of its billing and collection processes.

Interest, net. Interest expense in 2008 was $0.9 million, compared to $1.2 million in 2007. The decrease was due to lower outstanding borrowings under Clarient s third party financing facilities.

Net Income (Loss). Net income in 2008 was $0.8 million compared to a net loss of $7.4 million in 2007. The improvement was primarily attributable to higher margins from increased revenue.

Year ended December 31, 2007 versus year ended December 31, 2006

Revenue. Revenue increased 55.1% or $15.3 million from $27.7 million for the year ended December 31, 2006 to $43.0 million for the year ended December 31, 2007. The increase resulted from the execution of Clarient s marketing and sales strategy which resulted in increased sales to new and existing customers.

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Cost of Sales. Cost of sales for the year ended December 31, 2007 was $26.9 million compared to $19.8 million for the year ended December 31, 2006, an increase of 35.8%, driven by a 55.1% increase in revenue. Gross margin was 37.4% in 2007 compared to 28.5% in 2006. The increase in gross margin in 2007 was attributable to a 55.1% increase in revenue and a shift to more profitable types of diagnostic services.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the year ended December 31, 2007 were $28.0 million compared to $20.6 million in the prior year, an increase of $7.4 million or 36.1%. The increase is primarily attributable to a $3.0 million increase in bad debt expense, $1.5 million increase in administrative personnel expenses, $0.9 million of non-capitalizable information technology expenses, $0.8 million increase in sales commissions and an increase of $0.6 million in depreciation, facilities and lease expense.

Interest, net. Interest expense in 2007 was $1.2 million, compared to $0.5 million in 2006. The increase was due to higher outstanding borrowings under Clarient s third party financing facilities.

Net Loss. Net loss decreased $0.1 million, or 1.4% in 2007 as compared to 2006. The decline in net loss was primarily attributable to higher margins from increased revenue.

Life Sciences

The following partner companies were included in Life Sciences during the year ended December 31, 2008:

Partner Company	Safeguard Ownership as of December 31, 2008	Accounting Method
Advanced BioHealing	28.3%	Equity Method
Alverix	50.0%	Equity Method
Avid	13.9%	Cost Method
Cellumen	40.6%	Equity Method
Garnet	31.2%	Equity Method
Molecular Biometrics	37.8%	Equity Method
NuPathe	23.5%	Equity Method
Rubicor	44.6%	Equity Method
Tengion	4.5%	Cost Method

The following partner companies were included in Life Sciences during the year ended December 31, 2007:

Partner Company	Safeguard Ownership as of December 31, 2007	Accounting Method
Advanced BioHealing	28.3%	Equity Method
Alverix	50.0%	Equity Method
Avid	14.2%	Cost Method
Cellumen	40.3%	Equity Method
Neuronyx	6.8%	Cost Method
NuPathe	26.2%	Equity Method
Rubicor	35.7%	Equity Method

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The following partner companies were included in Life Sciences during the year ended December 31, 2006:

Partner Company	Safeguard Ownership as of December 31, 2006	Accounting Method
Neuronyx	7.0%	Cost Method
NuPathe	21.3%	Equity Method
Rubicor	35.8%	Equity Method
Ventaira Pharmaceuticals	12.8%	Cost Method

Results for the Life Sciences segment were as follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
	(In thousands)		
Equity loss	$ (23,858)	$ (9,898)	$ (2,456)
Other loss		(5,331)	
Net loss before income taxes	$ (23,858)	$ (15,229)	$ (2,456)

Equity Loss. Equity loss fluctuates with the number of Life Sciences partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity partner company or we have outstanding commitments or guarantees. Certain amounts recorded to reflect our share of the income or losses of our partner companies accounted for under the equity method are based on estimates and on unaudited results of operations of those partner companies and may require adjustments in the future when audits of these entities are made final. We report our share of the results of our equity method partner companies on a one quarter lag basis.

Year ended December 31, 2008 versus year ended December 31, 2007

Equity loss for Life Sciences increased $12.5 million for the year ended December 31, 2008 compared to the prior year. Included in equity loss for the year ended December 31, 2008 was an impairment charge of $4.0 for Rubicor, which effectively halted operations in 2008 as a result of not being able to attract sufficient capital to continue operations, and expense of $2.3 million associated with acquired in-process research and development related to our acquisition of a 37% interest in Molecular Biometrics. In addition, we recognized a $1.3 million charge in the fourth quarter of 2008 related to an in-process research and development charge recorded by NuPathe. The increase in equity loss was also due to an increase in the number of equity method partner companies, each of which generated losses, and larger losses incurred at certain partner companies. Other loss for the year ended December 31, 2007 reflected an impairment charge for Ventaira Pharmaceuticals.

Year ended December 31, 2007 versus year ended December 31, 2006

Equity loss for Life Sciences increased $7.4 million for the year ended December 31, 2007 compared to the prior year. The increase in equity loss was primarily due to an increase in the number of equity method partner companies, each of which generated losses, and larger losses incurred at certain partner companies. Included in equity loss in 2007 were in-process research and development charges of $0.2 million and $0.2 million related to the allocations of purchase price of NuPathe and Cellumen, respectively. Included in equity loss in 2006 were in-process research and development charges of $1.0 million and $0.6 million related to the allocations of purchase price of NuPathe and Rubicor, respectively. Other loss for year ended December 31, 2007 reflects an impairment charge for Ventaira Pharmaceuticals.

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Technology

The following partner companies were included in Technology during the year ended December 31, 2008:

Partner Company	Safeguard Ownership as of December 31, 2008	Accounting Method
Advantedge Healthcare Solutions	37.7%	Equity Method
Authentium	20.0%	Equity Method (1)
Beyond.com	37.1%	Equity Method
Bridgevine	20.8%	Equity Method
GENBAND	2.3%	Cost Method
Kadoo	14.0%	Cost Method
Portico Systems	46.8%	Equity Method
Swaptree	29.3%	Equity Method

The following partner companies were included in Technology during the year ended December 31, 2007:

Partner Company	Safeguard Ownership as of December 31, 2007	Accounting Method
Advantedge Healthcare Solutions	35.2%	Equity Method
Authentium	19.9%	Equity Method (1)
Beyond.com	37.1%	Equity Method
Bridgevine	20.9%	Equity Method
Kadoo	14.0%	Cost Method
NexTone (now GENBAND)	16.5%	Cost Method
Portico Systems	46.9%	Equity Method
ProModel Corporation	49.7%	Equity Method

The following partner companies were included in Technology during the year ended December 31, 2006:

Partner Company	Safeguard Ownership as of December 31, 2006	Accounting Method
Advantedge Healthcare Solutions	32.2%	Equity Method
Authentium	12.4%	Equity Method (1)
NexTone (now GENBAND)	16.5%	Cost Method
Portico Systems	46.9%	Equity Method
ProModel Corporation	49.7%	Equity Method

(1) During 2008, we increased our ownership interest in Authentium to the 20.0% threshold at which we believe we exercise significant influence. Accordingly, we

adopted the equity method of accounting for our holdings in Authentium. We have adjusted the financial statements for all prior periods presented to retrospectively apply the equity method of accounting for our holdings in Authentium since the initial date of acquisition in April 2006.

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Results for the Technology segment were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Equity loss	$ (10,696)	$ (5,249)	$ (863)
Other loss	(2,251)		
Net loss before income taxes	$ (12,947)	$ (5,249)	$ (863)

Equity Loss. Equity loss fluctuates with the number of Technology partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity partner company or we have outstanding commitments or guarantees. Certain amounts recorded to reflect our share of the income or losses of our partner companies accounted for under the equity method are based on estimates and on unaudited results of operations of those partner companies and may require adjustments in the future when audits of these entities are made final. We report our share of the results of our equity method partner companies on a one quarter lag.

Year ended December 31, 2008 versus year ended December 31, 2007

Equity loss for Technology increased $5.4 million for the year ended December 31, 2008 compared to the prior year. The increase was due principally to larger losses incurred at certain partner companies and an impairment charge of $2.6 million related to our holdings in Authentium. Other loss for the year ended December 31, 2008 reflects a $2.3 million impairment charge for Kadoo.

Year ended December 31, 2007 versus year ended December 31, 2006

Equity loss for Technology increased $4.4 million for the year ended December 31, 2007 compared to the prior year. The increase was due to an increase in the number of equity method partner companies, each of which generated losses, and larger losses incurred at certain partner companies.

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Corporate Operations

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
General and administrative	$ (16,511)	$ (19,058)	$ (20,112)
Stock-based compensation	(1,738)	(3,530)	(4,037)
Depreciation	(166)	(195)	(197)
Interest income	3,076	7,460	6,703
Interest expense	(3,852)	(4,220)	(4,617)
Recovery (impairment) related party	5	12	360
Other income, net	12,526	242	5,441
Equity loss	(143)	(31)	(413)
	$ (6,803)	$ (19,320)	$ (16,872)

General and Administrative. Our general and administrative expenses consist primarily of employee compensation, insurance, outside services such as legal, accounting and consulting, and travel-related costs.

General and administrative expenses decreased $2.5 million in 2008 as compared to 2007. The decrease is largely attributable to a $1.7 million decrease in employee costs, a $2.2 million decrease in professional fees and a $0.2 million decrease in insurance costs offset by an increase in severance costs of $1.5 million due to an increase in the actuarial liability for amounts payable to our former Chairman and CEO under an ongoing agreement. General and administrative expenses decreased $1.1 million in 2007 as compared to 2006. The decrease was primarily related to reduced severance charges of $1.0 million in 2007 as compared to 2006, partially offset by a $0.4 million increase in employee costs and a $0.5 million increase in professional fees in 2007 as compared to 2006. We expect corporate general and administrative expenses to decline slightly in 2009.

Stock-Based Compensation. Stock-based compensation consists primarily of expense related to grants of stock options, restricted stock and deferred stock units to our employees.

The $1.8 million decrease in 2008 as compared to 2007 relates to stock option forfeitures during 2008 and higher expense in the prior year period due to the acceleration of stock-based compensation expense related to the market-based stock options. The decrease of $0.5 million for 2007 as compared to 2006 was attributable primarily to higher expense in 2006 due to vesting of market-based awards and due to the acceleration of vesting for certain service-based awards in 2006. Stock-based compensation expense related to market-based awards was $0.4 million, $1.7 million and $1.9 million in 2008, 2007 and 2006, respectively. Stock-based compensation expense related to service-based awards was $1.1 million, $1.8 million and $1.9 million in 2008, 2007 and 2006, respectively. Stock-based compensation expense related to corporate operations is included in Selling, general and administrative expenses in the Consolidated Statements of Operations.

Interest Income. Interest income includes all interest earned on cash and marketable security balances.

Interest income decreased $4.4 million in 2008 as compared to the prior year due to a decrease in interest rates and a decrease in average invested cash balances. Interest income increased $0.8 million in 2007 as compared to 2006 due to higher invested cash balances in 2007 as compared to 2006, partially offset by declining interest rates.

Interest Expense. Interest expense is primarily related to our 2024 Debentures.

Interest expense decreased $0.4 million in 2008 as compared to 2007. The decline was attributable to the repurchase of $43 million in face value of the 2024 Debentures in 2008. Interest expense decreased $0.4 million in 2007 as compared to 2006. The decline was attributable to the repurchase of $21 million in face value of the 2024 Debentures in 2006.

Recovery (Impairment) Related Party. In May 2001, we entered into a loan agreement with Mr. Musser, our former CEO, and in December 2006, we restructured the obligation so that we could obtain new collateral. The excess of cash received from the sale of collateral over our carrying value of the loan was reflected as Recovery related party in the

Consolidated Statements of Operations. Future cash receipts in excess of the carrying value of the note will be recognized as Recovery related party. The carrying value of the loan at December 31, 2008 was zero.

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Other Income, Net. Other income, net in 2008 included a net gain of $9.0 million on the repurchase of $43 million in face value of the 2024 Debentures, a $2.5 million net gain on the sale of companies, including the receipt of escrowed funds from a legacy asset and $1.0 gain on distributions from private equity funds. Included in 2006 was a net gain of $4.3 million on the repurchase of $21 million in face value of the 2024 Debentures.

Income Tax (Expense) Benefit

Our consolidated net income tax benefit for 2008, 2007 and 2006 was $0.0 million, $0.7 million and $1.3 million, respectively. We recognized a $0.0 million, $0.7 million and $1.3 million tax benefit in 2008, 2007 and 2006, respectively, related to uncertain tax positions for which the statute of limitations expired during the respective period in the applicable tax jurisdictions. We have recorded a valuation allowance to reduce our net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the net operating loss benefit that would have been recognized in 2008, 2007 and 2006 was offset by a valuation allowance.

Discontinued Operations

The following are reported in discontinued operations for all periods through their respective sale date.

In May 2008, we sold all of our equity and debt interests in Acsis, Alliance Consulting, Laureate Pharma, ProModel and Neuronyx. The gross proceeds from the Bundle Transaction were $74.5 million, of which $6.4 million is being held in escrow through April 2009. In the first quarter of 2008, we recognized an impairment loss of $3.6 million to write down the aggregate carrying value of the Bundle Companies to the total anticipated proceeds, less estimated costs to complete the Bundle Transaction. In the second quarter of 2008, prior to the completion of the Bundle Transaction, we recorded a net loss of $1.6 million in discontinued operations related to the operations of Acsis, Alliance Consulting and Laureate Pharma. In the second quarter of 2008 we recorded a charge of $0.9 million in discontinued operations to accrue for severance payments due to the former CEO of Alliance Consulting in connection with the Bundle Transaction and recorded a pre-tax gain on disposal of $1.4 million which is also recorded in discontinued operations.

In March 2007, we sold Pacific Title & Art Studio for net cash proceeds of approximately $21.9 million, including $2.3 million held in escrow. As a result of the sale, we recorded a pre-tax gain of $2.7 million in 2007. During 2008, we recorded charges totaling $2.7 million related to additional compensation paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007sale and related legal fees.

In March 2007, Clarient sold its technology business (which developed, manufactured and marketed the ACIS Automated Image Analysis System) and related intellectual property to Carl Zeiss MicroImaging, Inc. for cash proceeds of $11.0 million (excluding $1.5 million in contingent purchase price). As a result of the sale, Clarient recorded a pre-tax gain of $3.5 million in 2007. Goodwill of $2.1 million related to the technology business was included in discontinued operations.

In October 2006, we completed the sale of our interest in Mantas for net proceeds of $112.8 million, including $19.3 million held in escrow, to i-flex® solutions, ltd., an affiliate of Oracle Corporation. As a result of the sale, we recorded a gain of $83.9 million in 2006. Mantas sold its telecommunications business and certain related assets and liabilities in the first quarter of 2006 for $2.1 million in cash. As a result of the sale, Mantas recorded a gain of $1.9 million in the first quarter of 2006 which is also reported in discontinued operations.

Alliance Consulting completed the sale of its Southwest region business in May 2006 for proceeds of $4.5 million, including cash of $3.0 million and stock of the acquirer valued at $1.5 million, which was subsequently sold. As a result of the sale, Alliance Consulting recorded a gain of $1.6 million in 2006.

The loss from discontinued operations in 2008 of $9.2 million was primarily attributable to operating losses incurred by Acsis, Alliance Consulting and Laureate Pharma, the impairment loss recognized in the first quarter of 2008 related to the write down of the aggregate carrying value of the Bundle Companies to the anticipated net proceeds, $0.9 million charge to accrue for severance payments due the former CEO of Alliance Consulting and additional compensation paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007 sale and related legal fees. The loss from discontinued operations in 2007 of $19.4 million was attributable primarily to the operating losses incurred by Acsis, Alliance Consulting and Laureate Pharma, partially offset by the gain on the sale of Pacific Title & Art Studio and Clarient s technology group.

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The income from discontinued operations in 2006 of $71.8 million was attributable primarily to the gain on the sale of Mantas and the gain on sale of Alliance Consulting s Southwest region business partially offset by the operating losses incurred by Acsis and Laureate Pharma.

Liquidity And Capital Resources

Parent Company

We fund our operations with cash on hand as well as proceeds from sales of and distributions from partner companies, private equity funds and marketable securities. In prior periods, we have also used sales of our equity and issuance of debt as sources of liquidity and may do so in the future. Our ability to generate liquidity from sales of partner companies, sales of marketable securities and from equity and debt issuances has been adversely affected from time to time by adverse circumstances in the U.S. capital markets and other factors.

As of December 31, 2008, at the parent company level, we had $73.2 million of cash and cash equivalents and $14.7 million of marketable securities for a total of $87.9 million. In addition to the amounts above, we had $2.0 million in escrow associated with our interest payments due on our 2024 Debentures through March 2009, $6.9 million of cash held in escrow, including accrued interest, and Clarient, our consolidated partner company, had cash and cash equivalents of $1.8 million.

The Bundle Transaction was consummated on May 6, 2008. Gross proceeds were $74.5 million in cash, of which $6.4 million is being held in escrow through April 2009, plus amounts advanced to certain of the Bundle Companies during the time between the signing of the Bundle Transaction agreement and its consummation. Guarantees of partner company facilities of $31.5 million were eliminated upon the closing of the Bundle Transaction.

In April 2008, we received net cash proceeds of $20.5 million that were released from escrow related to our October 2006 sale of Mantas, Inc. and in September 2008, we received $1.8 million cash proceeds that were released from escrow related to our March 2007 sale of Pacific Title & Art Studio.

In February 2004, we completed the sale of the 2024 Debentures. At December 31, 2008, we had $86.0 million in face value of the 2024 Debentures outstanding. Interest on the 2024 Debentures is payable semi-annually. At the holders option, the 2024 Debentures are convertible into our common stock before the close of business on March 14, 2024 subject to certain conditions. The conversion rate of the 2024 Debentures is $7.2174 of principal amount per share. The closing price of our common stock on December 31, 2008 was $0.69. The 2024 Debentures holders have the right to require repurchase of the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective face amount, plus accrued and unpaid interest. The 2024 Debentures holders also have the right to require repurchase of the 2024 Debentures upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution, a change in control or the delisting of our common stock from the NYSE if we were unable to obtain a listing for our common stock on another national or regional securities exchange. Subject to certain conditions, we have the right to redeem all or some of the 2024 Debentures commencing March 20, 2009.

During 2008, we repurchased $43.0 million in face value of the 2024 debentures for $33.5 million in cash, including accrued interest. In connection with the repurchases, we recorded $0.5 million of expense related to the acceleration of deferred debt issuance costs associated with the 2024 Debentures, resulting in a net gain of $9.0 million which was included in other income. During 2006, we repurchased $21.0 million in face value of the 2024 Debentures for $16.4 million in cash, including accrued interest.

In May 2008, our Board of Directors authorized us, from time to time and depending on market conditions, to repurchase shares of our outstanding common stock, with up to an aggregate value of $10.0 million, exclusive of fees and commissions. During the year ended December 31, 2008, we repurchased approximately 975 thousand shares of common stock at a cost of $1.3 million. These repurchases, as well as any repurchases of 2024 Debentures, have been and will be made in open market or privately negotiated transactions in compliance with the U.S. Securities and Exchange Commission regulations and other applicable legal requirements. The manner, timing and amount of any purchases have been and will be determined by us based upon an evaluation of market conditions, stock price and other factors. Our Board of Directors authorizations regarding common stock and 2024 Debentures repurchases do not obligate us to acquire any particular amount of common stock or 2024 Debentures and may be modified or suspended at any time at our discretion.

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At December 31, 2008, we maintained a revolving credit facility that provided for borrowings and issuances of letters of credit and guarantees up to $30.0 million. Borrowing availability under the facility was reduced by the amounts outstanding for our borrowings and letters of credit and amounts guaranteed under Clarient s facility maintained with that same lender. This credit facility bore interest at the prime rate (3.25% at December 31, 2008) for outstanding borrowings. The credit facility was subject to an unused commitment fee of 0.125% per annum, subject to reduction based on deposits maintained at the bank. The credit facility required us to maintain an unrestricted cash collateral account at that same bank, equal to our borrowings and letters of credit and amounts borrowed by Clarient under the guaranteed portion of its facility maintained with that same bank. At December 31, 2008, the required cash collateral pursuant to the credit facility agreement was $17.9 million, which amount is included within Cash and cash equivalents on our Consolidated Balance Sheet as of December 31, 2008.
Availability under our revolving credit facility at December 31, 2008 was as follows:

	Total (In Thousands)
Size of credit facility	$ 30,000
Guarantees of Clarient s facility at same bank (a)	(12,300)
Outstanding letter of credit (b)	(6,336)
Amount available at December 31, 2008	$ 11,364

(a) Our ability to borrow under the credit facility was limited by the amounts outstanding for our borrowings and letters of credit and amounts guaranteed under partner company facilities maintained at the same bank. Of the total facilities, $9.0 million was outstanding under this facility at December 31, 2008 and was included as debt on the

Consolidated Balance Sheet.

(b) In connection with the sale of CompuCom, we provided to the landlord of CompuCom s Dallas headquarters, a $6.3 million letter of credit, which will expire on March 19, 2019.

On February 6, 2009 we entered into a new loan agreement with a different commercial bank which provides us with a revolving credit facility in the maximum aggregate amount of $50 million. Actual availability under the credit facility will be based on the amount of cash we maintain at the bank as well as certain percentages of the value of our public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, we are required to maintain all of our depository and operating accounts and not less than 75% of our investment and securities accounts at the bank. The credit facility matures on December 31, 2010.

In conjunction with the execution of our new loan agreement, we are terminating our prior revolving credit facility. Notwithstanding such termination, we will continue to guaranty the obligations of Clarient under its continuing credit facility with the bank, which matures on March 30, 2010, and will maintain a cash account at the bank in the minimum amount of $12.3 million to support such guaranty.

We have committed capital of approximately $8.1 million, including conditional commitments to provide non-consolidated partner companies with additional funding and commitments made to various private equity funds in prior years. These commitments will be funded over the next several years, including approximately $6.5 million which is expected to be funded in the next 12 months.

The transactions we enter into in pursuit of our strategy could increase or decrease our liquidity at any point in time. As we seek to acquire interests in technology and life sciences companies, provide additional funding to existing partner companies, or commit capital to other initiatives, we may be required to expend our cash or incur debt, which will decrease our liquidity. Conversely, as we dispose of our interests in partner companies from time to time, we may receive proceeds from such sales, which could increase our liquidity. From time to time, we are engaged in discussions concerning acquisitions and dispositions which, if consummated, could impact our liquidity, perhaps significantly.

In May 2001, we entered into a $26.5 million loan agreement with Warren V. Musser, our former Chairman and Chief Executive Officer. In December 2006, we restructured the obligation to reduce the amount outstanding to $14.8 million, bearing interest at a rate of 5.0% per annum. Cash payments, when received, are recognized as Recovery related party in our Consolidated Statements of Operations. Since 2001 and through December 31, 2008, we received a total of $16.3 million in cash payments on the loan, of which $5 thousand was received during 2008. The carrying value of the loan at December 31, 2008 was zero.

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We have received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for further distribution to such fund s limited partners (the clawback). The maximum clawback we could be required to return for our general partner interest is $3.6 million, of which $2.5 million was reflected in accrued expenses and other current liabilities and $1.1 million was reflected in Other long-term liabilities on the Consolidated Balance Sheet at December 31, 2008. We paid $3.0 million of our estimated clawback liabilities in 2008.

Our previous ownership in the general partners of the funds that have potential clawback liabilities ranges from 19-30%. The clawback liability is joint and several, such that we may be required to fund the clawback for other general partners should they default. The funds have taken several steps to reduce the potential liabilities should other general partners default, including withholding all general partner distributions and placing them in escrow and adding rights of set-off among certain funds. We believe our potential liability due to the possibility of default by other general partners is remote.

For the reasons we presented above, we believe our cash and cash equivalents at December 31, 2008, availability under our revolving credit facility and other internal sources of cash flow will be sufficient to fund our cash requirements for at least the next 12 months, including commitments to our existing companies and funds, possible additional funding of existing partner companies and our general corporate requirements. Our acquisition of new partner company interests is always contingent upon our availability of cash to fund such deployments, and our timing of monetization events directly affects our availability of cash.

Consolidated Partner Company

Clarient, our consolidated partner company, incurred operating losses in 2008 and may need additional capital to fund its operations. From time to time, Clarient may require additional debt or equity financing or credit support from us to fund planned expansion activities. If we decide not to, or cannot provide sufficient capital resources to allow them to reach a positive cash flow position, and they are unable to raise capital from outside resources, they may need to scale back their operations. As described below, we have renewed, expanded and extended a revolving line of credit to Clarient.

Clarient maintains a $12.0 million revolving credit agreement with a bank which was amended and restated on February 27, 2009. This facility contains financial and non-financial covenants and matures March 31, 2010.

On July 31, 2008, Clarient entered into a separate $8.0 million secured credit agreement with a finance company which was amended and restated on February 27, 2009. The secured credit agreement expires on January 31, 2010. Actual availability under the facility is limited by Clarient s qualified accounts receivable and certain liquidity factors. Clarient reduced indebtedness to us under the Mezzanine Facility (defined below) with a portion of the proceeds borrowed under the revolving credit facility.

In March 2007, we provided a subordinated revolving credit line (the Mezzanine Facility) to Clarient. Under the Mezzanine Facility, we committed to provide Clarient access to up to $12.0 million in working capital funding, which was reduced to $6.0 million as a result of the ACIS Sale. The Mezzanine Facility originally had a term expiring on December 8, 2008. On March 14, 2008, the Mezzanine Facility was extended through April 15, 2009, and increased from $6.0 million to $21.0 million. In connection with the extension and increase of the Mezzanine Facility, the Company received from Clarient five-year warrants to purchase shares of Clarient common stock with an exercise price of $0.01 per share. The Company received 1.6 million of these warrants at the time of the extension of the Mezzanine Facility and the Company received an additional 1.7 million warrants through September 2, 2008, based on the amount of borrowings remaining outstanding under the Mezzanine Facility at certain interim dates. The Mezzanine Facility was subject to reduction to $6.0 million under certain circumstances involving the completion of replacement financing by Clarient. At December 31, 2008, $13.4 million was outstanding under the Mezzanine Facility.

On February 27, 2009 Clarient further refinanced, renewed and expanded the Mezzanine Facility. In connection with such renewal, Clarient issued us fully vested five-year warrants to purchase 500,000 shares of Clarient common stock at an exercise price of $1.376 (Clarient s 20-day trailing close price of its common stock as of February 6, 2009). The Mezzanine Facility as amended has a maturity date of April 1, 2010, and provides Clarient with up to $30.0 million in working capital funding. Borrowings under the Mezzanine Facility will bear interest at an annual rate of 14.0%.

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In September 2006, Clarient entered into a $5.0 million senior secured revolving credit agreement with a third party lender. Borrowing availability under the agreement was based on the amount of Clarient s qualified accounts receivable, less certain reserves. The agreement bore interest at variable rates based on the lower of 30-day LIBOR plus 3.25% or the prime rate plus 0.5%. On March 17, 2008, Clarient borrowed $4.6 million under the Mezzanine Facility to repay and terminate this facility, and borrowed $2.8 million under the Mezzanine Facility to repay and terminate its equipment line of credit with the same lender.

As reported in its Form 10-K for the year ended December 31, 2008, Clarient s independent auditors have determined that there is substantial doubt about Clarient s ability to continue as a going concern. Clarient s credit facilities with its lenders contain certain covenants which require compliance. In order for Clarient to comply with its financial covenants contained within its credit facilities with its third party lenders, as amended in February 2009 (see Note 7), its results of operations and level of cash collections in 2009 and beyond must exceed its 2008 results, and such outcome is uncertain.

Failure to maintain compliance with the financial and/or certain other covenants contained within Clarient s credit facilities would constitute an event of default under the respective credit facility and by agreement, would result in a cross-default for the other credit facilities. If Clarient were not able to obtain a waiver of default from its lenders, Clarient s borrowings under the respective credit facilities would immediately become due and payable. There can be no assurance that Clarient would be able to obtain waivers from existing third party lenders or fully access its existing financing sources in the event of default.

At December 31, 2008, Clarient did not have sufficient cash availability to repay its credit facilities which will be due in the first quarter of 2010. In addition, Clarient has incurred recurring losses and negative cash flows from operations. Clarient is currently in the process of evaluating certain financing alternatives in light of the stated maturity dates of its current credit arrangements. Due to Clarient s financial condition and the ongoing turmoil in the financial and credit markets, Clarient s ability to obtain extensions to its existing third party credit facilities, or to obtain new credit facilities, may be adversely affected. There can be no assurance that Clarient will be able to obtain financing on terms that are favorable to Clarient, or obtain additional or extended financing at all. As a result, there is a substantial doubt about Clarient s ability to continue as a going concern.

Analysis of Parent Company Cash Flows

Cash flow activity for the Parent Company was as follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
		(In thousands)	
Net cash used in operating activities	$ (14,124)	$ (16,777)	$ (12,039)
Net cash provided by (used in) investing activities	27,327	50,788	(16,159)
Net cash provided by (used in) financing activities	(34,675)	741	(20,169)
	$ (21,472)	$ 34,752	$ (48,367)

Cash Used In Operating Activities

Year ended December 31, 2008 versus year ended December 31, 2007. Net cash used in operating activities decreased $2.7 million in 2008 as compared to 2007. The decrease was primarily due to lower corporate operating expenditures.

Year ended December 31, 2007 versus year ended December 31, 2006. Cash used in operating activities increased $4.7 million in 2007 as compared to 2006, The increase was primarily due to cash payments of $2.0 million for severance in 2007 and professional fees related to the Bundle Transaction and changes in working capital.

Cash Provided by (Used In) Investing Activities

Year ended December 31, 2008 versus year ended December 31, 2007. Net cash provided by investing activities decreased $23.5 million in 2008 as compared to 2007. The decrease was attributable to a $107.7 million net increase in marketable securities and a $12.6 million increase in advances to partner companies offset by a $64.9 million increase in proceeds from the sale of discontinued operations and a $30.5 million decrease in the acquisition of

ownership interests in companies and funds, net of cash acquired.

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Year ended December 31, 2007 versus year ended December 31, 2006. Cash provided by investing activities increased $66.9 million in 2007 compared to 2006. The increase was primarily due to a $155.9 million net decrease in marketable securities partially offset by a $73.8 million decrease in proceeds from sale of discontinued operations and an $8.4 million increase in the acquisition of ownership interests in companies and funds, net of cash acquired.

Cash Provided by (Used In) Financing Activities

Year ended December 31, 2008 versus year ended December 31, 2007. Net cash used in financing activities increased $35.4 million in 2008 as compared to 2007. The increase was primarily attributable to $33.5 million in repurchases of our 2024 Debentures, excluding accrued interest and $1.3 million in purchases of treasury stock.

Year ended December 31, 2007 versus year ended December 31, 2006. Cash provided by financing activities increased $20.9 million in 2007 as compared to 2006, primarily due to the repurchase of our 2024 Debentures, excluding accrued interest, for $16.2 million and the repayment of intercompany advances from a partner company of $5.5 million in 2006.

Consolidated Working Capital From Continuing Operations

Consolidated working capital from continuing operations decreased to $88.4 at December 31, 2008 compared to $97.2 at December 31, 2007. The decrease was primarily due to the Bundle transaction (see Note 2).

Analysis of Consolidated Cash Flows

Cash flow activity was as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net cash used in operating activities	$ (21,514)	$ (36,253)	$ (18,379)
Net cash provided by (used in) investing activities	32,805	53,063	(27,590)
Net cash provided by (used in) financing activities	(31,386)	17,500	(5,527)
	$ (20,095)	$ 34,310	$ (51,496)

Cash Used In Operating Activities

Year ended December 31, 2008 versus year ended December 31, 2007. Net cash used in operating activities decreased $14.7 million in 2008 as compared to 2007. The decrease was primarily attributable to a $7.0 million increase in accounts payable and accrued expenses, $4.9 million decrease in the cash outflows from discontinued operations and a $13.9 million decrease in net loss, partially offset by a $14.2 million increase in accounts receivable.

Year ended December 31, 2007 versus year ended December 31, 2006. Net cash used in operating activities increased $17.9 million in 2007 as compared to 2006. The increase was primarily due to the current year results of continuing operations and unfavorable changes in working capital.

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Cash Provided by (Used In) Investing Activities

Year ended December 31, 2008 versus year ended December 31, 2007. Net cash provided by investing activities decreased $20.3 million in 2008 as compared to 2007. The decrease was attributable to a $107.7 million net increase in marketable securities offset by a $53.8 million increase in proceeds from the sale of discontinued operations, a $4.9 million decrease in cash used in discontinued operations and a $30.5 million decrease in the acquisition of ownership interests in companies and funds, net of cash acquired.

Year ended December 31, 2007 versus year ended December 31, 2006. Net cash provided by investing activities increased $80.7 million in 2007 as compared to 2006. The increase was primarily due to a $156.0 million net decrease in marketable securities, an $8.5 million decrease in the cash used in discontinued operations offset by a $65.1 million decrease in proceeds from sale of discontinued operations and a $17.5 million increase in the acquisition of ownership interests in companies and funds, net of cash acquired.

Cash Provided by (Used In) Financing Activities

Year ended December 31, 2008 versus year ended December 31, 2007. Net cash used in financing activities increased $48.9 million in 2008 as compared to 2007. The increase was attributable to a $33.5 million in repurchases of our 2024 Debentures, excluding accrued interest, $6.8 million increase in net repayments on revolving credit facilities, $1.3 million in purchases of treasury stock and a $6.9 million decrease in the cash inflows from financing activities of discontinued operations.

Year ended December 31, 2007 versus year ended December 31, 2006. Cash provided by financing activities increased $23.0 million in 2007 as compared to 2006, primarily due to the repurchase of a portion of our 2024 Debentures for $16.2 million, excluding accrued interest, in 2006. Also contributing to the current year increase in cash provided by financing activities was a $2.6 million net increase in borrowings under revolving credit facilities and a $2.6 million net increase in borrowings on term debt.

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Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations and other commercial commitments as of December 31, 2008, by period due or expiration of the commitment.

	Payments Due by Period				
	Total	2009	2010 and 2011	2012 and 2013	Due after 2013
			(In millions)		
Contractual Cash Obligations:					
Lines of credit(a)	$ 14.1	$ 14.1	$	$	$
Capital leases	0.6	0.3	0.3		
Convertible senior debentures(b)	86.0				86.0
Operating leases	14.6	2.1	4.4	4.4	3.7
Funding commitments(c)	8.1	6.5	1.6		
Potential clawback liabilities(d)	3.6	2.5	1.1		
Other long-term obligations(e)	4.2	0.8	1.5	1.5	0.4
Total Contractual Cash Obligations	$ 131.2	$ 26.3	$ 8.9	$ 5.9	$ 90.1

	Amount of Commitment Expiration by Period				
	Total	2009	2010 and 2011	2012 and 2013	After 2013
			(In millions)		
Other Commitments:					
Letters of credit(f)	$ 8.6	$	$	$	$ 8.6

(a) Clarient maintains a commercial bank credit facility which we guarantee. Outstanding borrowings under the credit facility amounted to $9.0 million at December 31, 2008. In addition, Clarient had $5.1 million outstanding at December 31, 2008 under a senior secured revolving credit agreement that is

secured by Clarient s accounts receivable and related assets.

(b) In February 2004, we completed the issuance of $150.0 million of the 2024 Debentures with a stated maturity of March 15, 2024. During 2008 and 2006, we repurchased $43.0 million and $21.0 million, respectively, in face value of the 2024 Debentures. The 2024 Debentures holders have the right to require the Company to repurchase the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective face amount, plus accrued and unpaid interest.

(c) These amounts include funding commitments to private equity funds which have been included in the respective years based on estimated timing of capital calls

provided to us by the funds management. Also included are $6.8 million conditional commitments to provide non-consolidated partner companies with additional funding.

(d) We have received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for a further distribution to such fund s limited partners (the clawback). The maximum clawback we could be required to return is approximately $3.6 million, of which $2.5 million was reflected in Accrued expenses and other current liabilities and $1.1 million was reflected in Other

long-term liabilities on the Consolidated Balance Sheets.

(e) Reflects the estimated amount payable to our former Chairman and CEO under an ongoing agreement.

(f) Letters of credit include a $6.3 million letter of credit provided to the landlord of CompuCom s Dallas headquarters lease in connection with the sale of CompuCom and a $2.3 million of letter of credit issued by Clarient to its landlord under its facility lease agreement.

We have agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or if the employee terminates his employment for good reason. The maximum aggregate cash exposure under the agreements was approximately $8 million at December 31, 2008.

As of December 31, 2008, Safeguard and its partner companies that are consolidated for tax purposes had federal net operating loss carryforwards and federal capital loss carryforwards of approximately $213 million and $182 million, respectively. The net operating loss carryforwards expire in various amounts from 2009 to 2026. The capital loss carryforwards expire in various amounts from 2009 to 2011. Limitations on utilization of both the net operating loss carryforwards and capital loss carryforwards may apply.

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position or results of operations.

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Recent Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement 142. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact, if any, of adopting FSP FAS 142-3 on our Consolidated Financial Statements.

In November 2008, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 08-6, Equity Method Accounting Considerations . EITF 08-6 continues to follow the accounting for the initial carrying value of equity method investments in APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock , which is based on a cost accumulation model and generally excludes contingent consideration. EITF 08-6 also specifies that other-than-temporary impairment testing by the investor should be performed at the investment level and that a separate impairment assessment of the underlying assets is not required. An impairment charge by the investee should result in an adjustment of the investor s basis of the impaired asset for the investor s pro-rata share of such impairment In addition, EITF 08-6 reached a consensus on how to account for an issuance of shares by an investee that reduces the investor s ownership share of the investee. An investor should account for such transactions as if it had sold a proportionate share of its investment with ay gains or losses recorded through earnings. EITF 08-6 also addresses the accounting for a change in an investment from the equity method to the cost method after adoption of Statement 160. EITF 08-6 affirms the existing guidance in APB 18, which requires cessation of the equity method of accounting and application of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities , or the cost method under APB 18 as appropriate. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008. We are currently evaluating the impact, if any, of adopting EITF 08-6 on our Consolidated Financial Statements.

In October 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP FAS157-3) which clarifies the application of SFAS No. 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of FSP FAS157-3 did not have a material impact on our Consolidated Financial Statements.

In June 2008, the Emerging Issues Task Force (EITF) ratified Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock (EITF 07-5). EITF 07-5 clarifies how to determine whether certain instruments or features were indexed to an entity s own stock. The consensus will replace EITF 01-6 as a critical component of the literature applied to evaluating financial instruments for debt or equity classification and embedded features for bifurcation as derivatives. EITF 07-5 will become effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently analyzing the impact on our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). SFAS No. 159 allows companies to choose, at specific election dates, to measure eligible financial assets and liabilities that are not otherwise required to be measured at fair value, at fair value. Under SFAS No. 159, companies would report unrealized gains and losses for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize up-front costs and fees related to those items in earnings as incurred. SFAS No. 159 became effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material impact on our Consolidated Financial Statements due to our election to not measure partner company holdings at fair value.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. The requirements of SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed

at fair value in the financial statements on a nonrecurring basis until the subsequent year. The adoption of SFAS No. 157 did not have a material impact on our Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS No. 141(R) significantly changes the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date at fair value with limited exceptions. SFAS No. 141(R) further changes the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (formerly known as minority interests see SFAS No. 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development (IPR&D) will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141(R) includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of non-controlling interests (minority interests) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to non-controlling interests will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation are treated as equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS No. 160 is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 160 will result in the reclassification of minority interests from long-term liabilities to shareholders equity. Minority interest at December 31, 2008 was $0 million.

In May 2008, the FASB issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources for generally accepted accounting principles (GAAP) in the U.S. and lists the categories in descending order. An entity should follow the highest category of GAAP applicable for each of its accounting transactions. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS No. 162 did not have any effect on our Consolidated Financial Statements.

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Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to equity price risks on the marketable portion of our securities. At December 31, 2008, these securities include our equity position in Clarient, our only publicly-traded partner company, which has experienced significant volatility in its stock price. Historically, we have not attempted to reduce or eliminate our market exposure on publicly-traded securities. Based on closing market prices at December 31, 2008, the fair market value of our holdings in Clarient was approximately $75.8 million. A 20% decrease in Clarient s stock price would result in an approximate $15.2 million decrease in the fair value of our holdings in Clarient.

In February 2004, we completed the issuance of $150.0 million of our 2024 Debentures with a stated maturity of March 15, 2024. During 2008 and 2006, we repurchased $43.0 million and $21.0 million, respectively, in face value of the 2024 Debentures. Interest payments of approximately $1.1 million each are due March and September of each year. The holders of these 2024 Debentures have the right to require repurchase of the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their face amount plus accrued and unpaid interest. On October 8, 2004, we used approximately $16.7 million of the proceeds from the CompuCom sale to escrow interest payments due through March 15, 2009.

Liabilities	**2009**	**2010**	**2011**	**After 2011**	**Fair Value at December 31, 2008**
2024 Debentures due by year (in millions)	$	$	$	$ 86.0	$ 60.0
Fixed interest rate	2.625%	2.625%	2.625%	2.625%	N/A
Interest expense (in millions)	$ 2.3	$ 2.3	$ 2.3	$ 27.6	N/A

Our outstanding debt at December 31, 2008, exclusive of our 2024 Debentures, totaled $14.7 million, which consisted of fixed-rate debt of $0.6 million and variable-rate debt of $14.1 million. Based on our 2008 average outstanding borrowings under our variable-rate debt, a one-percentage point increase in interest rates would negatively impact our annual pre-tax earnings and cash flows by approximately $0.1 million. The fair value of our debt, exclusive of our 2024 Debentures, approximates carrying value.

We have historically had very low exposure to changes in foreign currency exchange rates, and as such, have not used derivative financial instruments to manage foreign currency fluctuation risk.

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Item 8. ***Financial Statements and Supplementary Data***

The following Consolidated Financial Statements, and the related Notes thereto, of Safeguard Scientifics, Inc. and the Reports of Independent Registered Public Accounting Firm are filed as a part of this Form 10-K.

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Report of Independent Registered Public Accounting Firm	53
Report of Independent Registered Public Accounting Firm	54
Consolidated Balance Sheets as of December 31, 2008 and 2007	55
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006	56
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2008, 2007 and 2006	57
Consolidated Statements of Shareholders Equity for the years ended December 31, 2008, 2007 and 2006	58
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	59
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Safeguard Scientifics, Inc.:

We have audited Safeguard Scientifics, Inc. s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Safeguard Scientifics, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting (Item 9A.(b)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management s assessment: (i) ineffective policies and procedures for ensuring financial reporting risks, including changes therein, are identified timely and corresponding control activities are implemented, (ii) inadequately designed controls to ensure the accuracy of pricing and contractual allowance information entered into the Company s in-house billing system and (iii) inadequately designed and maintained controls over the estimate of the allowance for doubtful accounts.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Safeguard Scientifics, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income (loss), shareholder s equity and cash flows for each of the years in the three-year period ended December 31, 2008. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 consolidated financial statements, and this report does not affect our report dated March 19, 2009, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, Safeguard Scientifics, Inc. has not maintained effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the

Committee of Sponsoring Organizations of the Treadway Commission.
/s/ KPMG LLP
Philadelphia, Pennsylvania
March 19, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Safeguard Scientifics, Inc.:

We have audited the accompanying consolidated balance sheets of Safeguard Scientifics, Inc. (the Company) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Safeguard Scientifics, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the consolidated financials statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Safeguard Scientifics, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 19, 2009 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
Philadelphia, Pennsylvania
March 19, 2009

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED BALANCE SHEETS

	As of December 31, 2008	2007
	(In thousands except per share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 75,051	$ 96,201
Cash held in escrow current	6,433	20,345
Marketable securities	14,701	590
Restricted marketable securities	1,990	3,904
Accounts receivable, less allowances ($8,045 2008; $3,370 2007)	20,465	12,702
Prepaid expenses and other current assets	1,507	1,755
Assets held for sale		1,465
Current assets of discontinued operations		32,867
Total current assets	120,147	169,829
Property and equipment, net	12,369	11,714
Ownership interests in and advances to companies	85,561	90,038
Long-term restricted marketable securities		1,949
Goodwill	12,729	12,729
Cash held in escrow long term	501	2,341
Other	1,095	2,342
Non-current assets of discontinued operations		99,420
Total Assets	$ 232,402	$ 390,362
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current portion of credit line borrowings	$ 14,104	$ 13,997
Current maturities of long-term debt	263	1,510
Accounts payable	3,337	3,134
Accrued compensation and benefits	5,758	6,934
Accrued expenses and other current liabilities	8,285	14,203
Current liabilities of discontinued operations		50,132
Total current liabilities	31,747	89,910
Long-term debt	345	906
Other long-term liabilities	9,600	9,111
Convertible senior debentures	86,000	129,000
Minority interest		2,296
Non-current liabilities of discontinued operations		5,916
Commitments and contingencies		
Redeemable consolidated partner company stock-based compensation		84
Shareholders Equity:		
Preferred stock, $0.10 par value; 1,000 shares authorized		

Common stock, $0.10 par value; 500,000 shares authorized; 121,589 and 121,123 shares issued and outstanding in 2008 and 2007, respectively	12,159	12,112
Additional paid-in capital	763,323	758,515
Accumulated deficit	(669,526)	(617,513)
Accumulated other comprehensive income (loss)	(29)	25
Treasury stock, at cost	(1,217)	
Total shareholders equity	104,710	153,139
Total Liabilities and Shareholders Equity	$ 232,402	$ 390,362

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	2007	2006
	(In thousands except per share data)		
Revenue	$ 73,736	$ 42,995	$ 27,723
Operating Expenses:			
Cost of sales	33,007	26,914	19,824
Selling, general and administrative	60,744	50,783	44,924
Total operating expenses	93,751	77,697	64,748
Operating loss	(20,015)	(34,702)	(37,025)
Other income (loss), net	10,275	(5,089)	5,402
Recovery related party	5	12	360
Interest income	3,097	7,520	6,805
Interest expense	(4,732)	(5,489)	(5,203)
Equity loss	(34,697)	(15,178)	(3,732)
Minority interest	3,264	5,749	5,721
Net loss from continuing operations before income taxes	(42,803)	(47,177)	(27,672)
Income tax benefit	26	696	1,270
Net loss from continuing operations	(42,777)	(46,481)	(26,402)
Income (loss) from discontinued operations, net of tax	(9,236)	(19,387)	71,845
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443
Basic and Diluted Income (Loss) Per Share:			
Net loss from continuing operations	$ (0.35)	$ (0.38)	$ (0.22)
Net income (loss) from discontinued operations	(0.07)	(0.16)	0.59
Net income (loss) per share	$ (0.42)	$ (0.54)	$ 0.37
Shares used in computing basic and diluted income (loss) per share	122,767	122,352	121,476

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Net loss from continuing operations	$ (42,777)	$ (46,481)	$ (26,402)
Other comprehensive income (loss), before taxes:			
Foreign currency translation adjustments		(77)	27
Holding losses on available-for-sale securities		(487)	(2,824)
Other comprehensive loss from continuing operations		(564)	(2,797)
Comprehensive loss from continuing operations	(42,777)	(47,045)	(29,199)
Income (loss) from discontinued operations	(9,236)	(19,387)	71,845
Other comprehensive income (loss) from discontinued operations	(54)	53	167
Comprehensive income (loss)	$ (52,067)	$ (66,379)	$ 42,813

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock		Additional		Accumulated Other Comprehensive	Treasury Stock		Unamortized	
	Shares	Amount	Paid-In Capital	Accumulated Deficit	Income (Loss)	Shares	Amount	Deferred Compensation	Total
				(In thousands)					
Balance December 31, 2005	119,935	$ 11,993	$ 747,953	$ (597,088)	$ 3,166	2	$ (6)	$ (1,043)	$ 164,975
Net income				45,443					45,443
Stock options exercised, net	236	25	346			(2)	6		377
Reclassification of unamortized deferred compensation			(1,043)					1,043	
Reclassification of redeemable subsidiary stock-based compensation			(2,021)						(2,021)
Impact of subsidiary equity transactions			(1,763)						(1,763)
Issuance of restricted stock, net	248	24	47						71
Stock-based compensation expense continuing and discontinued operations			6,842						6,842
Other comprehensive loss					(2,630)				(2,630)
	120,419	12,042	750,361	(551,645)	536				211,294

Balance December 31, 2006								
Net loss				(65,868)				(65,868)
Stock options exercised, net	492	49	692					741
Change in redeemable subsidiary stock-based compensation			937					937
Issuance of restricted stock, net	212	21	146					167
Stock-based compensation expense continuing and discontinued operations			6,379					6,379
Other comprehensive loss					(511)			(511)
Balance December 31, 2007	121,123	12,112	758,515	(617,513)	25			153,139
Net loss				(52,013)				(52,013)
Stock options exercised, net	25	3	30			(74)	82	115
Issuance of restricted stock, net	441	44	214			28	(3)	255
Stock-based compensation expense continuing and discontinued operations			3,911					3,911
						975	(1,296)	(1,296)

Repurchase of common stock									
Gain on change in interest of equity method partner company			653						653
Other comprehensive loss					(54)				(54)
Balance December 31, 2008	121,589	$ 12,159	$ 763,323	$ (669,526)	$ (29)	929	$ (1,217)	$	$ 104,710

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cash Flows from Operating Activities:			
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443
Adjustments to reconcile to net cash used in operating activities:			
(Income) loss from discontinued operations	9,236	19,387	(71,845)
Depreciation and amortization	3,551	3,662	3,237
Deferred income taxes			
Equity loss	34,697	15,178	3,732
Other (income) loss, net	(10,275)	5,089	(5,402)
Bad debt expense	12,199	3,558	549
Recovery related party			(360)
Non-cash stock-based compensation expense	3,449	5,350	5,248
Minority interest	(3,264)	(5,749)	(5,721)
Changes in assets and liabilities, net of effect of acquisitions and dispositions:			
Accounts receivable, net	(20,495)	(6,318)	(4,901)
Accounts payable, accrued expenses, deferred revenue and other	4,689	(2,339)	3,402
Cash flows from operating activities of discontinued operations	(3,288)	(8,203)	8,239
Net cash used in operating activities	(21,514)	(36,253)	(18,379)
Cash Flows from Investing Activities:			
Proceeds from sales of available-for-sale and trading securities			3,551
Proceeds from sales of and distributions from companies and funds	4,263	2,783	1,530
Advances to partner companies	(4,210)	(682)	
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(30,496)	(61,025)	(43,525)
Acquisitions by partner companies, net of cash acquired			(47)
Repayment of note receivable-related party, net			360
Increase in marketable securities	(75,809)	(111,858)	(208,514)
Decrease in marketable securities	61,698	205,422	146,129
Proceeds from sales of property and equipment			415
Capital expenditures	(3,530)	(3,625)	(6,673)
Capitalized software costs		(156)	
Proceeds from sale of discontinued operations, net	83,756	29,967	95,044
Other, net			424
Cash flows from investing activities of discontinued operations	(2,867)	(7,763)	(16,284)
Net cash provided by (used in) investing activities	32,805	53,063	(27,590)

Cash Flows from Financing Activities:			
Repurchase of convertible senior debentures	(33,494)		(16,215)
Borrowings on revolving credit facilities	37,633	34,797	10,667
Repayments on revolving credit facilities	(37,526)	(28,766)	(2,335)
Borrowings on term debt		449	2,695
Repayments on term debt	(2,574)	(2,128)	(2,964)
Issuance of Company common stock, net	115		448
Issuance of subsidiary common stock, net	966	741	(5,568)
Purchase of subsidiary common stock, net	(1,296)	691	(1,112)
Offering costs on issuance of subsidiary common stock			(70)
Other, net			1,246
Cash flows from financing activities of discontinued operations	4,790	11,716	7,681
Net cash provided by (used in) financing activities	(31,386)	17,500	(5,527)
Net Increase (Decrease) in Cash and Cash Equivalents	(20,095)	34,310	(51,496)
Changes in Cash and Cash Equivalents from, and Advances to Acsis, Alliance Consulting, Laureate Pharma, Pacific Title & Art Studio and Mantas included in assets of discontinued operations	(1,055)	1,510	(5,756)
	(21,150)	35,820	(57,252)
Cash and Cash Equivalents at beginning of period	96,201	60,381	117,633
Cash and Cash Equivalents at end of period	$ 75,051	$ 96,201	$ 60,381

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Description of the Company

Safeguard Scientifics, Inc. (Safeguard or the Company) seeks to build value in growth-stage technology and life sciences businesses. The Company provides capital as well as a range of strategic, operational and management resources to our partner companies. The Company participates in expansion financings, corporate spin-outs, management buy-outs, recapitalizations, industry consolidations and early-stage financings. The Company s vision is to be the preferred catalyst for creating great technology and life sciences companies.

The Company strives to create long-term value for its shareholders through building value in its partner companies. Safeguard helps its partner companies in their efforts to increase market penetration, grow revenue and improve cash flow in order to create long-term value. The Company concentrates on companies that operate in two categories:

Technology including companies focused on providing software as a service (SaaS), technology-enabled services and vertical software solutions for healthcare information technology, the financial services sector and internet-based businesses; and

Life Sciences including companies focused on molecular and point-of-care diagnostics, medical devices and regenerative medicine/specialty pharmaceuticals.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and all partner companies in which it directly or indirectly owned more than 50% of the outstanding voting securities during the periods presented. The Company operates on a calendar year.

The Company s Consolidated Statements of Operations, Comprehensive Income (Loss) and Cash Flows for each of the years in the three-year period ended December 31, 2008 and the Consolidated Balance Sheets as of December 31, 2008 and 2007 include Clarient, Inc. (Clarient) in continuing operations.

During 2008, 2007 and 2006, certain consolidated partner companies, or components thereof, were sold and are reported in discontinued operations. See Note 2.

During the third quarter, 2008, the Company increased its ownership interest in Authentium, Inc. (Authentium) to the 20.0% threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Authentium. The Company has adjusted the financial statements for all prior periods presented to retrospectively apply the equity method of accounting for its holdings in Authentium since the initial date of acquisition in April 2006. The effect of the change was to decrease Ownership interests in and advances to partner companies by $1.5 million as of December 31, 2007 and to increase Equity loss by $1.0 million and $0.5 million for the years ended December 31, 2007 and 2006.

Principles of Accounting for Ownership Interests in Companies

The Company s ownership interests in its companies are accounted for under three methods: consolidation, equity or cost. The applicable accounting method generally is determined based on the Company s voting interest in the entity.

Consolidation Method. The Company accounts for partner companies in which it directly or indirectly owns more than 50% of the outstanding voting securities under the consolidation method of accounting. Under this method, the Company includes these partner companies financial statements within the Company s Consolidated Financial Statements, and all significant intercompany accounts and transactions are eliminated. The Company reflects participation of other stockholders in the net assets and in the income or losses of these consolidated partner companies in Minority interest in the Consolidated Balance Sheets and Statements of Operations. Minority interest adjusts the Company s consolidated operating results to reflect only the Company s share of the earnings or losses of the consolidated partner company. However, if no minority interest balance remains on the Consolidated Balance Sheets related to a consolidated partner company, the Company records 100% of such consolidated partner company s losses; the Company records 100% of subsequent earnings of such consolidated partner company to the extent of such previously recognized losses in excess of the Company s proportionate share. The Company accounts for results of operations and cash flows of a consolidated partner company through the latest date in which it owned a 50% or greater voting interest. If control falls below 50%, the accounting method is adjusted to the equity or cost method of

accounting, as appropriate.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity Method. The Company accounts for partner companies whose results are not consolidated, but over which it exercises significant influence, under the equity method of accounting. Whether or not the Company exercises significant influence with respect to a partner company depends on an evaluation of several factors including, among others, representation of the Company on the partner company s board of directors and the Company s ownership level, which is generally a 20% to 50% interest in the voting securities of a partner company (including voting rights associated with the Company s holdings in common, preferred and other convertible instruments in the company). The Company also accounts for its interests in some private equity funds under the equity method of accounting based on its general and limited partner interests in such funds. Under the equity method of accounting, the Company does not reflect a partner company s financial statements within the Company s Consolidated Financial Statements; however, the Company s share of the income or loss of such partner company is reflected in Equity loss in the Consolidated Statements of Operations. The Company includes the carrying value of equity method partner companies in Ownership interests in and advances to companies on the Consolidated Balance Sheets. The Company reports its share of the income or loss of the equity method partner companies on a one quarter lag. This reporting lag could result in a delay in recognition of the impact of changes in the business or operations of these partner companies.

When the Company s interest in an equity method partner company is reduced to zero, the Company records no further losses in its Consolidated Statements of Operations unless the Company has an outstanding guarantee obligation or has committed additional funding to such equity method partner company. When such equity method partner company subsequently reports income, the Company will not record its share of such income until it exceeds the amount of the Company s share of losses not previously recognized.

Cost Method. The Company accounts for partner companies not consolidated or accounted for under the equity method under the cost method of accounting. Under the cost method, the Company does not include its share of the income or losses of partner companies in the Company s Consolidated Statements of Operations. The Company includes the carrying value of cost method partner companies in Ownership interests in and advances to companies on the Consolidated Balance Sheets.

In addition to holding voting and non-voting equity and debt securities, the Company also periodically makes advances to its partner companies in the form of promissory notes which are accounted for in accordance with SFAS No. 114, Accounting By Creditors for Impairment of a Loan.

Accounting Estimates

The preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. These estimates include the evaluation of the recoverability of the Company s ownership interests in and advances to companies and investments in marketable securities, the evaluation of the impairment of goodwill, intangible assets and property and equipment, revenue recognition, income taxes, stock-based compensation and commitments and contingencies. Management evaluates its estimates on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Illiquid credit markets, volatile equity markets and reductions in information technology spending have combined to increase the uncertainty in such estimates.

Certain amounts recorded to reflect the Company s share of income or losses of partner companies accounted for under the equity method are based on unaudited results of operations of those companies and may require adjustments in the future when audits of these entities financial statements are completed.

It is reasonably possible that the Company s accounting estimates with respect to the ultimate recoverability of the carrying value of the Company s ownership interests in and advances to companies and goodwill could change in the near term and that the effect of such changes on the financial statements could be material. At December 31, 2008, the Company believes the recorded amount of carrying value of the Company s ownership interests in and advances to companies and goodwill is not impaired, although there can be no assurance that the Company s future results will confirm this assessment, that a significant write-down or write-off will not be required in the future, or that a

significant loss will not be recorded in the future upon the sale of a company.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications and Revisions

Certain prior year amounts have been reclassified to conform to the current year presentation, including the reclassification to discontinued operations of Acsis, Inc., Alliance Consulting Group Associates, Inc. and Laureate Pharma, Inc., which were sold in May 2008, Pacific Title & Art Studio which was sold in March 2007, Clarient s technology business which was sold in March 2007, Mantas which was sold in October 2006 and Alliance Consulting s Southwest region business which was sold in May 2006. The impact of these reclassifications did not affect the Company s net income (loss).

During the third quarter 2008, the Company increased its ownership interest in Authentium, Inc. (Authentium) to the 20.0% threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Authentium. The Company has adjusted the financial statements for all prior periods presented to retrospectively apply the equity method of accounting for its holdings in Authentium since the initial date of acquisition in April 2006. The effect of the change was to decrease Ownership interests in and advances to partner companies by $1.5 million as of December 31, 2007 and to increase Equity loss by $1.0 million and $0.5 million for the years ended December 31, 2007 and 2006, respectively.

The Company has disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations. Included in these amounts were net cash flows of $(1.2) million and $(4.6) million in 2007 and 2006, respectively, attributable to Clarient s technology business, Alliance Consulting s Southwest region business and Laureate Pharma s Totowa operation. Because these businesses did not maintain separate bank accounts, any net cash provided by (used in) these businesses increased (decreased) the cash and cash equivalents balance of the Company s continuing operations as shown on the Consolidated Balance Sheets. Cash flows related to Acsis, Alliance Consulting, Laureate Pharma, Pacific Title & Art Studio and Mantas are adjusted in the Statement of Cash Flows to reconcile to cash and cash equivalents associated with continuing operations.

See Note 19 regarding certain current and prior year adjustments of expense classifications between Selling, general and administrative expense and Cost of sales.

Cash and Cash Equivalents and Short-Term Marketable Securities

The Company considers all highly liquid instruments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of deposits that are readily convertible into cash. The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. Held-to-maturity securities are carried at amortized cost, which approximates fair value. Short-term marketable securities consist of held-to-maturity securities, primarily consisting of commercial paper and certificates of deposits. The Company has not experienced any significant losses on cash equivalents and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Restricted Marketable Securities

Restricted marketable securities include held-to-maturity securities, based upon the Company s ability and intent to hold these securities to maturity. The securities are U.S. Treasury securities with various maturity dates. Pursuant to terms of the 2.625% convertible senior debentures due March 15, 2024 (2024 Debentures), as a result of the sale of CompuCom in 2004, the Company pledged the U.S. Treasury securities to an escrow agent for interest payments through March 15, 2009 on the 2024 Debentures (See Notes 4 and 8).

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Term Marketable Securities

The Company records its ownership interest in cost method equity securities that have readily determinable fair value as available-for-sale or trading securities. Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of Shareholders Equity. Unrealized losses are charged against net loss when a decline in the fair value is determined to be other than temporary. Trading securities are carried at fair value, based on quoted market prices, with the unrealized gain or loss included in Other Income, Net, in the Consolidated Statements of Operations. The Company records its ownership interest in debt securities at amortized cost based on its ability and intent to hold these securities until maturity.

Financial Instruments

The Company s financial instruments (principally cash and cash equivalents, marketable securities, restricted marketable securities, accounts receivable, notes receivable, accounts payable and accrued expenses) are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The Company s long-term debt is carried at cost. At December 31, 2008, the market value of the Company s outstanding 2024 Debentures was approximately $60.0 million, based on quoted market prices as of that date. The fair value of the Company s debt, exclusive of the 2024 Debentures, approximates carrying value.

Allowance for Doubtful Accounts and Bad Debt Expense

An allowance for doubtful accounts is recorded for estimated uncollectible amounts due from Customers. The process for estimating the allowance for doubtful accounts associated with Clarient s diagnostic services involves significant assumptions and judgments. The allowance for doubtful accounts is adjusted periodically, based upon an evaluation of historical collection experience and other relevant factors. The payment realization cycle for certain governmental and managed care payors can be lengthy, involving denial, appeal, and adjudication processes. Clarient s receivables are subject to periodic adjustments that may be significant. Adjustments to the allowance for doubtful accounts are charged to bad debt expense. Accounts receivable are written off when identified as uncollectible and deducted from the allowance after appropriate collection efforts have been exhausted.

Property and Equipment

Property and equipment are stated at cost. Equipment under capital leases is stated at the present value of minimum lease payments. Provision for depreciation and amortization is based on the lesser of the estimated useful lives of the assets or the remaining lease term (buildings and leasehold improvements, 5 to 15 years; machinery and equipment, 3 to 15 years) and is computed using the straight-line method.

Intangible Assets, net

Intangible assets with indefinite useful lives are not amortized but instead are tested for impairment at least annually, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Intangible assets with definite useful lives are amortized over their respective estimated useful lives to their estimated residual value.

Purchased in-process research and development (IPR&D) represents the value assigned in a purchase business combination to research and development projects of the acquired business that had commenced but had not yet been completed at the date of acquisition and which have no alternative future use. In accordance with SFAS No. 2, Accounting for Research and Development Costs, as clarified by FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, amounts assigned to IPR&D meeting the above criteria must be charged to expense as part of the allocation of the purchase price of the business combination.

Goodwill Impairment

The Company conducts an annual review for impairment of goodwill as of December 1st and as otherwise required by circumstances or events in accordance with SFAS No. 142. Additionally, on an interim basis, the Company assesses the impairment of goodwill whenever events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment charges related to goodwill of consolidated partner companies are included in Goodwill impairment in the Consolidated Statements of Operations.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impairment of Equity Method and Cost Method Companies

On a periodic basis, but no less frequently than at the end of each quarter, the Company evaluates the carrying value of its equity and cost method partner companies for possible impairment based on achievement of business plan objectives and milestones, the fair value of each partner company relative to its carrying value, the financial condition and prospects of the partner company and other relevant factors. The business plan objectives and milestones the Company considers include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. Management then determines whether there has been an other than temporary decline in the value of its ownership interest in the company. Impairment is measured by the amount by which the carrying value of an asset exceeds its fair value.

The fair value of privately held companies is generally determined based on the value at which independent third parties have invested or have committed to invest in these companies or based on other valuation methods, including discounted cash flows, valuation of comparable public companies and the valuation of acquisitions of similar companies. The fair value of the Company s ownership interests in private equity funds generally is determined based on the value of its pro rata portion of the fair value of the funds net assets.

Impairment charges related to equity method partner companies are included in Equity loss in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies are included in Other income (loss), net in the Consolidated Statements of Operations.

The reduced cost basis of a previously impaired partner company is not written-up if circumstances suggest the value of the company has subsequently recovered.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of

The Company reviews long-lived assets, including property and equipment and amortizable intangibles, for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to forecasted undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Recoverability of Note Receivable Related Party

The Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company does not accrue interest when a note is considered impaired. All cash receipts from impaired notes are applied to reduce the original principal amount of such note until the principal has been fully recovered and would be recognized as interest income thereafter. Cash receipts in excess of the carrying value of the note are included in Recovery Related Party in the Consolidated Statements of Operations until such time that the original principal has been recovered.

Revenue Recognition

Revenue for Clarient s diagnostic testing and interpretive services is recognized at the time of completion of such services. Clarient s services are billed to various payors, including Medicare, health insurance companies and other directly billed healthcare institutions and patients. Clarient reports revenue from contracted payors, including certain health insurance companies and healthcare institutions, based on the contracted rate or in certain instances, Clarient s estimate of such rate. For billings to Medicare, Clarient utilizes the published fee schedules, net of standard discounts commonly referred to as contractual allowances . Clarient reports revenue from non-contracted payors, including certain insurance companies and patients, based on the amount expected to be collected for services provided. Adjustments resulting from actual collections compared to Clarient s estimates are recognized in the period realized.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Defined Contribution Plans

Defined contribution plans are contributory and cover eligible employees of the Company and its consolidated partner company. The Company s defined contribution plan allows eligible employees, as defined in the plan, to contribute to the plan up to 75% of their pre-tax compensation, subject to the maximum contributions allowed by the Internal Revenue Code. Through December 31, 2008, the Company determined the amount, if any, of the employer-paid matching contribution at the end of each calendar year. Additionally, the Company may make annual discretionary contributions under the plan based on a participant s eligible compensation. Its consolidated partner company also generally matches a portion of employee contributions to its plan. Expense relating to defined contribution plans was $0.3 million in 2008, $0.5 million in 2007 and $0.4 million in 2006.

Income Taxes

The Company accounts for income taxes under the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company measures deferred tax assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. The Company recognizes the effect on deferred tax assets and liabilities of a change in tax rates in income in the period of the enactment date. The Company provides valuation allowances against the net deferred tax asset for amounts which are not considered more likely than not to be realized.

Net Income (Loss) Per Share

The Company computes net income (loss) per share (EPS) using the weighted average number of common shares outstanding during each year. The Company includes in diluted EPS common stock equivalents (unless anti-dilutive) which would arise from the exercise of stock options and conversion of other convertible securities and is adjusted, if applicable, for the effect on net income (loss) of such transactions. Diluted EPS calculations adjust net income (loss) for the dilutive effect of common stock equivalents and convertible securities issued by the Company s consolidated partner companies.

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from non-owner sources. Excluding net income (loss), the Company s sources of other comprehensive income (loss) are from net unrealized appreciation (depreciation) on available-for-sale securities and foreign currency translation adjustments. Reclassification adjustments result from the recognition in net income (loss) of unrealized gains or losses that were included in comprehensive income (loss) in prior periods.

Segment Information

The Company reports segment data based on the management approach which designates the internal reporting which is used by management for making operating decisions and assessing performance as the source of the Company s reportable operating segments.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement 142. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact, if any, of adopting FSP FAS 142-3 on the Company s Consolidated Financial Statements.

In November 2008, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 08-6, Equity Method Accounting Considerations . EITF 08-6 continues to follow the accounting for the initial carrying value of equity method investments in APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock , which is based on a cost accumulation model and generally excludes contingent consideration. EITF 08-6 also specifies that other-than-temporary impairment testing by the investor should be performed at the investment level and that a separate impairment assessment of the underlying assets is not required. An impairment charge by the investee should result in an adjustment of the investor s basis of the impaired asset for the investors pro-rata share of such impairment In addition, EITF 08-6 reached a consensus on how to account for an issuance of shares by an investee that reduces the investor s ownership share of the investee. An investor should account for such transactions as if it had sold a proportionate share of its investment with ay gains or losses recorded through earnings. EITF 08-6 also addresses the accounting for a change in an investment from the equity method to the cost method after adoption of Statement 160. EITF 08-6 affirms the existing guidance in APB 18, which requires cessation of the equity method of accounting and application of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities , or the cost method under APB 18 as appropriate. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008. The Company is currently evaluating the impact, if any, of adopting EITF 08-6 on the Company s Consolidated Financial Statements.

In October 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP FAS157-3) which clarifies the application of SFAS No. 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of FSP FAS157-3 did not have a material impact on the Company s Consolidated Financial Statements.

In June 2008, the Emerging Issues Task Force (EITF) ratified Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock (EITF 07-5). EITF 07-5 clarifies how to determine whether certain instruments or features were indexed to an entity s own stock. The consensus will replace EITF 01-6 as a critical component of the literature applied to evaluating financial instruments for debt or equity classification and embedded features for bifurcation as derivatives. EITF 07-5 will become effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently analyzing the impact on the Company s Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). SFAS No. 159 allows companies to choose, at specific election dates, to measure eligible financial assets and liabilities that are not otherwise required to be measured at fair value, at fair value. Under SFAS No. 159, companies would report unrealized gains and losses for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize up-front costs and fees related to those items in earnings as incurred. SFAS No. 159 became effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material impact on the Company s Consolidated Financial Statements due to its election to not measure partner company holdings at fair value.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting

pronouncement requires or permits assets and liabilities to be measured at fair value. The requirements of SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until the subsequent year. The adoption of SFAS No. 157 did not have a material impact on the Company s Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS No. 141(R) significantly changes the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date at fair value with limited exceptions. SFAS No. 141(R) further changes the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Non-controlling interests (formerly known as minority interests see SFAS No. 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development (IPR&D) will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141(R) includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of non-controlling interests (minority interests) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to non-controlling interests will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation are treated as equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS No. 160 is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 160 will result in the reclassification of minority interests from long- term liabilities to shareholders equity. Minority interest at December 31, 2008 was $0 million.

In May 2008, the FASB issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources for generally accepted accounting principles (GAAP) in the U.S. and lists the categories in descending order. An entity should follow the highest category of GAAP applicable for each of its accounting transactions. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS No. 162 will not have a material effect on the Company s Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Discontinued Operations

The following are reported in discontinued operations for all periods through their respective sale date.

Acsis, Alliance Consulting and Laureate Pharma

On May 6, 2008, the Company consummated a transaction (the Bundle Sale) pursuant to which it sold all of its equity and debt interests in Acsis, Inc. (Acsis), Alliance Consulting Group Associates, Inc. (Alliance Consulting), Laureate Pharma, Inc. (Laureate Pharma), ProModel Corporation (ProModel) and Neuronyx, Inc. (Neuronyx) (collectively, the Bundle Companies).

Of the companies included in the Bundle Transaction, Acsis, Alliance Consulting and Laureate Pharma were majority-owned partner companies; Neuronyx and ProModel were minority-owned partner companies. The Company has presented the results of operations of Acsis, Alliance Consulting and Laureate Pharma as discontinued operations for all periods presented. Goodwill of $48.9 million related to Alliance Consulting and $11.5 million related to Acsis was included in discontinued operations at December 31, 2007.

In the first quarter of 2008, the Company recognized an impairment loss of $3.6 million to write down the aggregate carrying value of the Bundle Companies to the total anticipated proceeds, less estimated costs to complete the Bundle Transaction. In the second quarter of 2008, prior to the completion of the Bundle Transaction, the Company recorded a net loss of $1.6 million in discontinued operations related to the operations of Acsis, Alliance Consulting and Laureate Pharma. In the second quarter of 2008 the Company recorded a charge of $0.9 million in discontinued operations to accrue for severance payments due to the former CEO of Alliance Consulting in connection with the Bundle Transaction and recorded a pre-tax gain on disposal of $1.4 million which is also recorded in discontinued operations.

The gross proceeds to the Company from the Bundle Transaction were $74.5 million, of which $6.4 million is to be held in escrow through April 2009, plus amounts advanced to certain of the Bundle Companies during the time between the signing of the Bundle Transaction agreement and its consummation. Guarantees of certain Bundle Company credit facilities by the Company of $31.5 million were eliminated upon the closing of the Bundle Transaction.

Pacific Title & Art Studio

In March 2007, the Company sold Pacific Title & Art Studio for net cash proceeds of approximately $21.9 million, including $2.3 million cash deposited into escrow. As a result of the sale, the Company recorded a pre-tax gain of $2.7 million in 2007. During 2008, the Company recorded a loss of $2.7 million, which was included within Loss from discontinued operations in the Consolidated Statements of Operations, related to additional compensation paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007 sale and related legal fees (see Note 16). Pacific Title & Art Studio is reported in discontinued operations for all periods presented.

Clarient Technology Business

In March 2007, Clarient sold its technology business (which developed, manufactured and marketed the ACIS Automated Image Analysis System) and related intellectual property to Carl Zeiss MicroImaging, Inc. (the ACIS Sale) for cash proceeds of $11.0 million (excluding $1.5 million in contingent purchase price). As a result of the sale, Clarient recorded a pre-tax gain of $3.6 million in 2007. Goodwill of $2.1 million related to the technology business was included in discontinued operations at December 31, 2007.

Mantas

In October 2006, the Company completed the sale of its interest in Mantas for net cash proceeds of approximately $112.8 million, including $19.3 million deposited into escrow. The Company recorded a pre-tax gain of $83.9 million in 2006. Mantas sold its telecommunications business and certain related assets and liabilities in the first quarter of 2006 for $2.1 million in cash. As a result of the sale, Mantas recorded a gain of $1.9 million in 2006 which is also reported in discontinued operations.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Alliance Consulting Southwest Region Business

Alliance Consulting completed the sale of its Southwest region business in May 2006 for proceeds of $4.5 million, including cash of $3.0 million and stock of the acquiror of $1.5 million which was subsequently sold. As a result of the sale, Alliance Consulting recorded a gain of $1.6 million in 2006.

Results of discontinued operations were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Revenue	$ 45,712	$ 140,509	$ 199,604
Operating expenses	(49,668)	(156,688)	(214,450)
Impairment of carrying value	(3,634)	(5,438)	
Other	(1,547)	(2,031)	(1,848)
Loss before income taxes and minority interest	(9,137)	(23,648)	(16,694)
Income tax (expense) benefit		93	(475)
Loss before minority interest	(9,137)	(23,555)	(17,169)
Minority interest	17	(2,105)	1,486
Loss from operations	(9,120)	(25,660)	(15,683)
Gain (loss) on disposal, net of tax	(116)	6,273	87,528
Income (loss) from discontinued operations, net of tax	$ (9,236)	$ (19,387)	$ 71,845

The assets and liabilities of discontinued operations were as follows:

	December 31, 2007
	(In thousands)
Cash	$ 3,764
Accounts receivable, less allowances	24,858
Inventory	3,333
Other current assets	912
Total current assets	32,867
Property and equipment, net	23,859
Intangibles	9,960
Goodwill	64,095
Other assets	1,506
Total Assets	$ 132,287
Current portion of long-term debt	$ 28,257
Accounts payable	4,520

Accrued expenses		10,774
Deferred revenue		6,100
Other current liabilities		481
		50,132
Long-term debt		3,840
Minority interest		396
Deferred income taxes		1,026
Other long-term liabilities		654
Total Liabilities	$	56,048
Carrying value	$	76,239

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Business Combinations

In December 2008, the Company purchased additional shares of Rubicor Medical, Inc. (Rubicor) from an existing investor for nominal consideration, increasing its ownership interest in Rubicor to 44.6% from 35.7%. The Company had previously acquired an interest in Rubicor in August 2006 for $20.0 million in cash. Rubicor has developed and is commercializing medical devices for minimally invasive breast biopsy and tissue removal. The Company accounts for its holdings in Rubicor under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Rubicor has been allocated to in-process-research and development resulting in a $0.6 million charge, which is reflected in Equity loss in the Consolidated Statement of Operations for 2006 and intangible assets as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet. During 2008, Rubicor halted operations and furloughed employees while it sought additional funding. The Company recognized an impairment charge of $4.0 million in 2008, which is reflected in Equity loss in the Consolidated Statement of operations.

In November 2008, the Company acquired 31.2% of Garnet BioTherapeutics, Inc. (Garnet) for $2.5 million in cash. Garnet is a clinical stage regenerative medicine company targeting the acceleration of healing and reduction of scarring associated with surgical procedures and other dermatologic conditions. The Company accounts for its holdings in Garnet under the equity method. The difference between the Company s cost and its interest in the underlying net assets, based on the Company s preliminary allocation, was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In October 2008, the Company acquired 4.5% of Tengion, Inc. (Tengion) for $7.5 million in cash. Tengion is a clinical stage regenerative medicine company that is focused on developing, manufacturing and commercializing human neo-organs and neo-tissues. The Company accounts for its holdings in Tengion under the cost method.

In September and December 2008, the Company acquired 37.8% of Molecular Biometrics, Inc. (Molecular Biometrics) for $3.5 million in cash, including the conversion into equity interests of $1.9 million previously advanced to the company. Molecular Biometrics is a metabolomics company developing novel clinical tools for applications in personalized medicine to more accurately characterize biologic function in health and disease. The Company accounts for its holdings in Molecular Biometrics under the equity method. The difference between the Company s cost and its interest in the underlying net assets was allocated to in-process research and development, resulting in a $2.5 million charge which is reflected in Equity loss in the Consolidated Statement of Operations for 2008.

In August 2008, the Company deployed $1.5 million in Alverix, Inc. (Alverix), to maintain a 50.0% ownership interest. The Company had previously acquired its ownership interest in Alverix for $2.4 million in cash in October 2007. Alverix is an optoelectronics company that produces low-cost, handheld readers with the accuracy and precision of laboratory instruments. The Company accounts for its holdings in Alverix under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Alverix was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In the third quarter of 2008, the Company funded NextPoint Networks $1.6 million in cash. In September 2008, NextPoint Networks was merged with GENBAND, resulting in the Company holding a 2.3% ownership interest in the combined company. GENBAND provides media gateway, IP security and session border gateway technology to telecommunications providers. In September and December 2007, the Company funded NexTone Communications, Inc., a predecessor entity to NextPoint Networks, $2.2 million and $2.1 million in cash, respectively. The Company accounts for its holdings in GENBAND under the cost method.

In July 2008, the Company provided additional funding to Authentium in the form of $0.8 million convertible notes. In conjunction with this funding, due to anti-dilution provisions contained in an earlier equity funding, the Company s voting interest in Authentium increased from 19.9% to 20.0%, the threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in

Authentium. See Note 19 regarding the change in accounting treatment for the Company s holdings in Authentium from the cost method to the equity method. The Company previously had acquired an interest in Authentium in June 2007 and April 2006 for $3.0 million and $5.5 million, respectively. Authentium provides anti-malware and identity protection software.

In July 2008, the Company acquired 29.3% of Swaptree, Inc. (Swaptree) for $3.4 million in cash. Swaptree is an internet-based business that enables users to trade books, CDs, DVDs and video games using its proprietary trade matching software. The Company accounts for its holdings in Swaptree under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Swaptree was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheet.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In July 2008, the Company deployed $3.3 million of cash in NuPathe, Inc (NuPathe), resulting in an ownership interest of 23.4%. In April 2008, the Company deployed $1.0 million in cash in NuPathe at which time the Company s ownership interest was 27.8%. The Company previously deployed $5.0 million in NuPathe in 2007 and 2006. NuPathe is a specialty pharmaceutical company developing innovative therapeutic products for the treatment of neurological and psychiatric diseases, including migraines and Parkinson s disease. The Company accounts for its holdings in NuPathe under the equity method. As a result of the decrease in the Company s ownership position in July 2008, the Company recognized a $0.7 million change in interest gain directly to additional paid-in capital. The difference between the Company s cost and its interest in the underlying net assets of NuPathe has been allocated to in-process research and development, resulting in charges of $0.1 million and $0.2 million in 2008 and 2007, respectively, which are reflected in Equity loss in the Consolidated Statements of Operations and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets. The Company recognized a $1.3 million charge in 2008 in Equity loss in the Consolidated Statements of Operations, related to an in-process research and development charge recorded by NuPathe.

In May 2008, the Company increased its ownership interest in Advantedge Healthcare Solutions (AHS) from 35.1% to 37.9% for $3.2 million in cash. The Company had previously acquired an interest in AHS in November 2006 for $5.8 million in cash. AHS is a healthcare information technology (HCIT) company that provides medical billing software and services to healthcare providers on an outsourced basis. The Company accounts for its holdings in AHS under the equity method. The difference between the Company s cost and its interest in the underlying net assets of AHS was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In February 2008, the Company deployed $2.8 million of cash in Portico Systems, Inc (Portico), to maintain a 46.8% ownership interest. The Company previously had acquired an interest in Portico in August 2006 for $6.0 million in cash. Portico is an HCIT company that is pioneering the next generation of healthcare payor software solutions. The Company accounts for its holdings in Portico under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Portico was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In August 2007, the Company acquired 21.1% of Bridgevine, Inc. (Bridgevine) for $8.0 million in cash. Bridgevine is an internet media company that enables online consumers to shop for special offers as well as compare and purchase digital services and products such as internet, phone, VoIP, TV, wireless, music, entertainment and more. The Company accounts for its holdings in Bridgevine under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Bridgevine was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In August 2007, the Company acquired 14.0% of Kadoo, Inc. for $2.2 million in cash. Kadoo was a start-up company established to enable online users to post, manage and securely share large volumes of digital photos, videos and other files. The Company accounts for its holdings in Kadoo under the cost method. Kadoo effectively ceased operations in February 2009 and the Company wrote down its carrying value in Kadoo to $0.0 million as of December 31, 2008.

In June 2007, the Company acquired 40.3% of Cellumen, Inc. (Cellumen) for $6.0 million in cash. Cellumen delivers proprietary services and products to support drug discovery and development. The Company accounts for its holdings in Cellumen under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Cellumen was allocated to in-process research and development, resulting in a $0.2 million charge in 2007, as reflected in Equity loss in the Consolidated Statements of Operations, and to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In May 2007, the Company acquired 14.2% of Avid Radiopharmaceuticals, Inc. (Avid) for $7.3 million in cash. Avid is developing molecular imaging agents to detect neurodegenerative diseases. The Company accounts for its holdings in Avid under the cost method.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2007, the Company increased its ownership interest in Advanced BioHealing, Inc. (ABH) to 28.3% for $2.8 million in cash. The Company previously had acquired a 23.9% interest in ABH in February 2007 for $8.0 million in cash. ABH develops and markets cell-based and tissue engineered products that use living cells to repair or replace body tissue damaged by injury, disease or the aging process. The Company accounts for its holdings in ABH under the equity method. The difference between the Company s cost and its interest in the underlying net assets of ABH was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In March 2007, the Company acquired 37.1% of Beyond.com, Inc. (Beyond.com) for $13.5 million in cash. Beyond.com is an internet-based business that provides career services and technology to job seekers and employers throughout the United States and Canada. The Company accounts for its holdings in Beyond.com under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Beyond.com was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In September 2006, the Company acquired additional common shares of Clarient for $3 million in cash. As a result of the funding, the Company s ownership in Clarient increased to 60%. The difference between the Company s cost and its interest in the underlying net assets of Clarient was allocated to fixed assets of $0.2 million with estimated depreciable lives of 3 years and to intangible assets which were subsequently sold in the ACIS Sale.

4. Marketable Securities

Marketable securities included the following:

	Current As of December 31,		Non-Current As of December 31,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Held-to-maturity:				
Commercial paper	$ 1,551	$ 590	$	$
Restricted U.S. Treasury securities	1,990	3,904		1,949
U.S. Treasury Bills	499			
Government agency bonds	351			
Certificates of deposit	12,300			
	$ 16,691	$ 4,494	$	$ 1,949

As of December 31, 2008, the contractual maturities of securities were as follows:

	Years to Maturity			
	Less than One Year	One to Five Years	No Single Maturity Date	Total
	(In thousands)			
Held-to-maturity	$ 16,691	$	$	$ 16,691

Held-to-maturity securities are carried at amortized cost, which, due to the short-term maturity of these instruments, approximates fair value using quoted prices in active markets for identical assets or liabilities, defined as Level 1 inputs under SFAS No. 157.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Property and Equipment

Property and equipment consisted of the following:

	As of December 31, 2008	2007
	(In thousands)	
Building and improvements	$ 9,034	$ 9,062
Machinery and equipment	17,735	14,300
	26,769	23,362
Accumulated depreciation	(14,400)	(11,648)
	$ 12,369	$ 11,714

6. Ownership Interests in and Advances to Companies

The following summarizes the carrying value of the Company s ownership interests in and advances to partner companies and private equity funds accounted for under the equity method or cost method of accounting.

	As of December 31, 2008	2007
	(In thousands)	
Equity Method:		
Partner companies	$ 55,855	$ 67,852
Private equity funds	2,228	2,326
	58,083	70,178
Cost Method:		
Partner companies	23,332	16,490
Private equity funds	3,396	3,370
Advances to partner companies	750	
	$ 85,561	$ 90,038

Impairment charges related to cost method partner companies were $2.3 million, $5.3 million and $0.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. The charge in 2008 related to Kadoo which has ceased operations. The charge in 2007 related to Ventaira Pharmaceuticals. Impairment charges related equity method partner companies were $6.6 million in 2008 reflecting $4.0 million related to Rubicor and $2.6 million related to Authentium. The adjusted carrying values of Rubicor and Authentium at December 31, 2008 were $4.2 million and $4.5 million, respectively. The amount of each impairment charge was determined by comparing the carrying value of the respective partner company to its estimated fair value. Impairment charges associated with equity method partner companies are included in Equity loss in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies are included in Other income (loss), net in the Consolidated Statements of Operations. Rubicor has halted operations and furloughed or terminated employees while it continues a process begun in 2008 to attract additional funding. As discussed in Note 1, the Company evaluates the carrying value of its equity and cost method companies for possible impairment no less frequently than at the end of each quarter. In conjunction with the Company s impairment analysis of Rubicor as of December 31, 2008, the Company engaged an independent valuation firm to estimate Rubicor s business enterprise value. The Company and Rubicor have also had discussions with several

third parties who have expressed interest in providing funding to Rubicor. Utilizing the estimate provided by the independent valuation firm and the range of values indicated by such potential investors, the Company determined that the carrying value of Rubicor was impaired. The Company therefore recognized an impairment charge of $4.0 million in the fourth quarter of 2008 to reduce the carrying value of its interest in Rubicor to its estimated fair value of $4.2 million.

As discussed in Note 3, in conjunction with the acquisition of its interest in Rubicor in August 2006, and based on an independent valuation, the Company allocated the excess of its cost over its interest in the underlying net assets of Rubicor to in-process research and development, resulting in a $0.6 million charge, which is reflected in Equity loss in the Consolidated Statement of Operations for 2006 and intangible assets which are reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet. The most significant of the intangible assets is the core technology Rubicor has developed which is embedded in Rubicor s biopsy and tissue removal devices, and the protectible intellectual property relating thereto. This technology includes (i) a minimally invasive single-insertion, multi-sample breast biopsy device; (ii) a breast biopsy device which utilizes an RF-powered loop and a small collection bag to excise and remove abnormal tissue in a percutaneous, office-based procedure and (iii) an ultrasound-guided soft tissue excision device for surgical removal of suspicious tissue.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company believes that this core technology, and related intellectual property, developed by Rubicor, which is reflected in the carrying value of Rubicor within Ownership interest in and advances to companies on the Consolidated Balance Sheet, has significant value and supports the remaining $4.2 million carrying value.

The following unaudited summarized financial information for partner companies and funds accounted for under the equity method at December 31, 2008 and 2007 and for the three years ended December 31, 2008, 2007 and 2006, has been compiled from the unaudited financial statements of our respective partner companies and funds and reflects certain historical adjustments. Results of operations of the partner companies and funds are excluded for periods prior to their acquisition and subsequent to their disposition. The Company reports its share of the income or loss of the equity method partner companies on a one quarter lag.

	As of December 31,	
	2008	2007
	(In thousands)	
Balance Sheets:		
Current assets	$ 101,841	$ 88,678
Non-current assets	111,274	112,302
Total Assets	$ 213,115	$ 200,980
Current liabilities	$ 39,847	$ 28,976
Non-current liabilities	18,744	10,191
Shareholders equity	154,524	161,813
Total Liabilities and Shareholders Equity	$ 213,115	$ 200,980

As of December 31, 2008, the Company s carrying value in equity method partner companies, in the aggregate, exceeded the Company s share of the net assets of such companies by approximately $37.2 million. Of this excess, $20.6 million was allocated to goodwill and $16.6 million was allocated to intangible assets.

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Results of Operations:			
Revenue	$ 92,366	$ 39,547	$ 4,717
Gross profit	$ 52,906	$ 23,711	$ 3,738
Net loss	$ (61,560)	$ (43,986)	$ (29,778)

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Included above are the results of operations and assets and liabilities of Rubicor. Due to the significance of Rubicor s results of operations and the related impairment charge to the Company s net loss from continuing operations before income tax, the unaudited summarized financial information for Rubicor is presented below.

	As of December 31,	
	2008	2007
	(In thousands)	
Balance Sheets:		
Current assets	$ 1,290	$ 15,421
Non-current assets	986	868
Total Assets	$ 2,276	$ 16,289
Current liabilities	$ 7,002	$ 8,992
Non-current liabilities	95	
Shareholders (deficit) equity	(4,821)	7,297
Total Liabilities and Shareholders (Deficit) Equity	$ 2,276	$ 16,289

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Results of Operations:			
Revenue	$ 638	$ 631	$ 30
Gross (loss) profit	$ (2,540)	$ 96	$ 11
Net loss	$ (12,300)	$ (13,027)	$ (1,363)

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Long-term Debt and Credit Arrangements

Consolidated long-term debt consisted of the following:

Continuing Operations:

	As of December 31, 2008	2007
	(In thousands)	
Consolidated partner company credit line borrowings (guaranteed by the Company)	$ 9,000	$ 9,000
Consolidated partner company credit line borrowings (not guaranteed by the Company)	5,104	4,997
	14,104	13,997
Capital lease obligations and other borrowings	608	2,416
	14,712	16,413
Less current maturities	(14,367)	(15,507)
Total long-term debt, less current portion	$ 345	$ 906

Discontinued Operations:

	As of December 31, 2007
	(In thousands)
Consolidated partner company credit line borrowings (guaranteed by the Company)	$ 18,500
Consolidated partner company credit line borrowings (not guaranteed by the Company)	7,515
Consolidated partner company term loans and other borrowings (guaranteed by the Company)	6,019
	32,034
Capital lease obligations and other borrowings	63
	32,097
Less current portion	(28,257)
Total long-term debt of discontinued operations, less current portion	$ 3,840

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2008, the Company maintained a revolving credit facility that provided for borrowings and issuances of letters of credit and guarantees, up to $30.0 million (the 2008 Facility), which is due to expire on June 29, 2009. Borrowing availability under the facility was reduced by the amounts outstanding for the Company s borrowings and letters of credit and amounts guaranteed under Clarient s credit facility maintained with that same lender. This credit facility bore interest at the prime rate (3.25% at December 31, 2008) for outstanding borrowings. The credit facility was subject to an unused commitment fee of 0.125% per annum, which was subject to reduction based on deposits maintained at the bank. The credit facility required the Company to maintain an unrestricted cash collateral account at that same bank, equal to the Company s borrowings and letters of credit and amounts borrowed by Clarient under its guaranteed facility maintained with that same bank. At December 31, 2008, the required cash collateral, pursuant to the Company s credit facility agreement, was $17.9 million, which amount was included within Cash and cash equivalents on the Consolidated Balance Sheet as of December 31, 2008. Cash collateral requirements of $21.3 million were eliminated upon closing of the Bundle Transaction.

Availability under the Company s revolving credit facility at December 31, 2008 was as follows:

	Total (In thousands)
Size of facility	$ 30,000
Guarantee of Clarient facility at same bank	(12,300)
Outstanding letter of credit(a)	(6,336)
Amount available	$ 11,364

(a) In connection with the sale of CompuCom, the Company provided a letter of credit to the landlord of CompuCom s Dallas headquarters which letter of credit will expire on March 19, 2019, in an amount equal to $6.3 million.

On February 6, 2009, the Company entered into a new loan agreement with a separate bank. See Note 23.

At December 31, 2008, Clarient had an $11.3 million revolving credit agreement with a bank, which was amended and restated on February 27, 2009 to extend its maturity date to March 30, 2010 and to increase the total amount of the facility to $12.0 million. Outstanding borrowings under the revolving credit agreement were $9.0 million at December 31, 2008. Such borrowings are used for working capital purposes. The remaining availability under the revolving credit agreement was used to maintain a $2.3 million stand-by letter of credit for the landlord of Clarient s

leased facility in Aliso Viejo, California. As of December 31, 2008, Clarient had no additional availability under the revolving credit agreement. The Company guarantees Clarient s borrowings under the revolving credit agreement.

The February 2009 amendment eliminated the minimum adjusted EBITDA covenant and replaced it with a covenant that requires Clarient to maintain a fixed charge coverage ratio as defined in the agreement, on a cumulative annualized basis of 1.00 through June 30, 2009, 1.10 through September 30, 2009, and 1.20 through December 31, 2009.

At Clarient s option during 2008, borrowings under the revolving credit agreement bore interest at the bank s rate prime rate minus 0.5% or at a rate equal to 30-day LIBOR plus 2.45%, provided however that upon the achievement of certain financial performance metrics the rate would decrease by 0.25%. As a result of the February 2009 amendment, borrowings under the revolving credit agreement will bear interest at 30-day LIBOR, measured daily, plus 2.40%, effective February 27, 2009. Interest expense on the outstanding balance under the revolving credit agreement for 2008, 2007, and 2006 was $0.4 million, $0.7 million, and $0.2 million, respectively.

On July 31, 2008, Clarient entered into a secured credit agreement with a finance company, which was amended and restated on February 27, 2009 to extend its maturity date to January 31, 2010. The secured credit agreement is a revolving facility under which Clarient may borrow up to a maximum of $8.0 million, secured by Clarient s accounts receivable and related assets. The secured credit agreement s maturity date may be extended for an additional 12 month period upon the satisfaction of certain conditions as outlined in the agreement.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Outstanding borrowings under the secured credit agreement were $5.1 million at December 31, 2008. The revolving credit agreement discussed above is subordinated to the secured credit agreement. The amount which Clarient is entitled to borrow under the secured credit agreement at a particular time is based on the amount of Clarient s qualified accounts receivable and certain liquidity factors. Clarient had no additional availability as of December 31, 2008.

During 2008, borrowings under the secured credit agreement bore interest at an annual rate equal to 30-day LIBOR (subject to a minimum annual rate of 2.50% at all times) plus an applicable margin of 5.25%. Clarient is required to pay a commitment fee of 0.75% per year on the daily average of unused credit availability and a collateral monitoring fee of 0.40% per year on the daily average of outstanding borrowings. Interest expense on the outstanding balance under the secured credit agreement for the year ended December 31, 2008 was $0.2 million.

In 2008 the secured credit agreement contained a financial covenant which required Clarient to maintain minimum adjusted EBITDA as defined in the agreement of $2.0 million for the nine month period ended September 30, 2008 and of $2.9 million for the 12 month period ended December 31, 2008. Additional financial covenants in the secured credit agreement required Clarient to not exceed a maximum ratio of average borrowings under the secured credit agreement over average monthly cash collections, to limit annual capital expenditures to $4.0 million and to maintain a minimum level of liquidity, as defined in the agreement.

The February 2009 amendment to the secured credit agreement eliminated the minimum adjusted EBITDA covenant and replaced it with a covenant that requires Clarient to maintain a fixed charge coverage ratio as defined in the agreement on a cumulative annualized basis of 1.00 through June 30, 2009, 1.10 through September 30, 2009, and 1.20 through December 31, 2009.

In September 2006, Clarient entered into a $5.0 million senior secured revolving credit agreement with a third party lender. Borrowing availability under the agreement was based on the level of Clarient s qualified accounts receivable, less certain reserves. The agreement bore interest at variable rates based on the lower of the 30-day LIBOR plus 3.25%, or the prime rate plus 0.5%. In March 2008, Clarient borrowed $4.6 million from the Company under the subordinated revolving credit line provided by the Company to Clarient to repay and terminate this facility, and borrowed an additional $2.8 million from the Company to repay and terminate its equipment line of credit with the same lender.

Guarantees of certain Bundle Company credit facilities by the Company of $31.5 million were eliminated upon the closing of the Bundle Transaction.

Debt as of December 31, 2008 bore interest at fixed rates between 11.5% and 13.1% and variable rates between the 30-day LIBOR (subject to a minimum annual rate of 2.50% at all times) plus an applicable margin of 5.25% and the prime rate minus 0.5%, with a weighted average rate of 5.5%.

As of December 31, 2008, excluding the convertible senior debentures discussed in Note 8 below, the Company s debt matures as follows:

	Total (In thousands)
2009	$ 14,367
2010	277
2011	68
2012	
2013 and thereafter	
	$ 14,712

8. Convertible Senior Debentures

In February 2004, the Company completed the sale of $150 million of 2.625% convertible senior debentures with a stated maturity of March 15, 2024 (the 2024 Debentures). Interest on the 2024 Debentures is payable semi-annually.

At the debentures holders option, the 2024 Debentures are convertible into the Company s common stock through March 14, 2024, subject to certain conditions. The conversion rate of the debentures is $7.2174 of principal amount per share. The closing price of the Company s common stock at December 31, 2008 was $0.69. The 2024 Debentures holders have the right to require the Company to repurchase the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their face amount, plus accrued and unpaid interest. The 2024 Debentures holders also have the right to require repurchase of the 2024 Debentures upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution, a change in control or the delisting the Company s common stock from the New York Stock Exchange if the Company were unable to obtain a listing for its common stock on another national or regional securities exchange. Subject to certain conditions, the Company may redeem all or some of the 2024 Debentures commencing March 20, 2009.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2008, the Company repurchased $43.0 million in face value of the 2024 debentures for $33.5 million in cash, including accrued interest. In connection with the repurchase, the Company recorded $0.5 million of expense related to the acceleration of deferred debt issuance costs associated with the 2024 debentures, resulting in a net gain of $9.0 million which is included in Other income in the Consolidated Statement of Operations. During 2006, the Company repurchased $21 million in face value of the 2024 Debentures for $16.4 million in cash, including accrued interest. The Company recorded $0.4 million of expense related to the acceleration of deferred debt issuance costs associated with the 2024 Debentures, resulting in a net gain of $4.3 million, which is included in Other Income, Net in the Consolidated Statements of Operations. At December 31, 2008, the market value of the outstanding 2024 Debentures was approximately $60.0 million based on quoted market prices as of such date.

As required by the terms of the 2024 Debentures, after completing the sale of CompuCom in October 2004, the Company escrowed $16.7 million for interest payments through March 15, 2009 on the 2024 Debentures. A total of $2.0 million is included in Restricted marketable securities on the Consolidated Balance Sheet at December 31, 2008, which is classified as a current asset.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses consisted of the following:

	As of December 31,	
	2008	2007
	(In thousands)	
Accrued professional fees	$ 860	$ 1,669
Other	7,425	12,534
	$ 8,285	$ 14,203

10. Shareholders Equity

Preferred Stock

Shares of preferred stock, par value $0.10 per share, are voting and are issuable in one or more series with rights and preferences as to dividends, redemption, liquidation, sinking funds and conversion determined by the Board of Directors. At December 31, 2008 and 2007, there were one million shares authorized and none outstanding.

Shareholders Rights Plan

In February 2000, the Company adopted a shareholders rights plan. Under the plan, each shareholder of record on March 24, 2000 received the right to purchase 1/1000 of a share of the Company s Series A Junior Participating Preferred Stock at the rate of one right for each share of the Company s common stock then held of record. Each 1/1000 of a share of the Company s Series A Junior Participating Preferred Stock is designed to be equivalent in voting and dividend rights to one share of the Company s common stock. The rights will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company s common stock or commences a tender or exchange offer that would result in such a person or group owning 15% or more of the Company s common stock. If the rights do become exercisable, the Company s shareholders, other than the shareholders that caused the rights to become exercisable, will be able to exercise each right at an exercise price of $300 and receive shares of the Company s common stock having a market value equal to approximately twice the exercise price. As an alternative to paying the exercise price in cash, if the directors of the Company so determine, shareholders may elect to exercise their rights and, without the payment of any exercise price, receive half the number of shares of common stock that would have been received had the exercise price been paid in cash.

11. Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity Compensation Plans

The Company has three equity compensation plans: the 1999 Equity Compensation Plan, with 9.0 million shares authorized for issuance; the 2001 Associates Equity Compensation Plan with 5.4 million shares authorized for issuance; and the 2004 Equity Compensation Plan, with 6.0 million shares authorized for issuance. Employees and consultants are eligible for grants of stock options, restricted stock awards, stock appreciation rights, stock units, performance units and other stock-based awards under each of these plans; directors and executive officers are eligible for grants only under the 1999 and 2004 Equity Compensation Plans. During 2008 and 2007, 1.5 million and 2.5 million options, respectively, were awarded outside of existing plans as inducement awards in accordance with New York Stock Exchange rules. The 1999 Equity Compensation Plan expired by its terms on February 10, 2009 and no further grants may be made under that plan.

To the extent allowable, service-based awards are incentive stock options. Options granted under the plans are at prices equal to or greater than the fair market value at the date of grant. Upon exercise of stock options, the Company issues shares first from treasury stock, if available, then from authorized but unissued shares. At December 31, 2008, the Company had reserved 24.6 million shares of common stock for possible future issuance under its equity compensation plans. The Company s consolidated partner company also maintains separate equity compensation plans for its employees, directors and advisors.

Classification of Stock-Based Compensation Expense

Stock-based compensation expense was recognized in continuing operations of the Consolidated Statements of Operations as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cost of sales	$ 133	$ 61	$ 17
Selling, general and administrative	3,316	5,289	5,231
	$ 3,449	$ 5,350	$ 5,248

Included in the expense above is stock-based compensation and mark-to-market adjustments related to liability-classified awards.

The Company

The fair value of the Company s stock-based awards to employees was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected life of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility for a period equal to the stock option s expected life.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31,		
	2008	**2007**	**2006**
Service-Based Awards			
Dividend yield	0%	0%	0%
Expected volatility	52%	61%	69%
Average expected option life	5 years	5 years	5 years
Risk-free interest rate	3.1%	4.5%	4.7%

	Year Ended December 31,		
	2008	**2007**	**2006**
Market-Based Awards			
Dividend yield	0%	0%	0%
Expected volatility	59%	55%	62%
Average expected option life	5 7 years	5 7 years	5 7 years
Risk-free interest rate	3.4%	5.0%	4.8%

	Year Ended December 31,		
	2008	**2007**	**2006**
Performance-Based Awards			
Dividend yield	0%	N/A	N/A
Expected volatility	50%	N/A	N/A
Average expected option life	4.4 years	N/A	N/A
Risk-free interest rate	3.0%	N/A	N/A

The weighted-average grant date fair value of options issued by the Company during the years ended December 31, 2008, 2007 and 2006 was $0.62, $1.46 and $1.36 per share, respectively.

The Company granted 1.5 million, 2.4 million and 1.6 million market-based stock option awards to employees during the years ended December 31, 2008, 2007 and 2006, respectively. The awards entitle participants to vest in a number of options determined by achievement of certain target stock price levels over an eight-year period. The requisite service periods for the market-based awards are based on the Company s estimate of the dates on which the market conditions will be met as determined using a Monte Carlo simulation model. Compensation expense is recognized over the requisite service periods using the straight-line method, but is accelerated if stock price targets are achieved earlier than estimated.

Based on the achievement of stock price targets, 41 thousand, 0.9 million and 1.7 million shares vested during the years ended December 31, 2008, 2007 and 2006, respectively. During the years ended December 31, 2008, 2007 and 2006, respectively, 2.8 million, 0.5 million and 0.8 million market-based awards were canceled or forfeited. The Company recorded $0.4 million, $1.7 million and $1.9 million of compensation expense related to the market-based awards in the years ended December 31, 2008, 2007 and 2006, respectively. The maximum number of unvested shares at December 31, 2008 attainable under these grants is 7.8 million shares.

The Company granted 2.0 million performance-based option awards to employees during the year ended December 31, 2008. Performance-based awards entitle participants to vest in a number of options determined by achievement of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies over an eight-year period. Vesting occurs, if at all, once per year on the anniversary date of the grant. The requisite service periods for the performance-based awards are based on the Company s estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. The Company recorded $0.1 million of compensation expense related to the performance-based awards in the year ended

December 31, 2008. The maximum number of unvested shares at December 31, 2008 attainable under these grants is 2.0 million shares.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All other outstanding options are service-based awards that generally vest over four years after the date of grant and expire eight years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period for service-based awards is the period over which the award vests. The Company recorded $1.1 million, $1.8 million and $1.9 million of compensation expense related to these awards during the years ended December 31, 2008, 2007 and 2006, respectively.

During the years ended December 31, 2008, 2007 and 2006, respectively, the Company granted 65 thousand, 23 thousand and 21 thousand stock options to members of its advisory boards, which comprise non-employees. Such awards vest one year following grant, are equity-classified and are marked-to-market each period.

Option activity of the Company is summarized below:

	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2005	18,971	$ 2.20		
Options granted	2,723	2.19		
Options exercised	(238)	1.58		
Options canceled/forfeited	(2,728)	3.74		
Outstanding at December 31, 2006	18,728	1.98		
Options granted	3,835	2.51		
Options exercised	(492)	1.51		
Options canceled/forfeited	(652)	3.62		
Outstanding at December 31, 2007	21,419	2.04		
Options granted	5,278	1.25		
Options exercised	(205)	1.31		
Options canceled/forfeited	(6,477)	2.53		
Outstanding at December 31, 2008	20,015	1.68	5.3	$
Options exercisable at December 31, 2008	7,474	1.89	3.8	
Options vested and expected to vest at December 31, 2008	13,423	1.74	4.9	
Shares available for future grant	3,541			

The total intrinsic value of options exercised for the years ended December 31, 2008, 2007 and 2006 was $0.0 million, $0.5 million and $0.2 million, respectively.

At December 31, 2008, total unrecognized compensation cost related to non-vested stock options granted under the plans for service-based awards was $1.8 million. That cost is expected to be recognized over a weighted-average period of 2.6 years.

At December 31, 2008, total unrecognized compensation cost related to non-vested stock options granted under the plans for market-based awards was $2.6 million. That cost is expected to be recognized over a weighted-average period of 3.3 years, but would be accelerated if market capitalization targets are achieved earlier than estimated.

At December 31, 2008, total unrecognized compensation cost related to non-vested stock options granted under the plans for performance-based awards was $1.0 million. That cost is expected to be recognized over a weighted-average period of 3.1 years but would be accelerated if stock price targets are achieved earlier than estimated.

The Company issued deferred stock units during the year ended December 31, 2008, to all non-employee directors as annual service grants and during the years ended December 31, 2008, 2007 and 2006, to certain directors who elected to defer all or a portion of directors fees earned. Deferred stock units issued to directors in lieu of directors fees are 100% vested at the grant date; matching deferred stock units equal to 25% of directors fees deferred vest one year following the grant date. Deferred stock units are payable in stock on a one-for-one basis. Payments in respect of the deferred stock units are generally distributable following termination of employment or service, death or permanent disability. Total compensation expense for deferred stock units and restricted stock was approximately $0.2 million, $0.1 million and $0.2 million for the years ended December 31, 2008, 2007 and 2006, respectively. Unrecognized compensation expense related to deferred stock units and restricted stock at December 31, 2008 was $0.2 million. The total fair value of deferred stock units vested during the years ended December 31, 2008, 2007 and 2006 was $0.3 million, $0.1 million and $0.4 million, respectively.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred stock unit and restricted stock activity is summarized below:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2006	71	$ 2.82
Granted	88	2.63
Vested	(91)	3.20
Forfeited		
Unvested at December 31, 2007	68	2.51
Granted	381	1.21
Vested	(219)	1.86
Forfeited	(29)	2.33
Unvested at December 31, 2008	201	1.36

Consolidated Partner Company

The fair value of the Company s consolidated partner company stock-based awards issued to employees during the years ended December 31, 2008, 2007 and 2006 was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. Expected volatility for Clarient, the Company s only publicly held consolidated partner company, was based on historical volatility for a period equal to the stock option s expected life.

	Year Ended December 31,		
	2008	2007	2006
Dividend yield	0%	0%	0%
Expected volatility	68% to 80%	87%	57% to 89%
Average expected option life	5 years	4 to 6 years	3 to 5 years
Risk-free interest rate	1.6% to 3.4%	3.6% to 4.3%	4.5% to 5.2%

Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period is the period over which the award vests. The Company s consolidated partner company recorded $1.8 million, $1.8 million and $1.2 million of stock-based compensation expense in continuing operations related to these awards during the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008, total unrecognized compensation cost related to non-vested stock options granted under the consolidated partner company plans was $2.8 million. That cost is expected to be recognized over a weighted-average period of 3.1 years.

12. Other Income (Loss)

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Gain on repurchase of convertible debentures, net	$ 9,030	$	$ 4,333

Gain on sale of companies and funds, net	1,737		1,181
Gain on distributions from private equity funds	1,042		
Gain on trading securities			321
Impairment charges on cost method partner companies	(2,251)	(5,331)	
Other	717	242	(433)
	$ 10,275	$ (5,089)	$ 5,402

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2008, the Company recognized a net gain of $9.0 on the repurchase of $43 million in face value of the 2024 Debentures. During 2006, the Company recognized a net gain of $4.3 million on the repurchase of $21 million in face value of the 2024 Debentures.

Gain on sale of companies and funds for the years ended December 31, 2008 and 2006 was primarily related to the sale of cost method holdings whose carrying value was zero.

Gain on trading securities in 2006 primarily reflects a net gain of $0.4 million on the sale of our holdings in Traffic.com, Inc.

The Company recorded impairment charges for certain holdings accounted for under the cost method determined to have experienced an other than temporary decline in value in accordance with its existing policy regarding impairment of ownership interests in and advances to companies. In 2008, the Company recorded an impairment charge of $2.3 million for Kadoo. The carrying value of Kadoo at December 31, 2008 was $0.0 million. Subsequent to that date, Kadoo ceased operations. In 2007, the Company recorded an impairment charge of $5.3 million for Ventaira Pharmaceuticals. The carrying value of Ventaira was $0.0 million at December 31, 2007, and as of that date, Ventaira had permanently ceased operations.

13. Income Taxes

The provision (benefit) for income taxes was as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Current, primarily state	$ (26)	$ (696)	$ (1,270)
Deferred, primarily state			
	$ (26)	$ (696)	$ (1,270)

The total income tax provision (benefit) differed from the amounts computed by applying the U.S. federal income tax rate of 35% to net loss from continuing operations before income taxes as a result of the following:

	Year Ended December 31,		
	2008	2007	2006
Statutory tax benefit	(35.0)%	(35.0)%	(35.0)%
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	(0.1)	(1.5)	(4.6)
Non-deductible amortization and impairment			
Valuation allowance	34.1	33.5	37.9
Other adjustments	0.9	1.5	(2.9)
	(0.1)%	(1.5)%	(4.6)%

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	As of December 31, 2008	2007
	(In thousands)	
Deferred tax asset (liability):		
Carrying values of partner companies and other holdings	$ 54,278	$ 33,908
Tax loss and credit carryforwards	188,723	183,843
Accrued expenses	6,758	4,008
Intangible assets	(19)	(55)
Other	9,281	7,055
	259,021	228,759
Valuation allowance	(259,021)	(228,759)
Net deferred tax liability	$	$

The Company has not recognized gross deferred tax assets for the difference between the book and tax basis of its holdings in the stock of certain consolidated partner companies where it does not believe it will dispose of the asset in the foreseeable future.

As of December 31, 2008, the Company and its subsidiaries consolidated for tax purposes had federal net operating loss carryforwards and federal capital loss carryforwards of approximately $213 million and $182 million, respectively. These carryforwards expire as follows:

	Total
	(In thousands)
2009	$ 1,086
2010	14,055
2011	3,226
2012	49,509
2013 and thereafter	326,702
	$ 394,578

Limitations on utilization of both the net operating loss carryforward and capital loss carryforward may apply.

In assessing the recoverability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has determined that it is more likely than not that certain future tax benefits may not be realized as a result of current and future income. Accordingly, a valuation allowance has been recorded against substantially all of the Company s deferred tax assets. In the event of a decrease in the valuation allowance in future years, a portion of the decrease will reduce the Company s recorded goodwill for certain deferred tax assets acquired as part of the purchase of consolidated partner companies and currently requiring a valuation allowance.

Clarient, the Company s consolidated partner company, which is not consolidated for tax return purposes, had additional federal net operating loss carryforwards of $122 million, which expire in various amounts from 2011 to 2028. Limitations on utilization of the net operating loss carryforwards may apply. Accordingly, valuation allowances have been provided to account for the potential limitations on utilization of these tax benefits.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the criteria for recognizing tax benefits related to uncertain tax positions under SFAS No. 109, Accounting for Income Taxes , and requires additional financial statement disclosure. FIN 48 requires that the Company recognizes in its consolidated financial statements the impact of a tax position if that position is more likely than not to be sustained upon examination, based on the technical merits of the position.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At January 1, 2007, the Company had accrued $0.8 million for unrecognized tax benefits, including $0.2 million for the payment of penalties and interest. Upon adoption of FIN 48 the Company identified an additional $3.2 million of uncertain tax positions that the Company did not believe met the recognition threshold under FIN 48 which is more likely than not to be sustained upon examination. Because the $3.2 million of uncertain tax positions had not been utilized and had a full valuation allowance established, the Company reduced its gross deferred tax asset and valuation allowance by $3.2 million. The adoption of FIN 48 had no net impact on the Company s consolidated results of operations and financial position. All uncertain tax positions relate to unrecognized tax benefits that would impact the effective tax rate when recognized.

The Company does not expect any material increase or decrease in its income tax expense, in the next twelve months, related to examinations or changes in uncertain tax positions.

Changes in the Company s uncertain tax positions for the years ended December 31, 2008 and 2007 were as follows:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Balance at beginning of year	$ 44	$ 754
Settlements/lapses in statutes of limitation	(30)	(710)
Balance at end of year	$ 14	$ 44

The Company and its consolidated partner companies file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax years 2005 and forward remain open for examination for federal tax purposes and tax years 2003 and forward remain open for examination for the Company s more significant state tax jurisdictions. To the extent utilized in future years tax returns, net operating loss and capital loss carryforwards at December 31, 2008 will remain subject to examination until the respective tax year is closed. The Company recognizes penalties and interest accrued related to income tax liabilities in the provision (benefit) for income taxes in its Consolidated Statements of Operations.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Net Income (Loss) Per Share

The calculations of net income (loss) per share were:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands except per share data)		
Basic:			
Net loss from continuing operations	$ (42,777)	$ (46,481)	$ (26,402)
Net income (loss) from discontinued operations	(9,236)	(19,387)	71,845
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443
Average common shares outstanding	122,767	122,352	121,476
Net loss per share from continuing operations	$ (0.35)	$ (0.38)	$ (0.22)
Net income (loss) from discontinued operations	(0.07)	(0.16)	0.59
Net income (loss) per share	$ (0.42)	$ (0.54)	$ 0.37
Diluted:			
Net loss from continuing operations	$ (42,777)	$ (46,481)	$ (26,402)
Net income (loss) from discontinued operations	(9,236)	(19,387)	71,845
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443
Average common shares outstanding	122,767	122,352	121,476
Net loss per share from continuing operations	$ (0.35)	$ (0.38)	$ (0.22)
Net income (loss) from discontinued operations	(0.07)	(0.16)	0.59
Diluted net income (loss) per share	$ (0.42)	$ (0.54)	$ 0.37

Basic and diluted average common shares outstanding for purposes of computing net income (loss) per share includes outstanding common shares and vested deferred stock units (DSUs).

If a consolidated or equity method partner company has dilutive stock options, unvested restricted stock, DSUs, warrants or securities outstanding, diluted net loss per share is computed by first deducting from net loss the income attributable to the potential exercise of the dilutive securities of the partner company. This impact is shown as an adjustment to net loss for purposes of calculating diluted net loss per share.

The following potential shares of common stock and their effects on income were excluded from the diluted net loss per share calculation because their effect would be anti-dilutive:

At December 31, 2008, 2007 and 2006, options to purchase 20.0 million, 21.4 million and 18.7 million shares of common stock, respectively, at prices ranging from $0.65 to $6.57 per share, were excluded from the calculation.

At December 31, 2008, 2007 and 2006, unvested restricted stock units and DSUs convertible into 0.1 million, 0.1 million and 0.1 million shares of stock, respectively, were excluded from the calculations. At December 31, 2008, 2007 and 2006 a total of 11.9 million, 17.9 million and 19.3 million shares, respectively, related to the Company s 2024 Debentures (See Note 8) representing the weighted average effect of assumed conversion of the 2024 Debentures were excluded from the calculation.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Related Party Transactions

In May 2001, the Company entered into a $26.5 million loan agreement with Warren V. Musser, the Company s former Chairman and Chief Executive Officer. Through December 31, 2008, the Company recognized impairment charges against the loan of $15.7 million. The Company s efforts to collect Mr. Musser s outstanding loan obligation have included the sale of existing collateral, obtaining and selling additional collateral, litigation and negotiated resolution. Since 2001 and through December 31, 2008, the Company received a total of $16.2 million in cash payments on the loan. In December 2006, the Company restructured the obligation to reduce the amount outstanding to $14.8 million, bearing interest at a rate of 5.0% per annum, in order to obtain new collateral, which is expected to be the primary source of repayment. Subsequent to the restructuring of the obligation, the Company received nominal amounts of cash from the sale of collateral in 2008 and 2007 and $1.0 million in 2006, which exceeded the Company s then carrying value of the loan. The excess is reflected as Recovery related party in the Consolidated Statements of Operations. The carrying value of the loan at December 31, 2008 was zero.

In the normal course of business, the Company s directors, officers and employees hold board positions of companies in which the Company has a direct or indirect ownership interest.

The Company s Chairman is the President and CEO of TL Ventures. The Company had deployed or committed a total of $67.0 million in the seven TL Ventures and EnerTech Capital funds (a fund family related to TL Ventures). The Company owned less than 7% of the partnership interests of each of these funds prior to the sale of certain interests the Company had in the funds.

16. Commitments and Contingencies

The Company, and its partner companies, are involved in various claims and legal actions arising in the ordinary course of business and which may from time to time arise from facility lease terminations. While in the current opinion of the Company the ultimate disposition of these matters will not have a material adverse effect on the Company s consolidated financial position or results of operations, no assurance can be given as to the outcome of these actions, and one or more adverse rulings could have a material adverse effect on the Company s consolidated financial position and results of operations or that of its partner companies.

The Company and its consolidated partner company conduct their operations in leased facilities and lease machinery and equipment under leases expiring at various dates to 2015. Total rental expense under operating leases was $1.9 million, $2.1 million and $1.9 million in 2008, 2007 and 2006, respectively. Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2008, are (in millions): $2.1 2009; $2.2 2010; $2.2 2011; $2.2 2012; $2.2 2013; and $3.7 thereafter.

The Company had the following outstanding guarantees at December 31, 2008:

	Amount	Debt Included on Consolidated Balance Sheet
	(In thousands)	
Clarient credit facility	$ 12,300	$ 9,000
Other guarantees	3,750	
Total	$ 16,050	$ 9,000

The Company has committed capital of approximately $8.1 million, including conditional commitments to provide non-consolidated partner companies with additional funding and commitments made to various private equity funds in prior years. These commitments will be funded over the next several years, including approximately $6.5 million which is expected to be funded during the next 12 months.

Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner of certain private equity funds (the clawback). The maximum clawback the Company could be

required to return due to our general partner interest is approximately $3.6 million, of which $2.5 million was reflected in Accrued expenses and other current liabilities and $1.1 million was reflected in other long-term liabilities on the Consolidated Balance Sheet at December 31, 2008. The Company paid $3.0 million of its estimated claw back liabilities in 2008.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s ownership in the funds which have potential clawback liabilities ranges from 19-30%. The clawback liability is joint and several, such that the Company may be required to fund the clawback for other general partners should they default. The funds have taken several steps to reduce the potential liabilities should other general partners default, including withholding all general partner distributions in escrow and adding rights of set-off among certain funds. The Company believes its liability due to the default of other general partners is remote.

In anticipation of the sale of Pacific Title & Art Studio in the first quarter of 2007, the Company permitted the employment agreement of the Pacific Title & Art Studio CEO to expire without renewal, and thereby his employment ceased. Following the sale, the former CEO demanded payment of severance benefits under his employment agreement, as well as payment of his deferred stock units and other amounts substantially in excess of the maximum amounts the Company believed were arguably due. The former CEO and the Company thereafter engaged in negotiation, but were, ultimately, unable to settle on the appropriate amounts due. On or about August 13, 2007, the former CEO filed a complaint in the Superior Court of the State of California, County of Los Angeles, Central District, against the Company and Pacific Title & Art Studio, alleging, among other things: wrongful termination, conversion, unfair competition, violation of the labor code, breach of contract and negligence. On or about March 28, 2008, Plaintiff amended his complaint to add as a defendant the party which purchased Pacific Title & Art Studio from the Company and to add several further causes of action. In his amended complaint, the former CEO made claims for compensatory damages in excess of $24.6 million, plus exemplary and punitive damages and interest. In April 2008, the Company made a payment to the former CEO, through Pacific Title Art Studio, in the amount of approximately $2.4 million, net of applicable withholdings, representing amounts the Company believes were owed to the Plaintiff under his employment agreement and deferred stock units. In September 2008, the former CEO and the defendants settled this matter. The Company contributed $0.25 million to the amounts paid to the Plaintiff to settle this matter in addition to amounts contributed by the Company s insurance carrier and the other defendants. This amount, plus legal fees related to the settlement of this matter, was included within Loss from discontinued operations for 2008.

In October 2001, the Company entered into an agreement with Mr. Musser, its former Chairman and Chief Executive Officer, to provide for annual payments of $650,000 per year and certain health care and other benefits for life. The related current liability of $0.8 million was included in Accrued expenses and the long-term portion of $3.4 million was included in Other long-term liabilities on the Consolidated Balance Sheet at December 31, 2008.

The Company has agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or an employee terminates his employment for good reason. The maximum aggregate exposure under the agreements was approximately $8 million at December 31, 2008.

17. Parent Company Financial Information

Parent company financial information is provided to present the financial position and results of operations of the Company as if the consolidated partner companies (see Note 1) were accounted for under the equity method of accounting for all periods presented during which the Company owned its interest in these companies.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Parent Company Balance Sheets

	As of December 31, 2008	2007
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 73,213	$ 94,685
Cash held in escrow current	6,433	20,345
Marketable securities	14,701	590
Restricted marketable securities	1,990	3,904
Other current assets	356	691
Assets held-for-sale		77,704
Total current assets	96,693	197,919
Ownership interests in and advances to companies	105,955	97,955
Long-term restricted marketable securities		1,949
Cash held in escrow long-term	501	2,341
Other	1,364	2,565
Total Assets	$ 204,513	$ 302,729
Liabilities and Shareholders Equity:		
Current liabilities	$ 8,173	$ 15,494
Long-term liabilities	5,630	5,012
Convertible senior debentures	86,000	129,000
Shareholders equity	104,710	153,223
Total Liabilities and Shareholders Equity	$ 204,513	$ 302,729

Parent Company Statements of Operations

	Year Ended December 31, 2008	2007	2006
	(In thousands)		
Operating expenses	$ (18,415)	$ (22,783)	$ (24,346)
Other income (loss), net	10,275	(5,089)	5,441
Recovery related party	5	12	360
Interest income	3,076	7,460	6,703
Interest expense	(3,852)	(4,220)	(4,617)
Equity loss	(33,896)	(22,571)	(11,227)
Net loss from continuing operations before income taxes	(42,807)	(47,191)	(27,686)
Income tax benefit	30	710	1,284
Equity income (loss) attributable to discontinued operations	(9,236)	(19,387)	71,845
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Parent Company Statements of Cash Flows

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Cash Flows from Operating Activities:			
Net income (loss)	$ (52,013)	$ (65,868)	$ 45,443
Adjustments to reconcile to net cash used in operating activities:			
Equity (income) loss from discontinued operations	9,236	19,387	(71,845)
Depreciation	166	195	197
Equity loss	33,896	22,571	11,227
Non-cash compensation charges	1,738	3,530	4,037
Other income, net	(10,275)	5,089	(5,441)
Recovery related party			(360)
Changes in assets and liabilities, net of effect of acquisitions and dispositions	3,128	(1,681)	4,703
Net cash used in operating activities	(14,124)	(16,777)	(12,039)
Cash Flows from Investing Activities			
Proceeds from sales of available-for-sale and trading securities			3,551
Proceeds from sales of and distributions from companies and funds	4,263	2,783	1,530
Advances to partner companies	(23,731)	(4,182)	
Repayment of advances to companies and funds	6,913		
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(30,496)	(61,025)	(52,596)
Repayment of note receivable-related party, net			360
Increase in marketable securities	(75,809)	(111,858)	(208,514)
Decrease in marketable securities	61,698	205,422	146,129
Capital expenditures	(28)	(7)	(101)
Other, net			72
Proceeds from sale of discontinued operations	84,517	19,655	93,410
Net cash provided by (used in) investing activities	27,327	50,788	(16,159)
Cash Flows from Financing Activities:			
Repurchase of convertible senior debentures	(33,494)		(16,215)
Decrease in restricted cash			1,098
Advance (to) from consolidated partner company			(5,500)
Issuance of Company common stock, net	115	741	448
Repurchase of Company common stock	(1,296)		
Net cash provided by (used in) financing activities	(34,675)	741	(20,169)

Net Increase (Decrease) in Cash and Cash Equivalents	(21,472)	34,752	(48,367)
Cash and Cash Equivalents at beginning of period	94,685	59,933	108,300
Cash and Cash Equivalents at end of period	$ 73,213	$ 94,685	$ 59,933

Parent Company Cash and cash equivalents excludes Marketable securities, which consists of longer-term securities, including commercial paper and certificates of deposit.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Supplemental Cash Flow Information

During the years ended December 31, 2008, 2007 and 2006, the Company converted $2.1 million, 0.0 million and $0.2 million, respectively, of advances to partner companies into ownership interests in partner companies.

Interest paid in 2008, 2007 and 2006 was $5.0 million, $5.3 million and $5.3 million, respectively, of which $3.4 million in 2008, $3.4 million in 2007 and $3.7 million in 2006 was related to the Company s 2024 Debentures.

Cash paid for taxes in the years ended December 31, 2008, 2007 and 2006 was $0.0 million, $0.0 million and $0.3 million, respectively.

During the year ended December 31, 2006, the Company received distributions from a private equity fund of common shares of Arbinet-the-exchange (Arbinet), valued at $0.5 million on the date of distribution. The Arbinet shares were sold during 2006 for net cash proceeds of $0.3 million.

19. Change in Accounting Principle and Adjustment of Expense Classifications

During the third quarter, 2008, the Company increased its ownership interest in Authentium to the 20.0% threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Authentium. The Company has adjusted the financial statements for all prior periods presented to retrospectively apply the equity method of accounting for its holdings in Authentium since the initial date of acquisition in April 2006. The effect of the change was to decrease Ownership interests in and advances to partner companies by $1.5 million as of December 31, 2007 and to increase Equity loss by $1.0 million and $0.5 million for the years ended December 31, 2007 and 2006.

During the fourth quarter of 2008, Clarient determined that it had previously misclassified certain expenses within Selling, general and administrative expenses and Cost of sales. The most significant amounts relate to compensation and fringe benefits for certain pathology, laboratory and client services personnel and allocated facility-related expenses. The misclassified expenses had no impact on the Company s reported earnings within its previously filed Consolidated Financial Statements.

In accordance with Staff Accounting Bulletin (SAB) No. 99, Materiality , and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements , the Company evaluated the materiality of the errors from qualitative and quantitative perspectives and concluded that the errors in presentation were immaterial to all Consolidated Financial Statements previously filed on Form 10-K or Form 10-Q.

The Company adjusted its Consolidated Financial Statements as summarized below. Accordingly, the quarterly financial information (unaudited) presented in Note 21 has also been adjusted.

	December 31, 2007		December 31, 2006	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted
Cost of sales	$ 22,386	$ 26,914	$ 15,613	$ 19,824
Selling general and administrative expenses	55,311	50,783	49,135	44,924
Loss from continuing operations	(46,481)	(46,481)	(26,402)	(26,402)

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Operating Segments

As of December 31, 2008 the Company held an interest in one majority-owned partner company, Clarient, and minority-owned partner companies. During the first quarter of 2008, the Company re-evaluated its reportable operating segments in accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. As a result of the re-evaluation, the Company s reportable operating segments are now as follows: i) Clarient, its publicly traded consolidated partner company, ii) Life Sciences and iii) Technology.

The Life Sciences segment included the following partner companies as of December 31, 2008: Advanced BioHealing, Alverix, Avid Radiopharmaceuticals, Cellumen, Molecular Biometrics, NuPathe, Rubicor, Tengion and Garnet BioTherapeutics.

The Technology segment included the following partner companies as of December 31, 2008: Advantedge Healthcare Solutions, Authentium, Beyond.com, Bridgevine, Kadoo, GENBAND, Portico Systems and Swaptree.

Results of the Life Sciences and Technology segments reflect the equity income (loss) of their respective equity method partner companies, other income (loss) associated with cost method partner companies and the gains or losses on the sale of their respective partner companies.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s reportable operating segments for the year ended December 31, 2007 were: i) Acsis, ii) Alliance Consulting, iii) Clarient, iv) Laureate Pharma and v) Other Companies. Acsis, Alliance Consulting and Laureate Pharma were majority-owned partner companies which are now reported within discontinued operations due to the Bundle Transaction. The Other Companies segment consisted of the operations of non-consolidated partner companies (currently separate segments Life Sciences and Technology) and the Company s ownership in private equity funds (currently included within Other Items). The Other Companies segment also included the gain or loss on the sale of companies (currently included within the respective Life Sciences and Technology segments) and private equity funds (currently included within Other Items), except for gains and losses included in discontinued operations.

Management evaluates its Clarient segment performance based on revenue, operating income (loss) and income (loss) before income taxes, which reflects the portion of income (loss) allocated to minority shareholders.

Management evaluates its Life Sciences and Technology segments performance based on net loss which is based on the number of partner companies accounted for under the equity method, the Company s voting ownership percentage in these partner companies and the net results of operations of these partner companies and any impairment charges or gain (loss) on sale of partner companies.

Other Items include certain expenses which are not identifiable to the operations of the Company s operating business segments. Other Items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, including legal and finance, interest income, interest expense, other income (loss) and equity income (loss) related to private equity fund holdings. Other Items also include income taxes, which are reviewed by management independent of segment results.

The following tables reflect the Company s consolidated operating data by reportable segment. Segment results include the results of Clarient, the Company s consolidated partner company, impairment charges, gains or losses related to the disposition of partner companies (except those reported in discontinued operations) the Company s share of income or losses for entities accounted for under the equity method and the mark-to-market of trading securities. All significant intersegment activity has been eliminated in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its consolidated partner company.

Revenue is attributed to geographic areas based on where the services are performed or the customer s shipped to location. A majority of the Company s revenue is generated in the United States.

As of December 31, 2008 and 2007, the Company s assets were primarily located in the United States.

Segment assets in Other items included primarily cash, cash equivalents and marketable securities of $87.9 million and $95.3 million at December 31, 2008 and 2007, respectively, excluding discontinued operations.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following represents segment data from continuing operations:

	For the Year Ended December 31, 2008					
	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
			(In thousands)			
Revenue	$ 73,736	$	$	$ 73,736	$	$ 73,736
Operating loss	(1,600)			(1,600)	(18,415)	(20,015)
Net income (loss) from continuing operations	805	(23,858)	(12,947)	(36,000)	(6,777)	(42,777)
Segment Assets:						
December 31, 2008	48,283	36,225	41,050	125,558	106,844	232,402
December 31, 2007	39,502	40,829	42,297	122,628	135,447	258,075

	For the Year Ended December 31, 2007					
	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
			(In thousands)			
Revenue	$ 42,995	$	$	$ 42,995	$	$ 42,995
Operating loss	(11,919)			(11,919)	(22,783)	(34,702)
Net loss from continuing operations	(7,379)	(15,229)	(5,249)	(27,857)	(18,624)	(46,481)

	For the Year Ended December 31, 2006					
	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
			(In thousands)			
Revenue	$ 27,723	$	$	$ 27,723	$	$ 27,723
Operating loss	(12,679)			(12,679)	(24,346)	(37,025)
Net loss from continuing operations	(7,481)	(2,456)	(863)	(10,800)	(15,602)	(26,402)

Other Items

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Corporate operations	$ (6,803)	$ (19,320)	$ (16,872)
Income tax benefit	26	696	1,270
	$ (6,777)	$ (18,624)	$ (15,602)

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Selected Quarterly Financial Information (Unaudited)

The following quarterly financial information has been restated for discontinued operations (see Note 2), change in accounting principle (see Note 19) and adjustment of expense classifications (see Note 19).

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share data)			
2008:				
Revenue	$ 15,886	$ 16,916	$ 18,997	$ 21,937
Cost of sales	7,397	8,510	8,615	8,485
Selling, general and administrative	13,956	14,266	14,435	18,087
Total operating expenses	21,353	22,776	23,050	26,572
Operating loss	(5,467)	(5,860)	(4,053)	(4,635)
Other income (loss), net	360	2,263	7,685	(33)
Recovery related party	1	3		1
Interest income	929	790	913	465
Interest expense	(1,374)	(1,191)	(1,202)	(965)
Equity loss	(6,614)	(5,313)	(8,363)	(14,407)
Minority interest	387	1,769	928	180
Net loss from continuing operations before income taxes	(11,778)	(7,539)	(4,092)	(19,394)
Income tax (expense) benefit		(4)	30	
Net loss from continuing operations	(11,778)	(7,543)	(4,062)	(19,394)
Loss from discontinued operations, net of tax	(7,076)	(1,024)	(1,136)	
	$ (18,854)	$ (8,567)	$ (5,198)	$ (19,394)
Basic and diluted loss per share(a)				
Net loss from continuing operations	$ (0.10)	$ (0.06)	$ (0.03)	$ (0.16)
Net loss from discontinued operations	(0.05)	(0.01)	(0.01)	
	$ (0.15)	$ (0.07)	$ (0.04)	$ (0.16)
2007:				
Revenue	$ 8,829	$ 9,873	$ 11,936	$ 12,357
Cost of sales	6,423	6,554	6,653	7,284
Selling, general and administrative	11,974	11,556	13,727	13,526
Total operating expenses	18,397	18,110	20,380	20,810

Operating loss	(9,568)	(8,237)	(8,444)	(8,453)
Other income (loss), net	99	(788)	(4,431)	31
Recovery related party			12	
Interest income	2,139	2,169	1,763	1,449
Interest expense	(1,452)	(1,317)	(1,342)	(1,378)
Equity income (loss)	(1,993)	(3,654)	(4,407)	(5,124)
Minority interest	1,650	1,304	1,227	1,568
Net loss from continuing operations before income taxes	(9,125)	(10,523)	(15,622)	(11,907)
Income tax (expense) benefit	(14)	710		
Net loss from continuing operations	(9,139)	(9,813)	(15,622)	(11,907)
Loss from discontinued operations, net of tax	(2,807)	(4,232)	(8,738)	(3,610)
	$ (11,946)	$ (14,045)	$ (24,360)	$ (15,517)
Basic and diluted income (loss) per share(a)				
Net loss from continuing operations	$ (0.07)	$ (0.08)	$ (0.13)	$ (0.10)
Net loss from discontinued operations	(0.03)	(0.03)	(0.07)	(0.03)
	$ (0.10)	$ (0.11)	$ (0.20)	$ (0.13)

(a) Per share amounts for the quarters have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average common shares outstanding during each period. Additionally, in regard to diluted per share amounts only, quarterly amounts may not add to the annual amounts

because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive, and because of the adjustments to net income (loss) for the dilutive effect of partner company common stock equivalents and convertible securities.

The following tables summarize the effects of the adjustment discussed in Note 19 on the unaudited quarterly financial information.

	Quarter Ended March 31, 2008		Quarter Ended June 30, 2008		Quarter Ended September 30, 2008	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted	Previously Reported	As Adjusted
Cost of sales	$ 6,108	$ 7,397	$ 6,895	$ 8,510	$ 7,172	$ 8,615
Selling general and administrative expenses	15,245	13,956	15,881	14,266	15,878	14,435
Loss from continuing operations	(11,778)	(11,778)	(7,543)	(7,543)	(4,062)	(4,062)

	Quarter Ended March 31, 2007		Quarter Ended June 30, 2007		Quarter Ended September 30, 2007	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted	Previously Reported	As Adjusted
Cost of sales	$ 5,097	$ 6,423	$ 5,519	$ 6,554	$ 5,757	$ 6,653
Selling general and administrative expenses	13,300	11,974	12,591	11,556	14,623	13,727
Loss from continuing operations	(9,139)	(9,139)	(9,813)	(9,813)	(15,622)	(15,622)

	Quarter Ended December 31, 2007	
	Previously Reported	As Adjusted

Cost of sales	$ 6,013	$ 7,284
Selling general and administrative expenses	14,797	13,526
Loss from continuing operations	(11,907)	(11,907)

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Trade Accounts Receivable

The following table summarizes the activity in the allowance for doubtful accounts:

	(In thousands)
Balance, December 31, 2005	$ 947
Charged to costs and expenses	549
Charge-offs	(456)
Balance, December 31, 2006	1,040
Charged to costs and expenses	3,558
Charge-offs	(1,228)
Balance, December 31, 2007	3,370
Charged to costs and expenses	12,199
Charge-offs	(7,524)
Balance, December 31, 2008	$ 8,045

23. Subsequent Events

On February 6, 2009, the Company entered into a new loan agreement which provides the Company with a revolving credit facility in the maximum aggregate amount of $50 million that provides for borrowings, guarantees and issuances of letters of credit (subject to a $20 million sublimit). Actual availability under the credit facility will be based on the amount of cash maintained at the bank as well as the value of the Company s public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, the Company is required to maintain all of its depository and operating accounts and not less than 75% of its investment and securities accounts at the bank. The credit facility matures on December 31, 2010.

In conjunction with the execution of the loan agreement, the Company is terminating its prior revolving credit facility. Notwithstanding such termination, the Company will continue to guaranty the obligations of Clarient under its continuing credit facility with the bank and will maintain a cash account at the bank in the minimum amount of $12.3 million to support such guaranty. Clarient s credit facility matures on March 31, 2010.

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

None.

Item 9A. ***Controls and Procedures***

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act), that are designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, because of the continuing unremediated material weaknesses in internal control over financial reporting discussed in Management s Report on Internal Control Over Financial Reporting below, our disclosure controls and procedures were not effective as of December 31, 2008. In light of these material weaknesses, we performed additional post-closing procedures and analyses, which are not part of our internal control over financial reporting, in order to prepare the Consolidated Financial Statements included in this report. As a result of these procedures, we believe our Consolidated Financial Statements included in this report present fairly, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Our business strategy involves the acquisition of new businesses on an ongoing basis, most of which are young, growing companies. Typically, these companies historically have not had all of the controls and procedures they would need to comply with the requirements of the Securities Exchange Act of 1934 and the rules promulgated thereunder. These companies also frequently develop new products and services. Following an acquisition, or the launch of a new product or service, we work with the company s management to implement all necessary controls and procedures.

(b) Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim Consolidated Financial Statements will not be prevented or detected on a timely basis.

Management evaluated our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of December 31, 2008, our internal

control over financial reporting was not effective due to the existence of the following material weaknesses:

The accounting and finance organization at Clarient, our consolidated subsidiary, lacks policies and procedures that are effective at ensuring that financial reporting risks, including changes therein, within its accounting processes are identified in a timely manner and corresponding control activities are implemented. This material weakness contributed to the material weaknesses described below.

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Clarient s in-house billing system implemented in June 2008 did not include adequately designed internal controls to ensure the accuracy of pricing and contractual allowance information entered into its in-house billing system which is used to determine the amount of revenue and accounts receivable to recognize, therefore, such internal controls were not designed or operating effectively. This material weakness resulted in an overstatement of accounts receivable and revenue, which was corrected within the Consolidated Financial Statements contained herein.

Clarient did not design and maintain internal controls over its estimate of the allowance for doubtful accounts to ensure that changes in collection experience and other relevant factors were properly considered in the estimate of the allowance for doubtful accounts. This material weakness resulted in the misstatement of the allowance for doubtful accounts and bad debt expense. These misstatements were corrected within the Consolidated Financial Statements contained herein.

Our independent registered public accounting firm, KPMG LLP, audited the effectiveness of our internal control over financial reporting. Their opinion on the effectiveness of our internal control over financial reporting and their opinion on our Consolidated Financial Statements are included in Item 8 in this Form 10-K.

(c) Change in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(d) Remediation of Material Weaknesses

We have commenced efforts to address the material weaknesses in our internal control over financial reporting and the ineffectiveness of our disclosure controls and procedures as of December 31, 2008. Our plans include the following actions:

- Clarient will enhance its payor set-up documentation to include all appropriate fields to ensure an accurate recording of accounts receivable and revenue.
- Clarient will hire a Manager of Billing Planning and Analysis to ensure that there is a timely and accurate review of the key reports generated from its in-house billing system which supports the reporting of Clarient s accounts receivable and revenue.
- Clarient will enhance the training and supervision of accounting personnel who are responsible for monthly analysis of key accounts receivable and revenue reports generated from its in-house billing system.
- Clarient will continue to enhance its analysis of the calculation of the allowance for doubtful accounts so as to ensure the analysis adequately considers its overall collection experience and other relevant factors including but not limited to receivable age, payor class and industry trends.

Although the remediation efforts are underway, the above material weaknesses will not be considered remediated until new controls over financial reporting are fully designed and operating effectively for an adequate period of time.

Item 9B. ***Other Information***

None.

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Incorporated by reference to the portion of our Definitive Proxy Statement entitled Election of Directors, Corporate Governance and Board Matters and Section 16(a) Beneficial Ownership Reporting Compliance. Information about our Executive Officers is included in Annex to Part I above.

Item 11. ***Executive Compensation***

Incorporated by reference to the portions of our Definitive Proxy Statement entitled Compensation Discussion and Analysis, Compensation Committee Report and Executive Compensation.

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

Incorporated by reference to the portion of our Definitive Proxy Statement entitled Stock Ownership of Certain Beneficial Owners, Directors and Officers.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Our equity compensation plans provide a broad-based program designed to attract and retain talent while creating alignment with the long-term interests of our shareholders. Employees at all levels participate in our equity compensation plans. In addition, members of our Board of Directors (Board) and members of our Technology and Life Sciences Advisory Boards (Advisory Boards) receive stock options for their service on our Board and Advisory Boards, respectively. Members of our Board also receive deferred stock unit awards and are eligible to defer directors fees and receive deferred stock units with a value equal to the directors fees deferred and matching deferred stock units equal to 25% of the directors fees deferred.

Our Board is authorized to administer our equity compensation plans, adopt, amend and repeal the administrative rules relating to the plans, and interpret the provisions of the plans. Our Board has delegated to the Compensation Committee of the Board (the Compensation Committee) authority to administer our equity compensation plans.

Our Compensation Committee has the authority to select the recipients of grants under our equity compensation plans and determine the terms and conditions of the grants, including but not limited to (i) the number of shares of common stock covered by such grants; (ii) the type of grant; (iii) the dates upon which such grants vest; (iv) the exercise price of options (which is equal to the average of the high and low prices of a share of our common stock as reported on the New York Stock Exchange consolidated tape on the grant date) or the consideration to be paid in connection with restricted stock, stock units or other stock-based grants (which may be no consideration); and (iv) the term of the grant. Stock options typically vest as follows: (i) time-based stock options vest 25% on the first anniversary of the grant date and in 36 equal monthly installments thereafter; (ii) market-based stock options vest upon the achievement of certain specified levels of improvement in Safeguard s stock price; and (iii) performance-based stock options vest based upon the aggregate cash produced as a result of exit transactions involving Safeguard s partner companies relative to the amount of cash deployed in connection with such partner companies. Deferred stock units issued to directors are payable, on a one-for-one basis, in shares of Safeguard common stock following a director s termination of service on the Board. Deferred stock units issued to directors in lieu of cash compensation are fully vested at grant; deferred stock unit awards and matching deferred stock units awarded to directors generally vest on the first anniversary of the grant date.

The 2001 Plan provides for the grant of nonqualified stock options, stock appreciation rights, restricted stock, performance units, and other stock-based awards to employees, consultants or advisors of Safeguard and its subsidiaries, provided that no grants can be made under this plan to executive officers and directors of Safeguard. Under the NYSE rules that were in effect at the time this plan was adopted in 2001, shareholder approval of the plan was not required. This plan is administered by the Compensation Committee which, as described above, has the authority to issue equity grants under the 2001 Plan and to establish the terms and conditions of such grants. Except for the persons eligible to participate in the 2001 Plan and the inability to grant incentive stock options under the 2001 Plan, the terms of the 2001 plan are substantially the same as the other equity compensation plans approved by our shareholders (which have been described in previous filings).

A total of 5,400,000 shares of our common stock are authorized for issuance under the 2001 Plan. At December 31, 2008, 1,865,544 shares were subject to outstanding options, 1,803,809 shares were available for future issuance, and 1,730,647 shares had been issued under the 2001 Plan. If any option granted under the 2001 Plan expires or is

terminated, surrendered, canceled or forfeited, or if any shares of restricted stock, performance units or other stock-based grants are forfeited, the unused shares of common stock covered by such grants will again be available for grant under the 2001 Plan.

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Our Board is authorized to make appropriate adjustments in connection with the 2001 Plan to reflect any stock split, stock dividend, recapitalization, liquidation, spin-off or other similar event. The 2001 Plan also contains provisions addressing the consequences of any Reorganization Event or Change in Control (as such terms are defined in the 2001 Plan). If a Reorganization or Change of Control Event occurs, unless the Compensation Committee determines otherwise, all outstanding options and stock appreciation rights (SARs) that are not exercised will be assumed by, or replaced with comparable options or rights by, the surviving corporation (or a parent of the surviving corporation), and other outstanding grants will be converted to similar grants of the surviving corporation or a parent of the surviving corporation). Notwithstanding that provision, the Compensation Committee has the authority to take one or both of the following actions: (i) require that grantees surrender their outstanding options and SARs in exchange for a payment by Safeguard in cash or company stock, as determined by the Compensation Committee, in an amount equal to the amount by which the then fair market value of the shares of stock subject to the unexercised options and SARs exceeds the exercise price of the options or the base amount of the SARs, as applicable, or (ii) after giving grantees an opportunity to exercise their outstanding options and SARs or otherwise realize the value of all of their other grants, terminate any or all unexercised options, SARs and grants at such time as the Compensation Committee deems appropriate.

During 2005, the Compensation Committee granted employee inducement awards to two newly-hired executive officers. The awards were granted outside of Safeguard s existing equity compensation plans in accordance with NYSE rules and consisted of options to purchase up to an aggregate of 6,000,000 shares of Safeguard common stock. During 2007 and 2008, the Compensation Committee granted similar employee inducement awards to two other and one other, respectively, newly-hired executive officers. These awards were likewise granted outside of Safeguard s existing equity compensation plans in accordance with NYSE rules and consisted of options to purchase up to an aggregate of 4,000,000 shares of Safeguard common stock. All of these employee inducement awards were granted with an eight-year term and a per share exercise price equal to the average of the high and low prices of Safeguard common stock on the grant date. Following his termination of employment in May 2008, the employment inducement awards held by one of the executive officers to whom inducement grants were awarded in 2007, for an aggregate of 1,500,000 shares of Safeguard common stock, expired without value. Of the shares underlying the employee inducement awards that were outstanding at December 31, 2008, 2,125,000 shares are subject to time-based vesting, with an aggregate of 531,250 shares vesting on the first anniversary of the grant date and 1,593,750 shares vesting in 36 equal monthly installments thereafter. The remaining 6,375,000 shares underlying the employee inducement awards that were outstanding at December 31,2008 vest incrementally based upon the achievement of certain specified levels of increase in Safeguard s stock price. With the exception of the market-based vesting provisions, the terms and provisions of the employee inducement awards are substantially the same as options previously awarded to other executives under Safeguard s equity compensation plans.

The following table provides information as of December 31, 2008 about the securities authorized for issuance under our equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(1) (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)

Equity compensation plans approved by security holders (2)	10,735,307	$	1.7922	1,737,471
Equity compensation plans not approved by security holders (3)	10,365,544	$	1.5673	1,803,809
Total	21,100,851	$	1.6757	3,541,280

(1) The weighted average exercise price calculation excludes 1,086,141 shares underlying outstanding deferred stock units included in column (a) which are payable in stock, on a one-for-one basis.

(2) Represents awards granted, and shares available for issuance, under the 1999 Equity Compensation Plan and the 2004 Equity Compensation Plan. Includes 695,230 shares underlying deferred stock units awarded for no consideration and 390,911 shares underlying deferred stock units awarded to directors in lieu of all or a portion of

directors fees. Payments in respect of deferred stock units are generally distributable following termination of employment or service, death, permanent disability or retirement. The value of the deferred stock units was approximately $2.2 million based on the fair value of the stock on the various grant dates. The deferred stock units issued to directors in lieu of cash compensation are fully vested at grant; deferred stock unit awards and matching deferred stock units awarded to directors generally vest on the first anniversary of the grant date.

(3) Includes awards granted and shares available for issuance under the 2001 Plan and 8,500,000 employee inducement

awards.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Incorporated by reference to the portions of the Definitive Proxy Statement entitled Corporate Governance Principles and Board Matters Board Independence and Review and Approval of Transactions with Related Persons and Relationships and Transactions with Management and Others.

Item 14. ***Principal Accountant Fees and Services***

Incorporated by reference to the portion of the Definitive Proxy Statement entitled Independent Public Accountant Audit Fees.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) Consolidated Financial Statements and Schedules

Incorporated by reference to Item 8 of this Report on Form 10-K.

(b) Exhibits

The exhibits required to be filed as part of this Report are listed in the exhibit index below.

Exhibits

The following is a list of exhibits required by Item 601 of Regulation S-K filed as part of this Report. For exhibits that previously have been filed, the Registrant incorporates those exhibits herein by reference. The exhibit table below includes the Form Type and Filing Date of the previous filing and the location of the exhibit in the previous filing which is being incorporated by reference herein. Documents which are incorporated by reference to filings by parties other than the Registrant are identified in footnotes to this table.

		Incorporated Filing Reference	
Exhibit Number	**Description**	**Form Type & Filing Date**	**Original Exhibit Number**
2.1.1	Purchase Agreement, dated as of February 29, 2008, by and between Safeguard Scientifics, Inc., as Seller, and Saints Capital Dakota, L.P., as Purchaser.	Form 8-K 3/4/08	2.1
2.1.2	First Amendment to Purchase Agreement, dated May 6, 2008, by and between Safeguard Scientifics, Inc., as Seller, and Saints Capital Dakota, L.P., as Purchaser	Form 8-K 5/7/08	2.1
3.1	Seconded Amended and Restated Articles of Incorporation of Safeguard Scientifics, Inc.	Form 8-K 10/25/07	3.1
3.2	Amended and Restated By-laws of Safeguard Scientifics, Inc.	Form 8-K 10/25/07	3.2
4.1	Rights Agreement dated as of March 1, 2000 between Safeguard Scientifics, Inc. and ChaseMellon Shareholder Services LLC, as Rights Agent	Form 8-K 2/29/00	4
4.2	Indenture, dated as of February 18, 2004 between Safeguard Scientifics, Inc. and Wachovia Bank, National Association, as trustee, including the form of 2.625% Convertible Senior Debentures due 2024	Form 10-K 3/15/04	4.10
10.1*	Safeguard Scientifics, Inc. 1999 Equity Compensation Plan, as amended and restated on October 21, 2008	Form 10-Q 11/6/08	10.4
10.2	Safeguard Scientifics, Inc. 2001 Associates Equity Compensation Plan, as amended and restated on October 21, 2008	Form 10-Q 11/6/08	10.5

10.3*	Safeguard Scientifics, Inc. 2004 Equity Compensation Plan, as amended and restated on October 21, 2008	Form 10-Q 11/6/08	10.6
10.4*	Safeguard Scientifics, Inc. Executive Deferred Compensation Plan (amended and restated as of January 1, 2009)		
10.5*	Management Incentive Plan	Form 8-K 4/25/08	10.1
10.6*	Compensation Summary Non-employee Directors		
10.7*	Amended and Restated Agreement by and between Safeguard Scientifics, Inc. and Peter J. Boni dated December 5, 2008		

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Exhibit Number	Description	Incorporated Filing Reference: Form Type & Filing Date	Incorporated Filing Reference: Original Exhibit Number
10.8*	Amended and Restated Agreement by and between Safeguard Scientifics, Inc. and James A. Datin dated December 31, 2008		
10.9.1*	Agreement by and between Safeguard Scientifics, Inc. and Stephen Zarrilli dated as of May 28, 2008	Form 8-K 5/29/08	10.1
10.9.2*	Letter Amendment dated December 9, 2008 to Agreement by and between Safeguard Scientifics, Inc. and Stephen Zarrilli dated as of May 28, 2008		
10.10*	Agreement by and between Safeguard Scientifics, Inc. and Raymond J. Land dated May 24, 2007	Form 8-K 6/11/07	99.1
10.11*	Agreement by and between Safeguard Scientifics, Inc. and Kevin L. Kemmerer dated December 29, 2008		
10.12*	Amended and Restated Letter Agreement by and between Safeguard Scientifics, Inc. and Brian J. Sisko dated December 3, 2008		
10.13.1	Amended and Restated Loan and Security Agreement dated as of June 30, 2008 by and among Comerica Bank, Safeguard Delaware, Inc. and Safeguard Scientifics (Delaware), Inc.	Form 8-K 7/2/08	10.1
10.13.2	Amendment and Affirmation of Guaranty from Safeguard Scientifics, Inc. to Comerica Bank dated as of June 30, 2008	Form 10-Q 8/11/08	10.8.2
10.14.1	Amended and Restated Loan Agreement dated as of February 28, 2008, by and between Comerica Bank and Clarient, Inc.	Form 8-K 3/5/08	10.1
10.14.2	First Amendment and Waiver to Amended and Restated Loan Agreement, dated as of March 14, 2008, by and between Comerica Bank and Clarient, Inc.	(4)	10.2
10.14.3	Second Amendment to Amended and Restated Loan Agreement, dated as of March 21, 2008, by and between	(3)	10.82

	Comerica Bank and Clarient, Inc.		
10.14.4	Third Amendment and Consent to Amended and Restated Loan Agreement, dated as of July 31, 2008, by and between Comerica Bank and Clarient, Inc.	(5)	10.2
10.14.5	Fourth Amendment to Amended and Restated Loan Agreement, dated as of January 27, 2009, by and between Comerica Bank and Clarient, Inc.	(6)	10.2
10.14.6	Fifth Amendment to Amended and Restated Loan Agreement dated February 27, 2009, by and between Clarient, Inc. and Comerica Bank	(7)	10.2
10.14.7	Third Amended and Restated Unconditional Guaranty dated January 17, 2007 to Comerica Bank provided by Safeguard Delaware, Inc. and Safeguard Scientifics (Delaware), Inc. (on behalf of Clarient, Inc.)	(1)	10.2
10.14.8	Amended and Restated Reimbursement and Indemnity Agreement dated as of January 17, 2007, by Clarient, Inc. in favor of Safeguard Delaware, Inc. and Safeguard Scientifics (Delaware), Inc.	(1)	10.3
10.14.9	Amendment and Affirmation of Guaranty dated February 28, 2007 to Comerica Bank provided by Safeguard Delaware, Inc. and Safeguard Scientifics (Delaware), Inc. (on behalf of Clarient, Inc.)	(1)	10.5
10.15.1	Securities Purchase Agreement dated November 8, 2005 by and among Clarient, Inc. and the investors named therein	(2)	99.1

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Exhibit Number	Description	Incorporated Filing Reference Form Type & Filing Date	Original Exhibit Number
10.15.2	Form of Common Stock Purchase Warrant issued by Clarient, Inc. pursuant to the Securities Purchase Agreement dated November 8, 2005	(2)	99.3
10.16.1	Second Amended and Restated Senior Subordinated Revolving Credit Agreement dated February 27, 2009 by and between Safeguard Delaware, Inc. and Clarient, Inc.	(7)	10.3
10.17	Amended and Restated Registration Rights Agreement dated February 27, 2009 by and among Safeguard Delaware, Inc., Safeguard Scientifics, Inc., Safeguard Scientifics (Delaware), Inc. and Clarient, Inc.	(7)	10.4
10.18	Letter of Credit issued to W.P. Carey	Form 8-K 10/5/04	10.1
10.19	Purchase and Sale Agreement dated as of December 9, 2005 by and among HarbourVest VII Venture Ltd., Dover Street VI L.P. and several subsidiaries and affiliated limited partnerships of Safeguard Scientifics, Inc.	Form 10-K 3/13/06	10.36
14.1	Code of Business Conduct and Ethics	Form 10-Q 11/6/08	14.1
21.1	List of Subsidiaries		
23.1	Consent of Independent Registered Public Accounting Firm KPMG LLP		
31.1	Certification of Peter J. Boni pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
31.2	Certification of Stephen T. Zarrilli pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
32.1	Certification of Peter J. Boni pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2			

Certification of Stephen T. Zarrilli pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith

* These exhibits relate to management contracts or compensatory plans, contracts or arrangements in which directors and/or executive officers of the Registrant may participate.

(1) Incorporated by reference to the Quarterly Report on Form 10-Q filed on May 9, 2007 by Clarient, Inc. (SEC File No. 000-22677)

(2) Incorporated by reference to the Current Report on Form 8-K filed on November 9, 2005 by Clarient, Inc. (SEC File No. 000-22677)

(3) Incorporated by reference to the Annual Report on Form 10-K filed on April 1, 2008 by Clarient, Inc. (SEC File No. 000-226770)

(4) Incorporated by reference to the Quarterly Report on Form 10-Q filed on May 16, 2008 by Clarient, Inc. (SEC File No. 000-22677)

(5) Incorporated by reference to the Current Report on Form 8-K filed on August 5, 2008 by Clarient, Inc. (SEC File No. 000-22677)

(6) Incorporated by reference to the Current Report on Form 8-K filed on February 2, 2009 by Clarient, Inc. (SEC File No. 000-22677)

(7) Incorporated by reference to the Current Report on Form 8-K filed on March 2, 2009 by Clarient, Inc. (SEC File No. 000-22677)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Safeguard Scientifics, Inc.

By: PETER J. BONI
Peter J. Boni
President and Chief Executive Officer

Dated: March 19, 2009

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

Signature	Title	Date
Peter J. Boni Peter J. Boni	President and Chief Executive Officer and Director (Principal Executive Officer)	March 19, 2009
Stephen T. Zarrilli Stephen T. Zarrilli	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 19, 2009
Michael J. Cody Michael J. Cody	Director	March 19, 2009
Julie A. Dobson Julie A. Dobson	Director	March 19, 2009
Robert E. Keith, Jr. Robert E. Keith, Jr.	Chairman of the Board of Directors	March 19, 2009
Andrew E. Lietz Andrew E. Lietz	Director	March 19, 2009
George MacKenzie George MacKenzie	Director	March 19, 2009
George McClelland George McClelland	Director	March 19, 2009
Jack L. Messman	Director	March 19, 2009

Jack L. Messman		
John W. Poduska Sr.	Director	March 19, 2009
John W. Poduska Sr.		
John J. Roberts	Director	March 19, 2009
John J. Roberts		
Robert J. Rosenthal	Director	March 19, 2009
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23.1	Consent of Independent Registered Public Accounting Firm KPMG LLP		
31.1	Certification of Peter J. Boni pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
31.2	Certification of Stephen T. Zarrilli pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
32.1	Certification of Peter J. Boni pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2	Certification of Stephen T. Zarrilli pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		

Filed herewith

* These exhibits relate to management contracts or compensatory plans, contracts or arrangements in which directors and/or executive officers of the Registrant may participate.

(1)

Incorporated by reference to the Quarterly Report on Form 10-Q filed on May 9, 2007 by Clarient, Inc. (SEC File No. 000-22677)

(2) Incorporated by reference to the Current Report on Form 8-K filed on November 9, 2005 by Clarient, Inc. (SEC File No. 000-22677)

(3) Incorporated by reference to the Annual Report on Form 10-K filed on April 1, 2008 by Clarient, Inc. (SEC File No. 000-226770)

(4) Incorporated by reference to the Quarterly Report on Form 10-Q filed on May 16, 2008 by Clarient, Inc. (SEC File No. 000-22677)

(5) Incorporated by reference to the Current Report on Form 8-K filed on August 5, 2008 by Clarient, Inc. (SEC File No. 000-22677)

(6) Incorporated by reference to the Current Report on Form 8-K filed on February 2, 2009 by Clarient, Inc. (SEC File No. 000-22677)

(7) Incorporated by reference to the Current Report on Form 8-K filed on March 2, 2009 by Clarient, Inc. (SEC File No. 000-22677)