

SAFEGUARD SCIENTIFICS INC

Form 10-Q

November 05, 2009

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-Q**  
**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the Quarter Ended September 30, 2009**  
**Commission File Number 1-5620**  
**Safeguard Scientifics, Inc.**  
**(Exact name of registrant as specified in its charter)**

**Pennsylvania**  
*(State or other jurisdiction of  
incorporation or organization)*

**23-1609753**  
*(I.R.S. Employer ID No.)*

**435 Devon Park Drive**  
**Building 800**  
**Wayne, PA**  
*(Address of principal executive offices)*

**19087**  
*(Zip Code)*

**(610) 293-0600**

**Registrant's telephone number, including area code**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes  No

**Number of shares outstanding as of November 4, 2009**  
**Common Stock 20,403,210**

**SAFEGUARD SCIENTIFICS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
INDEX**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1 Financial Statements:	
<u>Consolidated Balance Sheets September 30, 2009 (unaudited) and December 31, 2008</u>	3
<u>Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 30, 2009 and 2008</u>	4
<u>Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 30, 2009 and 2008</u>	5
<u>Consolidated Statement of Shareholders Equity (unaudited) Nine Months Ended September 30, 2009</u>	6
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 4 Controls and Procedures</u>	44
<b>PART II OTHER INFORMATION</b>	
<u>Item 1A Risk Factors</u>	45
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	46
<u>Item 6 Exhibits</u>	47
<u>Signatures</u>	48
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.  
CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In thousands except per share data)</b>	
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 92,101	\$ 75,051
Cash held in escrow and restricted cash	6,433	6,433
Marketable securities	38,871	14,701
Restricted marketable securities		1,990
Accounts receivable, less allowances (\$8,045 2008)		20,465
Prepaid expenses and other current assets	726	1,507
<b>Total current assets</b>	<b>138,131</b>	<b>120,147</b>
Property and equipment, net	326	12,369
Ownership interests in and advances to companies (\$126,741 at fair value at September 30, 2009)	205,813	85,561
Goodwill		12,729
Cash held in escrow and restricted cash - long-term	476	501
Other	645	1,095
<b>Total Assets</b>	<b>\$ 345,391</b>	<b>\$ 232,402</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Current portion of credit line borrowings	\$	\$ 14,104
Current maturities of long-term debt		263
Accounts payable	344	3,337
Accrued compensation and benefits	3,007	5,758
Accrued expenses and other current liabilities	4,683	8,285
<b>Total current liabilities</b>	<b>8,034</b>	<b>31,747</b>
Long-term debt		345
Other long-term liabilities	5,126	9,600
Convertible senior debentures	84,725	86,000
Commitments and contingencies		
Shareholders' Equity (Note 3):		
Preferred stock, \$0.10 par value; 1,000 shares authorized		
Common stock, \$0.10 par value; 83,333 shares authorized; 20,390 and 20,265 shares issued and outstanding in 2009 and 2008, respectively	2,039	2,026
Additional paid-in capital	789,425	773,456
Accumulated deficit	(543,914)	(669,526)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Accumulated other comprehensive loss		(29)
Treasury stock, at cost	(44)	(1,217)
Total shareholders' equity	247,506	104,710
Total Liabilities and Shareholders' Equity	\$ 345,391	\$ 232,402

See Notes to Consolidated Financial Statements.

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands except per share data)</b>			
	<b>(Unaudited)</b>			
Revenue	\$	\$ 18,997	\$ 34,839	\$ 51,799
Operating Expenses:				
Cost of sales		8,615	13,811	24,522
Selling, general and administrative	4,237	14,435	32,309	42,657
Total operating expenses	4,237	23,050	46,120	67,179
Operating loss	(4,237)	(4,053)	(11,281)	(15,380)
Other income (loss), net	(1,908)	7,685	156,420	10,312
Interest income	111	913	379	2,632
Interest expense	(728)	(1,202)	(2,471)	(3,767)
Equity loss	(4,827)	(8,363)	(17,786)	(20,290)
Net income (loss) from continuing operations before income taxes	(11,589)	(5,020)	125,261	(26,493)
Income tax benefit		30	14	26
Net income (loss) from continuing operations	(11,589)	(4,990)	125,275	(26,467)
Income (loss) from discontinued operations, net of tax		(1,136)	1,500	(9,237)
Net income (loss)	(11,589)	(6,126)	126,775	(35,704)
Net (income) loss attributable to noncontrolling interest		928	(1,163)	3,085
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ (11,589)	\$ (5,198)	\$ 125,612	\$ (32,619)
Basic Income (Loss) Per Share:				
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.20)	\$ 6.14	\$ (1.15)
Net income (loss) from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders		(0.06)	0.05	(0.45)
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.26)	\$ 6.19	\$ (1.60)
Diluted Income (Loss) Per Share:				
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.20)	\$ 5.66	\$ (1.15)
		(0.06)	0.04	(0.45)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Net income (loss) from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders

Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.26)	\$ 5.70	\$ (1.60)
---	-----------	-----------	---------	-----------

Average shares used in computing income (loss) per share:

Basic	20,326	20,296	20,298	20,349
-------	--------	--------	--------	--------

Diluted	20,326	20,296	22,380	20,349
---------	--------	--------	--------	--------

Amounts attributable to Safeguard Scientifics, Inc. common shareholders:

Net income (loss) from continuing operations	\$ (11,589)	\$ (4,062)	\$ 124,717	\$ (23,383)
--	-------------	------------	------------	-------------

Net income (loss) from discontinued operations		(1,136)	895	(9,236)
--	--	---------	-----	---------

Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ (11,589)	\$ (5,198)	\$ 125,612	\$ (32,619)
---	-------------	------------	------------	-------------

See Notes to Consolidated Financial Statements.

Table of Contents

**SAFEGUARD SCIENTIFICS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30,	
	2009	2008
	(In thousands) (Unaudited)	
<b>Cash Flows from Operating Activities:</b>		
Cash flows from operating activities of continuing operations	\$ (15,537)	\$ (14,408)
Cash flows from operating activities of discontinued operations		(3,288)
Net cash used in operating activities	(15,537)	(17,696)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales of and distributions from companies and funds	61,272	3,557
Advances to partner companies	(1,100)	(4,210)
Repayment of advances to companies	5,679	
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(21,094)	(19,315)
Repayment of note receivable-related party, net		4
Increase in marketable securities	(54,382)	(63,010)
Decrease in marketable securities	30,212	2,814
Increase in restricted cash, net	(1,956)	
Capital expenditures	(2,144)	(3,279)
Deconsolidation of subsidiary cash	(2,667)	
Proceeds from sale of discontinued operations, net	1,500	83,934
Cash flows from investing activities of discontinued operations		(2,867)
Net cash provided by (used in) investing activities	15,320	(2,372)
<b>Cash Flows from Financing Activities:</b>		
Repurchase of convertible senior debentures	(1,194)	(30,000)
Borrowings on revolving credit facilities	23,726	24,143
Repayments on revolving credit facilities	(33,237)	(23,756)
Borrowings on term debt		672
Repayments on term debt	(107)	(2,520)
Issuance of common stock, net	41	115
Issuance of subsidiary equity, net	28,082	965
Repurchase of common stock	(44)	(1,296)
Cash flows from financing activities of discontinued operations		4,790
Net cash provided by (used in) financing activities	17,267	(26,887)
Net Increase (Decrease) in Cash and Cash Equivalents	17,050	(46,955)
		(1,055)



Changes in Cash and Cash Equivalents from, and advances to Acsis, Alliance Consulting and Laureate Pharma included in assets of discontinued operations

	17,050	(48,010)
Cash and Cash Equivalents at beginning of period	75,051	96,201
Cash and Cash Equivalents at end of period	\$ 92,101	\$ 48,191

See Notes to Consolidated Financial Statements.

Table of Contents

**SAFEGUARD SCIENTIFICS, INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

	Safeguard Scientifics, Inc. Shareholders								
	Accumulated Other Comprehensive			Additional		Treasury		Noncontrolling	
	Total	Accumulated Income Deficit	(Loss)	Common Stock Shares	Amount	Paid-In Capital	Shares	Amount	Interest
	(In thousands)								
<b>Balance December 31, 2008 (Note 3)</b>	\$ 104,710	\$ (669,526)	\$ (29)	20,265	\$ 2,026	\$ 773,456	155	\$ (1,217)	\$
Net income	126,775	125,612							1,163
Impact of subsidiary equity transactions	12,750		31			13,882			(1,163)
Stock options exercised, net	41			4		41	(1)		
Issuance of restricted stock, net	184			121	13	(1,046)	(153)	1,217	
Repurchase of common stock	(44)						4	(44)	
Stock-based compensation expense	3,092					3,092			
Other comprehensive loss	(2)		(2)						
<b>Balance September 30, 2009</b>	\$ 247,506	\$ (543,914)	\$	20,390	\$ 2,039	\$ 789,425	5	\$ (44)	\$

See Notes to Consolidated Financial Statements.

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. GENERAL**

The accompanying unaudited interim Consolidated Financial Statements of Safeguard Scientifics, Inc. (the Company) were prepared in accordance with accounting principles generally accepted in the United States of America and the interim financial statements rules and regulations of the SEC. In the opinion of management, these statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Consolidated Financial Statements. The interim operating results are not necessarily indicative of the results for a full year or for any interim period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The Consolidated Financial Statements included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-Q and included together with the Company's Consolidated Financial Statements and Notes thereto included in the Company's 2008 Annual Report on Form 10-K.

The Company evaluated subsequent events through November 5, 2009, the date the Consolidated Financial Statements as of and for the period ended September 30, 2009 were issued.

**2. SUBSIDIARY EQUITY TRANSACTIONS**

On March 25, 2009, Clariant, Inc. (Clariant) entered into a stock purchase agreement with Oak Investment Partners XII (Oak), pursuant to which Clariant agreed to sell up to an aggregate of 6.6 million shares of its Series A Convertible Preferred Stock in two or more tranches for aggregate consideration of up to \$50.0 million. Each preferred share is initially convertible, at any time, into four shares of Clariant's common stock, subject to certain adjustments.

The initial closing of the Oak private placement occurred on March 26, 2009, at which time Clariant issued 3.8 million preferred shares for aggregate consideration of \$29.1 million. After paying closing fees and legal expenses, Clariant used the proceeds to repay in full and terminate its revolving credit agreement with a bank and repay a portion of the outstanding balance of its credit facility with the Company. During the first quarter of 2009, the Company accounted for the change in the Company's ownership interest in Clariant as an equity transaction because the Company retained its controlling financial interest in Clariant. The Company recorded a \$14.1 million credit to additional paid-in capital in the first quarter of 2009 which represented the Company's increase in its investment in Clariant as a result of the Oak investment. In addition, the Company recorded an additional noncontrolling interest of \$14.0 million which represented the increase in noncontrolling interest as a result of the Oak investment.

On May 14, 2009, Clariant completed the second closing of the Oak private placement and issued 1.4 million preferred shares for aggregate consideration of \$10.9 million. Upon completion of the second closing, Clariant repaid in full and terminated its credit facility with the Company.

Upon the second closing, the Company's ownership interest in Clariant's issued and outstanding voting securities, on an as-converted basis, decreased from 50.2% to 47.3% and the Company deconsolidated its holdings in Clariant because it ceased to have a controlling financial interest in Clariant as of such date. The Company recognized an unrealized gain on deconsolidation of \$106.0 million in Other income (loss), net in the Consolidated Statements of Operations. The entire unrealized gain on deconsolidation related to the remeasurement to fair value of the Company's retained interest in Clariant as of the deconsolidation date of May 14, 2009.

**3. BASIS OF PRESENTATION**

The Company's Consolidated Financial Statements include the accounts of Clariant in continuing operations through May 14, 2009, the date of its deconsolidation. During 2008, certain consolidated partner companies were sold and are reported in discontinued operations. See Note 4.

The Company has elected to apply the fair value option to account for its retained interest in Clariant. Unrealized gains and losses on the mark-to-market of its holdings in Clariant and realized gains and losses on the sale of any of its holdings in Clariant are recognized in Income (loss) from continuing operations for all periods subsequent to the date that Clariant was deconsolidated. See Note 7.

The Company's voting interest in Cellumen, Inc. ( Cellumen ) was 55.2% as of September 30, 2009, on an as-converted basis. Due to the substantive participating rights of the minority shareholders in the significant operating decisions of Cellumen, the Company continues to account for its holdings in Cellumen under the equity method. See Note 16.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In July 2009, the Company's Board of Directors approved a one-for-six reverse stock split of the Company's common stock. The reverse split, which was approved by Safeguard shareholders in July 2008, became effective on August 27, 2009. The number of authorized shares of Company common stock was reduced from 500.0 million to 83.3 million. The reverse stock split did not negatively affect any of the rights of holders of Safeguard common stock, convertible debentures, options, deferred stock units or other securities convertible into the Company's common stock. All share and per share amounts have been restated for all periods presented to reflect the one-for-six reverse stock split. In addition, \$10.1 million was reclassified from Common stock to Additional paid-in capital at December 31, 2008 to reflect the one-for-six reverse stock split.

**4. DISCONTINUED OPERATIONS*****Clariant Technology Business***

In March 2007, Clariant sold its technology business and related intellectual property to Carl Zeiss MicroImaging, Inc. ( Zeiss ) for an aggregate purchase price of \$12.5 million. The \$12.5 million consisted of \$11.0 million in cash and an additional \$1.5 million in contingent purchase price, subject to the satisfaction of certain post-closing conditions through March 2009. Clariant recorded the \$1.5 million in income from discontinued operations in the first quarter of 2009 and received the \$1.5 million from Zeiss in the second quarter of 2009.

***Acsis, Alliance Consulting and Laureate Pharma***

In May 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 Sale, Acsis, Alliance Consulting and Laureate Pharma were consolidated 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.

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 Sale. In the second quarter of 2008, prior to the completion of the Bundle Sale, 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 Sale and recorded a pre-tax gain on disposal of \$1.4 million which was also recorded in discontinued operations.

The gross proceeds to the Company from the Bundle Sale were \$74.5 million, of which \$6.4 million was placed in escrow pending expiration of a claims period (see Note 17), plus amounts advanced to certain of the Bundle Companies during the time between the signing of the Bundle Sale 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 Sale.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Results of all discontinued operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands) (unaudited)			
Revenue	\$	\$	\$	\$ 45,712
Operating expenses				(49,652)
Impairment of carrying value				(3,634)
Other				(1,547)
Loss from operations				(9,121)
Gain (loss) on disposal, net of tax		(1,136)	1,500	(116)
Income (loss) from discontinued operations	\$	\$ (1,136)	\$ 1,500	\$ (9,237)

**5. FINANCIAL INSTRUMENTS**

The Company categorizes its financial instruments into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. Financial assets recorded at fair value on the Company's Consolidated Balance Sheets are categorized as follows:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following table provides the assets and liabilities measured at fair value on a recurring basis as of September 30, 2009:

	Carrying Value	Fair Value Measurement at September 30, 2009		
		Level 1	Level 2	Level 3
		(in thousands) (unaudited)		
Cash and cash equivalents	\$ 92,101	\$ 92,101	\$	\$
Cash held in escrow and restricted cash	6,433	6,433		
Marketable securities held-to-maturity:				
Commercial paper	5,885	5,885		
U.S. Treasury Bills	20,693	20,693		
Government agency bonds	6,382	6,382		
Certificates of deposit	5,911	5,911		
Ownership interest in Clariant	126,741	126,741		
	476	476		

Cash held in escrow and restricted cash  
long-term

\$ 264,622    \$ 264,622    \$            \$

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's holdings in Clariant are measured at fair value using quoted prices for Clariant's common stock as traded on the NASDAQ Capital Market which is considered a Level 1 input under the valuation hierarchy (see Note 7).

As described in Note 7, the Company recognized impairment charges of \$9.7 million related to cost-method partner companies during the three months ended September 30, 2009 measured as the amount by which the partner companies' carrying values exceeded their respective estimated fair values. The fair value measurements of these companies of \$3.6 at September 30, 2009 were based on Level 3 inputs as defined above. The inputs and valuation techniques used include discounted cash flows and valuation of comparable public companies.

As of September 30, 2009, the contractual maturities of the marketable securities were less than one year.

**6. RECENT ACCOUNTING PRONOUNCEMENTS**

In August 2009, the Financial Accounting Standards Board (FASB) issued ASC No. 2009-05. ASC No. 2009-05 provides amendments to FASB ASC 820-10 for the fair value measurement of liabilities. ASC No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets or another valuation technique that is consistent with the principles of FASB ASC 820. The amendments in the update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in the update also clarify that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are level 1 fair value measurements. The guidance provided in FASB ASC No. 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of FASB ASC No. 2009-05 did not have a material effect on the Company's consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, FASB Accounting Standards Codification (SFAS No. 168 or Codification) as the single source of authoritative non-governmental United States Generally Accepted Accounting Principles (US GAAP) to be launched on July 1, 2009. SFAS No. 168 replaces FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is for disclosure only and will not impact the Company's Consolidated Financial Statements.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS No. 165) as codified in ASC Topic 855. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS No. 165 sets forth the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

In April 2009, the FASB released FASB Staff Position (FSP) 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments as codified in ASC Topics 270 and 825, which requires disclosures about the fair value of financial instruments (FSP SFAS 107-1 and APB 28-1). This pronouncement amends FASB 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in the interim financial statements as well as in the annual financial



statements. FSP SFAS 107-1 and APB 28-1 also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information in interim financial statements. In addition, the FSP requires disclosures of the methods and significant assumptions used to estimate the fair value of those financial instruments. The Company adopted FSP SFAS 107-1 and APB 28-1 on June 30, 2009 and has provided the necessary additional disclosures.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In November 2008, the FASB's Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue No. 08-6,

Equity Method Accounting Considerations as codified in ASC Topic 323. 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 any 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 SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities as codified in ASC Topic 320, or the cost method under APB 18 as codified in ASC Topic 323, as appropriate. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008. The adoption of EITF 08-6 did not have a material impact on the Company's Consolidated Financial Statements. In June 2008, the EITF reached consensus on Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ( EITF 07-5 ) as codified in ASC Topic 815. EITF 07-5 clarifies how to determine whether certain instruments or features were indexed to an entity's own stock. EITF 07-5 replaced 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. The consensus is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of the consensus did not have a material impact on the Company's Consolidated Financial Statements.

In May 2008, the FASB issued FASB Staff Position ( FSP ) FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ( FSP APB 14-1 ) as codified in ASC Topic 470. FSP APB 14-1 requires the issuer of convertible debt instruments with cash settlement features to separately account for the liability and equity components of the instrument. The debt is recognized at the present value of its cash flows discounted using the issuer's nonconvertible debt borrowing rate. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. FSP APB 14-1 also requires an accretion of the resultant debt discount over the expected life of the debt. The adoption of FSP APB 14-1 did not have any impact on the Company's Consolidated Financial Statements because the convertible senior debentures issued by the Company do not include any cash settlement features within the scope of FSP APB 14-1.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets ( FSP FAS 142-3 ) as codified in ASC Topic 350. 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 adoption of FSP FAS 142-3 did not have a material impact on the Company's Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS No. 141(R) ) as codified in ASC Topic 805. 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;

Noncontrolling 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.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS No. 160 ) as codified in ASC Topic 810. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of noncontrolling interests (minority interests) as equity in the consolidated financial statements and separate from the parent's equity. 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. Losses attributable to the noncontrolling interest that exceed its basis in the subsidiary's equity result in a deficit noncontrolling interest reflected in the Consolidated Balance Sheet. Revenue, expenses, gains, losses, net income or loss are reported in the Consolidated Statements of Operations at the consolidated amounts, which include the amounts attributable to the owners of the parent and noncontrolling interest. The amount of net income attributable to noncontrolling interests will be included in consolidated net income on the face of the income statement. 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 noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years beginning after November 15, 2008. On January 1, 2009, the Company adopted the provisions of SFAS No. 160. As a result, the Company reflects the portion of equity (net assets) of its consolidated partner companies, if any, not attributable, directly or indirectly, to the Company as a noncontrolling interest within equity, separate from the equity of the Company.

**7. OWNERSHIP INTERESTS IN AND ADVANCES TO COMPANIES**

As discussed in Notes 2 and 3, the Company deconsolidated its holdings in Clariant as of May 14, 2009. The Company has elected to apply the fair value option to account for its retained interest in Clariant following deconsolidation.

During the three months ended September 30, 2009, the Company sold 18.4 million shares of common stock of Clariant for \$61.3 million in net proceeds which reduced the Company's ownership interest in Clariant from 47.3% to 28.3%. The Company recognized a loss of \$7.3 million on the sale, based on the net proceeds received compared to the fair value at the end of the previous quarter, which is included in Other income, net in the Consolidated Statements of Operations for the three months ended September 30, 2009.

For the three months ended September 30, 2009 and for the period from May 14, 2009 through September 30, 2009, the Company recognized unrealized gains of \$15.1 million and \$67.6 million, respectively, on the mark-to-market of its holdings in Clariant which are included in Other income, net in the Consolidated Statements of Operations. At September 30, 2009, the fair value of the Company's holdings in Clariant of \$126.7 million was included in Ownership interests in and advances to companies in the Consolidated Balance Sheet (see Note 5).

The Company believes that accounting for its holdings in Clariant at fair value rather than applying the equity method of accounting provides a better measure of the value of its holdings, given the reliable evidence provided by quoted prices in an active market for Clariant's publicly traded common stock. The Company has not elected the fair value option for its other partner company holdings, which are accounted for under the equity method or cost method, due to less readily determinable evidence of fair value for these privately held companies and due to the potential competitive disadvantage to the Company of such disclosure.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following unaudited summarized financial information for Clariant at June 30, 2009 and December 31, 2008 and for the six months ended June 30, 2009 and 2008, respectively, has been compiled from the unaudited financial statements of Clariant.

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In thousands) (unaudited)</b>	
<b>Balance Sheets:</b>		
Current assets	\$ 38,085	\$ 23,454
Non-current assets	16,234	12,055
<b>Total Assets</b>	<b>\$ 54,319</b>	<b>\$ 35,509</b>
Current liabilities	\$ 13,891	\$ 35,934
Non-current liabilities	4,738	4,315
Shareholders' equity (deficit)	35,690	(4,740)
<b>Total Liabilities and Shareholders' Equity (Deficit)</b>	<b>\$ 54,319</b>	<b>\$ 35,509</b>

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands) (unaudited)</b>		<b>(In thousands) (unaudited)</b>	
<b>Results of Operations:</b>				
Revenue	\$ 23,730	\$ 16,916	\$ 46,922	\$ 32,802
Operating income (loss)	\$ 771	\$ (1,716)	\$ 2,285	\$ (1,859)
Net income (loss) from continuing operations	\$ 29	\$ (4,279)	\$ (1,627)	\$ (5,213)

The Company recognized impairment charges related to cost method partner companies of totaling \$9.7 million during the three and nine months ended September 30, 2009 which were reflected in Other income (loss), net in the Consolidated Statements of Operations. The impairment charges of \$5.8 million related to GENBAND, Inc. and \$3.9 million related to Tengion, Inc were based on the Company's determination that there had been an other than temporary decline in the value of its holdings in these partner companies due to external market conditions and expectations of values at which the companies may need to raise additional capital. The impairment charges in each case were measured as the amount by which the partner companies' carrying values exceeded their respective estimated fair values.

The Company recognized an impairment charge of \$3.3 million related to its partner company, Rubicor Medical, Inc. in the second quarter of 2009, which was reflected in Equity loss in the Consolidated Statements of Operations for the nine months ended September 30, 2009. The adjusted carrying value of Rubicor at September 30, 2009 was \$0. The amount of the impairment charge was determined by comparing the carrying value of Rubicor to its estimated fair value. The Company previously recognized a \$4.0 million impairment charge related to Rubicor in the fourth quarter

of 2008 based on estimates of fair value provided by an independent valuation firm and a range of values indicated by potential investors in Rubicor. The carrying value of the Company's interest in Rubicor at December 31, 2008 was \$4.2 million. At present, Rubicor is pursuing reorganization under Chapter 11 of the United States Bankruptcy Code. The Company believes it is unlikely the Company will recover any of its investment in the context of such bankruptcy proceeding.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) is the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources.

The following summarizes the components of comprehensive income (loss):

	<b>Three Months Ended</b>		<b>Nine Months Ended September</b>	
	<b>September 30,</b>		<b>30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
	<b>(unaudited)</b>			
Net income (loss)	\$ (11,589)	\$ (6,126)	\$ 126,775	\$ (35,704)
Other comprehensive income (loss), before taxes:				
Foreign currency translation adjustments		2	(2)	(54)
Total comprehensive income (loss)	(11,589)	(6,124)	126,773	(35,758)
Comprehensive (income) loss attributable to the noncontrolling interest		928	(1,163)	3,085
Comprehensive income (loss) attributable to the Company	\$ (11,589)	\$ (5,196)	\$ 125,610	\$ (32,673)

**9. LONG-TERM DEBT AND CREDIT ARRANGEMENTS**

Consolidated long-term debt consisted of the following:

	<b>December 31,</b>
	<b>2008</b>
	<b>(In thousands)</b>
Consolidated partner company revolving credit agreement (guaranteed by the Company)	\$ 9,000
Consolidated partner company secured credit agreement (not guaranteed by the Company)	5,104
	14,104
Capital lease obligations and other borrowings	608
	14,712
Less current maturities	(14,367)
Total long-term debt, less current portion	\$ 345

Except for the convertible senior debentures discussed in Note 10, all of the long-term debt on the Consolidated Balance Sheet at December 31, 2008 related to Clariant. On May 14, 2009, the Company deconsolidated its holdings in Clariant. As a result, there is no long-term debt at September 30, 2009 on the Consolidated Balance Sheet.

In February 2009, the Company entered into a loan agreement which provides the Company with a revolving credit facility in the maximum aggregate amount of \$50 million in the form of 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. Under the credit facility, the Company provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters in connection with the sale of CompuCom Systems in 2004. Availability under the Company's revolving credit facility at September 30, 2009 was \$43.7 million.



**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. 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 current conversion rate of the debentures is \$43.3044 of principal amount per share. The closing price of the Company's common stock at September 30, 2009 was \$10.97. 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 of 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. During the third quarter 2009, the Company repurchased \$1.3 million in face value of the 2024 debentures for \$1.2 million in cash, including accrued interest. In connection with the repurchase, the Company recorded a gain of \$0.1 million in Other income, net. Through September 30, 2009, the Company has repurchased a total of \$65.3 million in face value of the 2024 Debentures. At September 30, 2009, the market value of the \$84.7 million outstanding 2024 Debentures was approximately \$78.8 million, based on quoted market prices as of such date.

**11. STOCK-BASED COMPENSATION*****Classification of Stock-Based Compensation Expense***

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands) (unaudited)</b>			
Cost of sales	\$	\$	\$	\$
Selling, general and administrative	825	839	3,115	2,470
	\$	\$	\$	\$
	825	853	3,164	2,505

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 was based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected term of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility measured using weekly price observations of the Company's common stock for a period equal to the stock option's expected term. Assumptions used in the valuation of options granted in each period were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(unaudited)</b>			
<b>Service-Based Awards</b>				
Dividend yield	0%	0%	0%	0%
Expected volatility	60%	52%	60%	52%

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Average expected option term	5 years	5 years	5 years	5 years
Risk-free interest rate	2.5%	3.0%	2.5%	3.1%

**Performance-Based Awards**

Dividend yield		0%		0%
Expected volatility		50%		50%
Average expected option term		4.4 years		4.4 years
Risk-free interest rate		3.0%		3.0%

**Market-Based Awards**

Dividend yield				0%
Expected volatility				59%
Average expected option term				6 years
Risk-free interest rate				3.4%

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At September 30, 2009, the Company had outstanding options that vest based on three different types of vesting schedules:

- 1) Market-based;
- 2) performance-based; and
- 3) service-based.

Market-based awards entitle participants to vest in a number of options determined by achievement by the Company of certain target market capitalization increases (measured by reference to stock price increases on a specified number of outstanding shares) 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 market capitalization targets are achieved earlier than estimated. During the nine months ended September 30, 2009 and 2008, respectively, the Company issued 0 and 250 thousand market-based option awards to employees. During the nine months ended September 30, 2009, no options vested based on achievement of market capitalization targets. The Company recorded compensation expense related to these awards of \$0.3 million and \$0.2 million during the three months ended September 30, 2009 and 2008, respectively. The Company recorded compensation expense related to these awards of \$1.0 million and \$0.2 million during the nine months ended September 30, 2009 and 2008, respectively. Depending on the Company's stock performance, the maximum number of unvested shares at September 30, 2009 attainable under these grants was 1.2 million shares.

Performance-based awards entitle participants to vest in a number of options determined by achievement by the Company 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. Vesting may occur, if at all, once per year on or about 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. Compensation expense is recognized over the requisite service periods using the straight-line method but is accelerated if capital return targets are achieved earlier than estimated. During the nine months ended September 30, 2009 and 2008, respectively, the Company issued 0 and 341 thousand performance-based option awards to employees. During the nine months ended September 30, 2009, no options vested based on the achievement of capital returns targets. The Company recorded compensation expense related to these awards of \$0.0 million and \$0.1 million for the three and nine months ended September 30, 2009, respectively. No compensation expense was recognized related to these awards during the three and nine months ended September 30, 2008 as the awards were granted at the end of the period. The maximum number of unvested shares at September 30, 2009 attainable under these grants was 341 thousand shares.

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. During the nine months ended September 30, 2009 and 2008, respectively, the Company issued 33 thousand and 284 thousand service-based option awards to employees. The Company recorded compensation expense related to these awards of \$0.3 million and \$0.3 million for the three months ended September 30, 2009 and 2008, respectively, and \$0.9 and \$0.8 for the nine months ended September 30, 2009 and 2008, respectively.

During the nine months ended September 30, 2009, the Company issued 0.2 million restricted shares to employees. The restricted shares were issued in lieu of cash for of a portion of the 2008 management incentive plan payment earned by certain senior employees. The restricted shares issued vest 25% on the first anniversary of grant and the remaining 75% thereafter in 24 equal monthly installments over the next two years.

The Company issued deferred stock units to non-employee directors for fees earned during the preceding quarter of 65 thousand and 47 thousand during the nine months ended September 30, 2009 and 2008, respectively. In 2009, all non-employee directors were required to defer at least 25% of directors' fees earned in the period and may have elected

to defer up to 100% of directors' fees earned. For prior periods, certain directors 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 or, if earlier, upon reaching age 65. 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 \$0.1 million and \$0.1 million for the three months ended September 30, 2009 and 2008, respectively and \$0.3 million and \$0.1 million for the nine months ended September 30, 2009 and 2008, respectively.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Stock based compensation expense for Clariant prior to its deconsolidation was included in the Company's consolidated results of operations. During the three months ended September 30, 2008, Clariant recorded \$0.2 million of stock-based compensation expense. During the period from January 1, 2009 through May 14, 2009 and the nine months ended September 30, 2008, Clariant recorded \$0.8 million and \$1.4 million of stock-based compensation expense, respectively.

**12. INCOME TAXES**

The Company's consolidated income tax benefit was \$0 thousand and \$30 thousand for the three months ended September 30, 2009 and 2008 and \$14 and \$26 for the nine months ended September 30, 2009 and 2008, respectively. The net income tax benefit recognized in each period resulted from the reversal of reserves that related to uncertain tax positions for which the statute of limitations expired during the period in the applicable tax jurisdictions. As discussed in Notes 2 and 3, as of May 14, 2009, the Company deconsolidated Clariant and accounts for its retained interest in Clariant at fair value. Accordingly, Clariant's gross deferred tax assets as of December 31, 2008 of approximately \$54.4 million have been deconsolidated. During the three months ended September 30, 2009, the Company generated tax expense of \$11.5 million on the sale of a portion of its holdings in Clariant, which was entirely offset by capital loss carryforwards which had been reduced by a full valuation allowance. In addition, the Company recognized a gross deferred tax liability of approximately \$29.1 million, which reduced the Company's net deferred tax asset, based on the fair value of the Company's retained interest in Clariant at September 30, 2009. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the income tax expense and benefit that would have been recognized in 2009 and 2008, respectively, were offset by a valuation allowance.

During the nine months ended September 30, 2009, the Company had no material changes in uncertain tax positions.

**13. NET INCOME (LOSS) PER SHARE**

The calculations of net income (loss) per share attributable to Safeguard Scientifics, Inc. common shareholders were:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands except per share data)</b>			
	<b>(unaudited)</b>			
<b>Basic:</b>				
Amounts attributable to Safeguard Scientifics, Inc. common shareholders:				
Net income (loss) from continuing operations	\$ (11,589)	\$ (4,062)	\$ 124,717	\$ (23,383)
Net income (loss) from discontinued operations		(1,136)	895	(9,236)
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ (11,589)	\$ (5,198)	\$ 125,612	\$ (32,619)
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.20)	\$ 6.14	\$ (1.15)
Net income (loss) from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders		(0.06)	0.05	(0.45)
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.26)	\$ 6.19	\$ (1.60)

Average common shares outstanding	20,326	20,296	20,298	20,349
-----------------------------------	--------	--------	--------	--------

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands except per share data)</b>			
	<b>(unaudited)</b>			
<b>Diluted:</b>				
Amounts attributable to Safeguard Scientifics, Inc. common shareholders:				
Net income (loss) from continuing operations	\$ (11,589)	\$ (4,062)	\$ 124,717	\$ (23,383)
Interest on convertible senior debentures			1,987	
Net income (loss) from continuing operations for diluted per share computation	(11,589)	(4,062)	126,704	(23,383)
Net income (loss) from discontinued operations		(1,136)	895	(9,236)
Net income (loss) for diluted per share computation	\$ (11,589)	\$ (5,198)	\$ 127,599	\$ (32,619)
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.20)	\$ 5.66	\$ (1.15)
Net income (loss) from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders		(0.06)	0.04	(0.45)
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$ (0.57)	\$ (0.26)	\$ 5.70	\$ (1.60)
Number of shares used in basic per share computation	20,326	20,296	20,298	20,349
Effect of dilutive securities:				
Convertible senior debentures			1,984	
Unvested restricted stock and DSUs			1	
Employee stock options			97	
Number of shares used in diluted per share computation	20,326	20,296	22,380	20,349

Basic and diluted average common shares outstanding for purposes of computing net 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 income (loss), the income attributable to the potential exercise of the dilutive securities of the company. This impact is shown as an adjustment to net income (loss) for purposes of calculating diluted net income (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 for the three months ended September 30, 2009 and 2008 and the nine months ended September 30, 2008 because their effect would be anti-dilutive:

At September 30, 2009, options to purchase 3.2 million shares of common stock at prices ranging from \$3.93 to \$21.36 per share, and at September 30, 2008, options to purchase 3.7 million shares of common stock at prices ranging from \$6.18 to \$89.06 per share were excluded from the calculations.

At September 30, 2009 and 2008, unvested restricted stock and DSUs convertible into 217 thousand and 27 thousand shares of stock were excluded from the calculations.

At September 30, 2009 and 2008, a total of 2.0 million and 2.1 million shares related to the Company's 2024 Debentures (see Note 10) representing the weighted average effect of assumed conversion of the 2024 Debentures were excluded from the calculations.



**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. PARENT COMPANY FINANCIAL INFORMATION**

Parent company financial information is provided to present the financial position, results of operations and cash flows of the Company as if its previously consolidated partner companies were accounted for under the equity method of accounting for all periods presented.

***Parent Company Balance Sheets***

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(In thousands)</b>	
	<b>(unaudited)</b>	
Assets:		
Cash and cash equivalents	\$ 92,101	\$ 73,213
Cash held in escrow	6,433	6,433
Marketable securities	38,871	14,701
Restricted marketable securities		1,990
Other current assets	726	356
 Total current assets	 138,131	 96,693
Ownership interests in and advances to companies	205,813	105,955
Cash held in escrow long-term	476	501
Other	971	1,364
 Total Assets	 \$ 345,391	 \$ 204,513
 Liabilities and Shareholders' Equity:		
Current liabilities	\$ 8,034	\$ 8,173
Long-term liabilities	5,126	5,630
Convertible senior debentures	84,725	86,000
Total Safeguard Scientifics, Inc. shareholders' equity	247,506	104,710
 Total Liabilities and Shareholders' Equity	 \$ 345,391	 \$ 204,513

***Parent Company Statements of Operations***

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
	<b>(unaudited)</b>			
Operating expenses	\$ (4,237)	\$ (4,210)	\$ (12,902)	\$ (13,624)
Other income (loss), net	(1,908)	7,685	156,420	10,308
Recovery related party				4
Interest income	111	906	375	2,613
Interest expense	(728)	(999)	(2,196)	(3,106)
Equity loss	(4,827)	(7,474)	(16,994)	(19,608)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Net income (loss) from continuing operations before income taxes	(11,589)	(4,092)	124,703	(23,413)
Income tax benefit		30	14	30
Equity income (loss) attributable to discontinued operations		(1,136)	895	(9,236)
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ (11,589)	\$ (5,198)	\$ 125,612	\$ (32,619)

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Parent Company Statements of Cash Flows**

	<b>Nine Months Ended September 30, 2009                      2008 (In thousands) (unaudited)</b>	
	\$	\$
Net cash used in operating activities	(11,049)	(11,504)
 <b>Cash Flows from Investing Activities</b>		
Proceeds from sales of and distributions from companies and funds	61,272	3,557
Advances to partner companies	(6,900)	(14,218)
Repayment of advances to partner companies	21,179	
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(21,094)	(19,315)
Repayment of note receivable-related party, net		4
Increase in marketable securities	(54,382)	(63,010)
Decrease in marketable securities	30,212	2,814
Decrease in restricted cash	861	
Proceeds from sale of discontinued operations		84,517
Capital expenditures	(14)	(28)
Net cash provided by (used in) investing activities	31,134	(5,679)
 <b>Cash Flows from Financing Activities</b>		
Repurchase of convertible senior debentures	(1,194)	(30,000)
Issuance of common stock, net	41	115
Repurchase of common stock	(44)	(1,296)
Net cash used in financing activities	(1,197)	(31,181)
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
Cash and Cash Equivalents at beginning of period	73,213	94,685
<b>Cash and Cash Equivalents at end of period</b>	<b>\$ 92,101</b>	<b>\$ 46,321</b>

Parent Company cash and cash equivalents excludes marketable securities, which consist of longer-term securities.

**15. OPERATING SEGMENTS**

As discussed in Notes 2 and 3, for the period from January 1, 2009 through May 14, 2009, the Company held an interest in one consolidated partner company, Clariant. As of May 14, 2009, the Company deconsolidated Clariant and accounts for its retained interest in Clariant at fair value with the unrealized gains and losses on the mark-to-market of its holdings included in Other income, net in the Consolidated Statements of Operations. During the second quarter of 2009, the Company re-evaluated its reportable operating segments and made the determination that Clariant would no longer be reported as a separate segment since the Company does not separately evaluate Clariant's performance based

upon Clariant's operating results. Clariant is now included in the Life Sciences segment. The Company has restated the segment information for all of the periods presented to report Clariant as part of the Life Sciences segment.

As of September 30, 2009, the Company held an interest in 18 non-consolidated partner companies. The Company's reportable operating segments are as follows: i) Life Sciences and ii) Technology.

The Life Sciences segment included the following partner companies as of September 30, 2009: Advanced BioHealing, Inc., Alverix, Inc., Avid Radiopharmaceuticals, Inc., Cellumen, Inc., Clariant, Inc., Garnet BioTherapeutics, Inc., Molecular Biometrics, Inc., NuPathe, Inc., Rubicor Medical, Inc. and Tengion, Inc.

The Technology segment included the following partner companies as of September 30, 2009: Advantedge Healthcare Solutions, Inc., Authentium, Inc., Beyond.com, Inc., Bridgevine, Inc., GENBAND, Inc., MediaMath, Inc., Portico Systems, Inc. and Swaptree, Inc.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Results of the Life Sciences segment reflect the revenue, operating income (loss), and income (loss) before taxes of Clariant for all periods prior to its deconsolidation on May 14, 2009, equity income (loss) of equity method partner companies, impairment charges, other income (loss) associated with cost method partner companies, gains or losses on the sale of partner companies (except those reported in discontinued operations) and unrealized gains and losses on the mark-to-market of the Company's holdings in Clariant.

Results of the Technology segment reflect the equity income (loss) of equity method partner companies, impairment charges, other income (loss) associated with cost method partner companies, and gains or losses on the sale of partner companies (except those reported in discontinued operations).

Management evaluates the Life Sciences and Technology segments' performance based on net income (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, any impairment charges or gain (loss) on sale of partner companies as well as the unrealized gains and losses on the mark-to-market of the Company's holdings in Clariant.

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. 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 previously consolidated partner company.

Revenue related entirely to Clariant prior to its deconsolidation and was attributed to geographic areas based on where the services were performed or the customer's shipped to location. A majority of the Company's revenue was generated in the United States.

As of September 30, 2009 and December 31, 2008, the Company's assets were primarily located in the United States. Segment assets in Other items included primarily cash, cash equivalents, cash held in escrow and marketable securities of \$137.9 million and \$94.8 million at September 30, 2009 and December 31, 2008, respectively.

The following represents segment data from continuing operations:

	<b>Three Months Ended September 30, 2009</b>				
	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$	\$	\$	\$	\$
Operating income (loss)				(4,237)	(4,237)
Net income (loss) from continuing operations	1,209	(8,057)	(6,848)	(4,741)	(11,589)
<b>Segment Assets:</b>					
September 30, 2009	156,715	41,116	197,831	147,560	345,391
December 31, 2008	84,508	41,050	125,558	106,844	232,402

**Table of Contents**

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

**Three Months Ended September 30, 2008**

	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$ 18,997	\$	\$ 18,997	\$	\$ 18,997
Operating income (loss)	157		157	(4,210)	(4,053)
Net loss from continuing operations	(6,365)	(1,968)	(8,333)	3,343	(4,990)

**Nine Months Ended September 30, 2009**

	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$ 34,839	\$	\$ 34,839	\$	\$ 34,839
Operating income (loss)	1,621		1,621	(12,902)	(11,281)
Net income (loss) from continuing operations	151,586	(11,502)	140,084	(14,809)	125,275

**Nine Months Ended September 30, 2008**

	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$ 51,799	\$	\$ 51,799	\$	\$ 51,799
Operating loss	(1,756)		(1,756)	(13,624)	(15,380)
Net loss from continuing operations	(16,673)	(5,882)	(22,555)	(3,912)	(26,467)
<i>Other Items</i>					

**Three Months Ended  
September 30,  
2009**

**Nine Months Ended  
September 30,  
2008**

	<b>(In thousands) (unaudited)</b>			
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Corporate operations	\$ (4,741)	\$ 3,313	\$ (14,823)	\$ (3,938)
Income tax benefit (expense)		30	14	26
	\$ (4,741)	\$ 3,343	\$ (14,809)	\$ (3,912)



**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. BUSINESS COMBINATIONS**

In August 2009, the Company deployed an additional \$2.0 million in NuPathe, Inc. ( NuPathe ) in connection with a larger round of financing, resulting in a decrease in the Company's ownership interest from 23.5% to 22.9%. As a result of the decrease in the Company's ownership position in the three months ended September 30, 2009, the Company recognized a \$0.4 million change in interest gain in Equity income (loss) in the Consolidated Statements of Operations. The Company previously deployed \$10.0 million in NuPathe from August 2006 through July 2008. NuPathe develops therapeutics in conjunction with novel delivery technologies. The Company accounts for its holdings in NuPathe under the equity method.

In July 2009, the Company deployed an additional \$1.5 million in Garnet BioTherapeutics, Inc. ( Garnet ) to maintain an ownership interest of 31.1%. The Company had previously acquired an interest in Garnet in November 2008 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.

In July 2009, the Company acquired 17.9% of MediaMath, Inc. ( MediaMath ) for \$6.7 million in cash. MediaMath is an online media trading company that enables advertising agencies and their advertisers to optimize their ad spending across various exchanges through its proprietary algorithmic bidding platform and data integration. The Company accounts for its holdings in MediaMath under the cost method.

In June 2009, the Company exercised \$2.5 million of warrants in Advantedge Healthcare Solutions ( AHS ) thereby increasing its ownership interest to 39.0%. The Company previously deployed \$9.0 million in AHS in May 2008 and November 2006. AHS is a technology-enabled service provider that delivers medical billing services to physician groups. The Company accounts for its holdings in AHS under the equity method.

In May 2009, the Company deployed \$2.7 of cash in Avid Radiopharmaceuticals, Inc. ( Avid ), to maintain an ownership interest of 13.9%. The Company had previously acquired an interest in Avid in May 2007 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.

In May and February 2009, the Company provided additional funding to Cellumen as part of an up to \$2.5 million convertible note financing to be funded in five tranches. As part of this financing, the Company agreed to provide Cellumen up to \$1.0 million (subject to certain conditions), \$0.5 million of which the Company funded as of September 30, 2009. The Company previously acquired an interest in Cellumen in June 2007, paying \$6.0 million in cash for shares of Cellumen's Series B preferred stock. In conjunction with the convertible note financing, the Series B preferred stock conversion price was adjusted, and will receive further adjustments upon the closing of future tranches, increasing the economic and voting interest of the Series B preferred stock in Cellumen. The Company's voting interest in Cellumen increased to 55.2%, on an as-converted basis, at September 30, 2009. Due to the substantive participating rights of the minority shareholders in the significant operating decisions of Cellumen, the Company continues to account for its holdings in Cellumen under the equity method. Cellumen delivers proprietary services and products to support drug discovery and development.

In May and February 2009, the Company deployed an additional \$2.5 million in Molecular Biometrics, Inc. ( Molecular Biometrics ), increasing its ownership interest to 38.1%. The Company had previously acquired an interest in Molecular Biometrics in September and December 2008, 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.

In April 2009, the Company deployed an additional \$0.5 million of cash in Portico Systems, Inc ( Portico ), in connection with a larger round of financing, resulting in a decrease in the Company's ownership interest from 46.0% to 45.6% at September 30, 2009. The Company previously deployed \$8.8 million in cash in Portico in February 2008 and August 2006. Portico is a software solutions provider for regional and national health plans looking to optimize



provider network operations and streamline business processes. The Company accounts for its holdings in Portico under the equity method.

In March 2009, the Company deployed an additional \$2.0 million and thereby increased its ownership interest in Bridgevine, Inc. ( Bridgevine ) to 24.4%. The Company had previously acquired an interest in Bridgevine in August 2007 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.

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. COMMITMENTS AND CONTINGENCIES**

The Company and its partner companies are involved in various claims and legal actions arising in the ordinary course of business. 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.

Not including the Laureate Lease Guaranty described below, the Company had outstanding guarantees of \$3.8 million at September 30, 2009.

The Company has committed capital of approximately \$1.3 million, including conditional commitments to provide 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 \$1.2 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 of 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 its 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 September 30, 2009.

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 and placing them in escrow and adding rights of set-off among certain funds. The Company believes its potential liability due to the possibility of default by other general partners is remote.

Notwithstanding the closing of the Bundle Sale, the Company remains a guarantor of Laureate Pharma's Princeton, New Jersey facility lease (the "Laureate Lease Guaranty"). Such guarantee may extend through the lease expiration in 2016 under certain circumstances. However, the Company is entitled to indemnification in connection with the continuation of such guaranty. As of September 30, 2009, scheduled lease payments to be made by Laureate Pharma over the remaining lease term equaled \$8.0 million.

As described in Note 4, in connection with the Bundle Sale, an aggregate of \$6.4 million of the gross proceeds of the sale were placed in escrow pending the expiration of a predetermined notification period, subject to possible extension in the event of a claim against the escrowed amounts. On April 25, 2009, the purchaser in the Bundle Sale notified the Company of claims being asserted against the entire escrowed amounts. The Company does not believe that such claims are valid and has instituted legal action to obtain the release of such amounts from escrow. The proceeds being held in escrow will remain there until the dispute over the claims has been settled or determined pursuant to legal process.

In October 2001, the Company entered into an agreement with its former Chairman and Chief Executive Officer, to provide for annual payments of \$0.7 million 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 \$3.0 million was included in Other long-term liabilities on the Consolidated Balance Sheet at September 30, 2009.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Cautionary Note Concerning Forward-Looking Statements**

This Quarterly Report on Form 10-Q 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 other words to 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 in Safeguard's Annual Report on Form 10-K and updated, as applicable, in Item 1A. Risk Factors below. 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.

**Business 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 helping 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:

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

*Technology* including companies focused on healthcare information technology, financial services information technology and new media and internet-based businesses.

**Principles of Accounting for Ownership Interests in Partner Companies**

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

*Consolidation Method.* We account for our partner companies in which we maintain a controlling financial interest, generally those in which we directly or indirectly own more than 50% of the outstanding voting securities, using the consolidation method of accounting. Upon consolidation of our partner companies, we reflect the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the Company as a noncontrolling interest in the Consolidated Balance Sheet. The noncontrolling interest is presented within equity, separately from the equity of the Company. Losses attributable to the Company and the noncontrolling interest may exceed their interest in the subsidiary's equity. As a result, the noncontrolling interest shall continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance as of each balance sheet date. Revenue, expenses, gains,

losses, net income or loss are reported in the Consolidated Statements of Operations at the consolidated amounts, which include the amounts attributable to the Company's common shareholders and the noncontrolling interest.

*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.

**Table of Contents**

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.

*Fair Value Method.* We account for our holdings in Clariant, Inc. ( Clariant ), our publicly traded partner company, under the fair value option following its deconsolidation on May 14, 2009. Unrealized gains and losses on the mark-to-market of our holdings in Clariant and realized gains and losses on the sale of any of our holdings in Clariant are recognized in Income (loss) from continuing operations 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 consolidated 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 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;
- Impairment of ownership interests in and advances to companies;
- Income taxes;
- Commitments and contingencies; and
- Stock-based compensation.

***Revenue Recognition***

As of May 14, 2009, the date that Clariant was deconsolidated, we no longer report revenue from Clariant's continuing operations. Prior to that date, all of our revenue from continuing operations for the periods presented was attributable to Clariant.

Revenue for Clariant's diagnostic testing and interpretive services was recognized at the time of completion of such services. Clariant's services were billed to various payors, including Medicare, health insurance companies and other directly billed healthcare institutions and patients. Clariant reported revenue from contracted payors, including certain health insurance companies and healthcare institutions, based on the contracted rate or, in certain instances, Clariant's estimate of such rate. For billings to Medicare, Clariant utilized the published fee schedules, net of standard discounts commonly referred to as contractual allowances. Clariant reported 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 Clariant's estimates were recognized in the period realized.

**Table of Contents*****Allowance for Doubtful Accounts and Bad Debt Expense***

All trade accounts receivable on our Consolidated Balance Sheet at December 31, 2008 related to Clariant. On May 14, 2009, all of the assets and liabilities of Clariant were deconsolidated. We have no trade accounts receivable at September 30, 2009 on the Consolidated Balance Sheet.

An allowance for doubtful accounts was 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 Clariant's diagnostic services involved significant assumptions and judgments. Specifically, the allowance for doubtful accounts was adjusted periodically, based upon an evaluation of historical collection experience. Clariant also reviewed 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 was subject to periodic adjustments that may be significant. Accounts receivable were periodically written off when identified as uncollectible and deducted from the allowance for doubtful accounts after appropriate collection efforts had been exhausted. Additions to the allowance for doubtful accounts were 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.

***Impairment of Ownership Interests In and Advances to Companies***

On a periodic basis (but no less frequently than quarterly) 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.

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.



**Table of Contents*****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.

***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***

We measure all employee stock-based compensation awards using a fair value method and record such expense in our Consolidated Financial Statements.

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.



**Table of Contents****Results of Operations**

Prior to deconsolidating Clariant on May 14, 2009, we presented Clariant as a separate segment. As of May 14, 2009, we account for our retained interest in Clariant at fair value with unrealized gains and losses on the mark-to-market of our Clariant holdings and realized gains and losses on the sale of any of our Clariant holdings included in Other income (loss), net in the Consolidated Statements of Operations. During the second quarter of 2009, we re-evaluated our reportable operating segments and we made the determination that Clariant would no longer be reported as a separate segment since we do not separately evaluate Clariant's performance based upon its operating results. Clariant is now included in the Life Sciences segment. We have restated the segment information for all of the periods presented to report Clariant as part of the Life Sciences segment. The results of operations of all of our partner companies 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 Life Sciences and Technology segments' performance based on net 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, any impairment charges or gain (loss) on sale of partner companies as well as the unrealized gains and losses on the mark-to-market of our holdings in Clariant.

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, including legal and finance, 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 Clariant prior to its deconsolidation and our share of income or losses for entities accounted for under the equity method when applicable. Segment results also include the mark-to-market of our holdings in Clariant, impairment charges, gains or losses related to the disposition of partner companies, except for those reported in discontinued operations, and the mark-to-market of trading securities. 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 previously consolidated partner company.

Net income (loss) before income taxes by segment was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
Life Sciences	\$ 1,209	\$ (6,365)	\$ 151,586	\$ (16,673)
Technology	(8,057)	(1,968)	(11,502)	(5,882)
Total segments	(6,848)	(8,333)	140,084	(22,555)
Other items:				
Corporate operations	(4,741)	3,313	(14,823)	(3,938)
Income tax benefit (expense)		30	14	26
Total other items	(4,741)	3,343	(14,809)	(3,912)
Net income (loss) from continuing operations	(11,589)	(4,990)	125,275	(26,467)
Income (loss) from discontinued operations, net of tax		(1,136)	1,500	(9,237)

Net income (loss)	(11,589)	(6,126)	126,775	(35,704)
Net (income) loss attributable to noncontrolling interest		928	(1,163)	3,085
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ (11,589)	\$ (5,198)	\$ 125,612	\$ (32,619)

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.

**Table of Contents*****Life Sciences***

The following partner companies were included in Life Sciences during the nine months ended September 30, 2009 and 2008:

Partner Company	Safeguard Ownership as of September		Accounting Method
	2009	2008	
Advanced BioHealing, Inc.	28.3%	28.3%	Equity Method
Alverix, Inc.	50.0%	50.0%	Equity Method
Avid Radiopharmaceuticals, Inc.	13.9%	13.9%	Cost Method
Cellumen, Inc.	55.2%	40.6%	Equity Method (1)
Clariant, Inc.	28.3%	58.1%	Fair Value Option/ Consolidation (2)
Garnet BioTherapeutics, Inc.	31.1%	N/A	Equity Method
Molecular Biometrics, Inc.	38.1%	34.3%	Equity Method
NuPathe, Inc.	22.9%	23.4%	Equity Method
Rubicor Medical, Inc.	45.5%	35.7%	Equity Method
Tengion, Inc.	4.5%	N/A	Cost Method

(1) During 2009, our voting interest in Cellumen, Inc. increased to 55.2%, on an as-converted basis, from 40.6%. Due to the substantive participating rights of the minority shareholders in the significant operating decisions of Cellumen, we continue to account for our holdings in Cellumen under the equity method.

(2) On May 14, 2009, Clariant, our then consolidated partner company,

completed the second closing of a private placement of its Series A convertible preferred stock, decreasing our ownership interest from 50.2% to 47.3%. As a result, we deconsolidated our holdings in Clariant as of May 14, 2009 because we ceased to have a controlling financial interest in Clariant as of such date. We have elected to apply the fair value option to account for our holdings in Clariant following deconsolidation. Unrealized gains and losses on the mark-to-market of our holdings in Clariant and realized gains and losses on the sale of any of our holdings in Clariant are recognized in income (loss) from continuing operations for all periods subsequent to the date that Clariant was deconsolidated. In the three

months ended  
September 30,  
2009, we sold  
18.4 million  
shares of  
Clariant  
common stock  
which reduced  
our ownership  
interest from  
47.3% to 28.3%.

Results from continuing operations of the Life Sciences segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,			
	2009	2008	2009	2008		
	(In thousands)					
Revenue	\$	\$	18,997	\$ 34,839	\$ 51,799	
Operating Expenses:						
Cost of sales			8,615	13,811	24,522	
Selling, general and administrative			10,225	19,407	29,033	
Total operating expenses			18,840	33,218	53,555	
Operating income (loss)			157	1,621	(1,756)	
Other income, net	3,811			162,328		
Interest income			7	4	19	
Interest expense			(203)	(275)	(661)	
Equity loss	(2,602)		(6,326)	(12,092)	(14,275)	
Net income (loss) from continuing operations before income taxes	\$	1,209	\$	(6,365)	\$ 151,586	\$ (16,673)

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

**Table of Contents***Three months ended September 30, 2009 versus the three months ended September 30, 2008*

Results of operations for the three months ended September 30, 2009 do not include the results of operations of Clariant. Upon the deconsolidation of Clariant on May 14, 2009, we no longer reported revenue, cost of sales, selling, general and administrative expenses and interest expense, net from Clariant's continuing operations in our results of operations. Prior to that date, all of our Life Science segment's revenue, cost of sales, selling, general and administrative expenses and interest expense, net from continuing operations was attributable to Clariant.

*Other income, net* Other income, net included an unrealized gain of \$15.1 million on the mark-to-market of our holdings in Clariant as of September 30, 2009 which was partially offset by a \$7.3 million realized loss of the sale of 18.4 million shares of common stock of Clariant in and an impairment charge of \$3.9 million related to our holdings in Tengion.

*Nine months ended September 30, 2009 versus the nine months ended September 30, 2008*

Results of operations for the nine months ended September 30, 2009 include the results of operations of Clariant for the 134 days in the period from January 1, 2009 through May 14, 2009 that Clariant was consolidated. Upon the deconsolidation of Clariant on May 14, 2009, we no longer reported revenue, cost of sales, selling, general and administrative expenses and interest expense, net from Clariant's continuing operations in our results of operations. Prior to that date, all of our Life Science segment's revenue, cost of sales, selling, general and administrative expenses and interest expense, net from continuing operations was attributable to Clariant.

*Other income (loss), net* On May 14, 2009, we deconsolidated our holdings in Clariant because we ceased to have a controlling financial interest in Clariant and recognized an unrealized gain on deconsolidation of \$106.0 million as of that date. In addition, we recognized an unrealized gain of \$67.6 million on the mark-to-market of our holdings in Clariant through September 30, 2009 which was offset by a \$7.3 million realized loss of the sale of 18.4 million shares of common stock of Clariant and an impairment charge of \$3.9 million related to our holdings in Tengion.

*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 method 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. Equity loss for Life Sciences decreased \$3.7 million and \$2.2 million in the three and nine months ended September 30, 2009, respectively, compared to the prior year periods. The decrease for the three months ended September 30, 2009 as compared to 2008 primarily relates to a decrease in aggregate net loss for our existing equity method partner companies and an expense of \$2.3 million associated with in-process research and development related to our acquisition of Molecular Biometrics, Inc. in 2008. The decrease for the nine months ended September 30, 2009 as compared to 2008 primarily relates to a decrease in aggregate net loss for our existing equity method partner companies, an expense of \$2.3 million associated with in-process research and development related to our acquisition of Molecular Biometrics, Inc. in 2008 offset by an impairment charge of \$3.3 million related to Rubicor in 2009.

**Table of Contents****Technology**

The following partner companies were included in Technology during the nine months ended September 30, 2009 and 2008:

Partner Company	Safeguard Ownership as of September 30,		Accounting Method
	2009	2008	
Advantagedge Healthcare Solutions, Inc.	38.9%	37.7%	Equity Method
Authentium, Inc.	20.0%	20.0%	Equity Method
Beyond.com, Inc.	37.1%	37.1%	Equity Method
Bridgevine, Inc.	24.2%	20.8%	Equity Method
Kadoo, Inc.(1)	N/A	14.0%	Cost Method
GENBAND, Inc.	2.2%	2.3%	Cost Method
MediaMath	17.9%	N/A	Cost Method
Portico Systems, Inc.	45.6%	46.8%	Equity Method
Swaptree, Inc.	29.3%	29.3%	Equity Method

(1) In the fourth quarter of 2008, we impaired the entire carrying value of Kadoo, Inc. and in the third quarter of 2009 sold our equity interest in exchange for a \$0.2 million interest in a convertible promissory note, whose carrying value is zero.

Results from continuing operations of the Technology segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)			
Other income (loss), net	\$ (5,846)	\$	\$ (5,846)	\$
Equity loss	(2,211)	(1,968)	(5,656)	(5,882)
Net income (loss) from continuing operations before income taxes	\$ (8,057)	\$ (1,968)	\$ (11,502)	\$ (5,882)

*Other income (loss), net* Other income (loss), net of \$5.8 million for the three month and nine month periods ended September 30, 2009 reflects an impairment charge related to our holdings in GENBAND, Inc.

*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 method 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. Equity loss for Technology increased \$0.2 million for the three months ended September 30, 2009 compared to the prior year period, primarily due to an additional equity method partner company which generated a loss. Equity loss for Technology decreased \$0.2 million for the nine months ended September 30, 2009 compared to the prior year period, primarily due to an overall decrease in the losses being generated by equity method partner companies.



**Table of Contents****Corporate Operations**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>			
General and administrative	\$ (3,458)	\$ (3,562)	\$ (10,552)	\$ (12,414)
Stock-based compensation	(752)	(612)	(2,249)	(1,081)
Depreciation	(27)	(36)	(101)	(129)
Interest income	111	906	375	2,613
Interest expense	(728)	(999)	(2,196)	(3,106)
Other income (loss), net	127	7,685	(62)	10,312
Equity loss	(14)	(69)	(38)	(133)
	\$ (4,741)	\$ 3,313	\$ (14,823)	\$ (3,938)

*Three months ended September 30, 2009 versus the three months ended September 30, 2008*

*General and Administrative.* Our general and administrative expenses consist primarily of employee compensation, insurance, outside services such as legal, accounting and travel-related costs. General and administrative costs for the three months ended September 30, 2009 decreased \$0.1 million as compared to the prior year period. The decrease is primarily attributable to a \$0.2 million decrease in facility costs and a \$0.1 million decrease in employee costs, partially off-set by a \$0.2 million increase in professional fees.

*Stock-Based Compensation.* Stock-based compensation consists primarily of expense related to stock option grants and grants of restricted stock and deferred stock units to our employees. The \$0.1 million increase in compensation expense for the three month period ended September 30, 2009 compared to the prior year period relates to expense recognized for performance-based stock options and restricted stock awards in the current period and stock option forfeitures in the prior year period. Stock-based compensation expense related to corporate operations is included in selling, general and administrative in the Consolidated Statements of Operations.

*Interest Income.* Interest income includes all interest earned on available cash and marketable security balances. Interest income decreased \$0.8 million in the second quarter of 2009 compared to the prior year period due to a decrease in prevailing interest rates.

*Interest Expense.* Interest expense is primarily related to our 2.625% convertible senior debentures with a stated maturity of 2024. Interest expense decreased \$0.3 million in the second quarter of 2009 as compared to the prior year period. The decline was attributable to the repurchase of \$43 million in face value of the 2024 Debentures in the second half of 2008.

*Other income (loss), net.* Other income for the three months ended September 30, 2008 was primarily related to a net gain of \$7.6 million on the repurchase of \$38 million in face value of the 2024 debentures.

*Equity loss.* Equity loss for both periods presented related to our private equity fund holdings accounted for under the equity method.

*Nine months ended September 30, 2009 versus the nine months ended September 30, 2008*

*General and Administrative.* Our general and administrative expenses consist primarily of employee compensation, insurance, outside services such as legal, accounting and travel-related costs. General and administrative costs decreased \$1.9 million for the nine month period ended September 30, 2009 compared to the prior year period. The decrease is primarily attributable to a \$0.6 million decrease in professional fees, \$0.2 million decrease in employee costs and \$0.5 million decrease in facility costs.

*Stock-Based Compensation.* Stock-based compensation consists primarily of expense related to stock option grants and grants of restricted stock and deferred stock units to our employees. The \$1.2 million increase in compensation expense for the nine month period ended September 30, 2009 compared to the prior year period relates to expense recognized for performance-based stock options and restricted stock awards and stock option forfeitures in the prior

year period. Stock-based compensation expense related to corporate operations is included in selling, general and administrative in the Consolidated Statements of Operations.

*Interest Income.* Interest income includes all interest earned on available cash and marketable security balances. Interest income decreased \$2.2 million for the nine month period ended September 30, 2009 compared to the prior year period due to a decrease in prevailing interest rates.

**Table of Contents**

*Interest Expense.* Interest expense is primarily related to our 2.625% convertible senior debentures with a stated maturity of 2024. Interest expense decreased \$0.9 million for the nine month period ended September 30, 2009 compared to the prior year period. The decline was attributable to the repurchase of \$43 million in face value of the 2024 Debentures in the second half of 2008.

*Other income (loss), net.* Other income for the nine months ended September 30, 2008 was primarily related to a net gain of \$7.6 million on the repurchase of \$38 million in face value of the 2024 debentures and a \$1.7 million net gain on the sale of companies, including the receipt of escrowed funds from a legacy asset.

*Equity loss.* Equity loss for both periods presented related to our private equity fund holdings accounted for under the equity method.

***Income Tax (Expense) Benefit***

Consolidated income tax benefit was \$0 thousand and \$30 thousand for the three months ended September 30, 2009 and 2008 and \$14 thousand and \$26 thousand for the nine months ended September 30, 2009 and 2008, respectively. The net income tax benefit recognized in each period resulted from the reversal of reserves that related to uncertain tax positions for which the statute of limitations expired during the 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 income tax expense and benefit that would have been recognized in 2009 and 2008, respectively, were offset by a valuation allowance.

***Discontinued Operations***

In March 2007, Clariant sold its technology business and related intellectual property to Carl Zeiss MicroImaging, Inc. ( Zeiss ) for an aggregate purchase price of \$12.5 million. (the ACIS Sale ) The \$12.5 million consisted of \$11.0 million in cash and an additional \$1.5 million in contingent purchase price, subject to the satisfaction of certain post-closing conditions through March 2009. In April 2009, Clariant received the \$1.5 million from Zeiss which was recorded in income from discontinued operations within the Consolidated Statement of Operations for the nine months ended September 30, 2009.

In May 2008, we consummated a transaction (the Bundle Sale ) 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 Neuronix, Inc. ( Neuronix ). Of the companies included in the Bundle Sale, Acsis, Alliance Consulting and Laureate Pharma were consolidated partner companies and are reported in discontinued operations for all periods presented. The loss from discontinued operations, net of tax, for the nine month period ended September 30, 2008 of \$9.2 million was primarily attributable to a \$3.6 million impairment loss related to the Bundle Sale, losses resulting from the operating results of Acsis, Alliance Consulting and Laureate Pharma, a severance charge of \$0.9 million related to the Bundled Sale and a pre-tax gain on disposal of \$1.4 million.

***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 September 30, 2009, at the parent company level, we had \$92.1 million of cash and cash equivalents and \$38.9 million of marketable securities for a total of \$131.0 million. In addition, we had \$6.9 million of cash held in escrow, including accrued interest, related to the Bundle Sale and the sale of Pacific Title and Art Studio.

In connection with the Bundle Sale, an aggregate of \$6.4 million of the gross proceeds of the sale were placed in escrow pending the expiration of a predetermined notification period, subject to possible extension in the event of a claim against the escrowed amounts. On April 25, 2009, the purchaser in the Bundle Sale notified us of claims being asserted against the entire escrowed amounts. We do not believe that such claims are valid and have instituted legal action to obtain the release of such amounts from escrow. The proceeds being held in escrow will remain there until the dispute over the claims have been settled or determined pursuant to legal process.

In February 2004, we completed the sale of the 2024 Debentures. At September 30, 2009, we had \$84.7 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 \$43.3044 of principal amount per share. The closing price of our common stock on September 30, 2009 was \$10.97. 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 or a change in control. Subject to certain conditions, we have the right to redeem all or some of the 2024 Debentures. None of these conditions are satisfied as of today. During the third quarter 2009, we repurchased \$1.3 million in face value of the 2024 debentures for \$1.2 million in cash, including accrued interest. Through September 30, 2009, we repurchased a total of \$65.3 million in face value of the 2024 debentures for \$51.2 million in cash, including accrued interest.

**Table of Contents**

On May 2, 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. The Board has also authorized us to repurchase such of our 2024 Debentures as our current cash position and partner company exit activity as well as prevailing market prices for such debentures, warrants from time to time. These repurchases have and will be made in open market or privately negotiated transactions in compliance with the U.S. Securities and Exchange Commission and other applicable legal requirements. The manner, timing and amount of any purchases have and will be determined by us based upon an evaluation of market conditions, stock price, trading prices of our 2024 Debentures and other factors. Our Board of Directors' authorizations regarding common stock and 2024 Debenture 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. During the year ended December 31, 2008 we repurchased approximately 975 thousand shares of common stock at a cost of \$1.3 million.

On February 6, 2009, we entered into a loan agreement which provides us with a revolving credit facility in the maximum aggregate amount of \$50 million in the form of borrowings, guarantees and issuances of letters of credit (subject to a \$20 million sublimit). Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as 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. Under the credit facility, we provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters in connection with the sale of CompuCom Systems in 2004. Availability under our revolving credit facility at September 30, 2009 was \$43.7 million.

We have committed capital of approximately \$1.3 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 \$1.2 million which is expected to be funded in the next 12 months. We may seek to further reduce our current ownership interests in, and our existing commitments to, the funds in which we hold interests.

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 or provide additional funding to existing partner companies, 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 significantly impact our liquidity.

In May 2001, we entered into a \$26.5 million loan agreement with our former Chairman and Chief Executive Officer. In December 2006, we restructured the obligation to reduce the amount outstanding to \$14.8 million, bearing an interest 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 September 30, 2009 we received a total of \$16.3 million in cash payments on the loan. The carrying value of the loan at September 30, 2009 was zero.

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 September 30, 2009.

Our previous ownership in the general partners of the funds which 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 September 30, 2009, 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.

**Table of Contents****Analysis of Parent Company Cash Flows**

Cash flow activity for the Parent Company was as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>	
Net cash used in operating activities	\$ (11,049)	\$ (11,504)
Net cash provided by (used in) investing activities	31,134	(5,679)
Net cash used in financing activities	(1,197)	(31,181)
	<b>\$ 18,888</b>	<b>\$ (48,364)</b>

**Cash Used In Operating Activities**

Cash used in operating activities decreased \$0.5 million. The change was primarily related to a decrease in cash used for corporate general and administrative expenses.

**Net Cash (Used in) Provided by Investing Activities**

Net cash provided by investing activities increased by \$36.8 million. The increase primarily related to a \$57.7 million increase in proceeds from sales of and distributions from companies and funds, a \$36.0 million decrease in cash used to purchase marketable securities, a \$21.2 million increase in repayment of advances to partner companies, a decrease of \$7.3 million in advances to partner companies and a \$0.9 million decrease in restricted cash offset by an \$84.5 million decrease in the proceeds from the sale of discontinued operations and a \$1.8 million increase in cash used for acquisitions of ownership interests in partner companies.

**Net Cash (Used In) Financing Activities**

Net cash used in financing activities decreased by \$30.0 million. The decrease was primarily related to a \$28.8 million decrease in cash used to repurchase our convertible senior debentures and \$1.3 million in cash used to repurchase our common stock in the prior year period.

**Consolidated Working Capital from Continuing Operations**

Consolidated working capital from continuing operations was \$130.1 million at September 30, 2009, an increase of \$41.7 million compared to December 31, 2008. The increase was primarily due to the sale of 18.4 million shares of common stock of Clariant in the three months ended September 30, 2009 for net cash proceeds of \$61.3 million partially offset by the deconsolidation of Clariant on May 14, 2009. The fair value of our retained interest in Clariant is included in Ownership interests in and advances to companies on our Consolidated Balance Sheet which is not a component of working capital.

**Analysis of Consolidated Company Cash Flows**

Cash flow activity was as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>	
Net cash used in operating activities	\$ (15,537)	\$ (17,696)
Net cash provided by (used in) investing activities	15,320	(2,372)
Net cash provided by (used in) financing activities	17,267	(26,887)
	<b>\$ 17,050</b>	<b>\$ (46,955)</b>





**Table of Contents***Net Cash Used In Operating Activities*

Cash used in operating activities decreased \$2.2 million. The change was primarily related to cash used in operating activities of discontinued operations in the prior year period and a decrease in cash used for corporate general and administrative expenses.

*Net Cash Provided by Investing Activities*

Net cash provided by investing activities increased by \$17.7 million. The increase primarily related to a \$57.7 million increase in proceeds from sales of and distributions from companies and funds, a \$36.0 million decrease in cash used to purchase marketable securities, a \$5.7 million increase in repayment of advances to partner companies, a decrease of \$3.1 million in advances to partner companies, a \$2.9 million decrease in the cash used in discontinued operations and a \$1.1 million decrease in capital expenditures offset by a \$82.4 million decrease in the proceeds from the sale of discontinued operations, a \$2.7 million decrease in cash resulting from the deconsolidation of Clariant, a \$1.9 million increase in restricted cash and a \$1.8 million increase in cash used for acquisitions of ownership interests in partner companies.

*Net Cash (Used In) Provided by Financing Activities*

Net cash provided by financing activities increased by \$44.2 million. The increase was primarily related to a \$27.1 million increase in the proceeds from the issuance of subsidiary common stock, a \$28.8 million decrease in cash used to repurchase our convertible senior debentures and \$1.3 million in cash used to repurchase our common stock in the prior year period, partially offset by \$8.2 million net repayments of outstanding borrowings and a \$4.8 million decrease in cash provided from financing activities of discontinued operations.

**Contractual Cash Obligations and Other Commercial Commitments**

The following table summarizes our contractual obligations and other commercial commitments related to continuing operations as of September 30, 2009 by period due or expiration of the commitment.

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Remainder of 2009</b>	<b>2010 and 2011</b>	<b>2012 and 2013</b>	<b>Due after 2013</b>
	(In millions)				
<b>Contractual Cash Obligations:</b>					
Convertible senior debentures(a)	\$ 84.7	\$	\$	\$	\$ 84.7
Operating leases	3.1	0.2	1.2	1.2	0.5
Funding commitments(b)	1.3	0.3	1.0		
Potential clawback liabilities(c)	3.6		3.6		
Other long-term obligations(d)	3.8	0.2	1.5	1.5	0.6
<b>Total Contractual Cash Obligations</b>	<b>\$ 96.5</b>	<b>\$ 0.7</b>	<b>\$ 7.3</b>	<b>\$ 2.7</b>	<b>\$ 85.8</b>

	<b>Amount of Commitment Expiration by Period</b>				
	<b>Total</b>	<b>Remainder of 2009</b>	<b>2010 and 2011</b>	<b>2012 and 2013</b>	<b>After 2013</b>
	(In millions)				
<b>Other Commitments:</b>					
Letters of credit(e)	\$ 6.3	\$	\$	\$	\$ 6.3

(a)

In February 2004, we completed the issuance of \$150.0 million in face value of the 2024 Debentures with a stated maturity of March 15, 2024. Through September 30, 2009, we repurchased \$65.3 million in face value of the 2024 Debentures. The 2024 Debenture holders have the right to require us 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.

- (b) 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 \$0.8 million conditional commitments to provide

non-consolidated  
partner  
companies with  
additional  
funding.

**Table of Contents**

- (c) 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.
- (d) Reflects the amount payable to our former

Chairman and  
CEO under a  
contract.

- (e) 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 in 2004.

We have employment agreements with certain executive officers that provide for severance payments to the executive officer in the event the officer is terminated without cause or in the event the officer terminates his employment for good reason. The maximum aggregate exposure under the agreements was approximately \$8.0 million at September 30, 2009.

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.

***Recent Accounting Pronouncements***

See Note 6 to the Consolidated Financial Statements.

**Factors That May Affect Future Results**

You should carefully consider the information set forth below. The following risk factors describe situations in which our business, financial condition or results of operations could be materially harmed, and the value of our securities may decline. You should also refer to other information included or incorporated by reference in this report.

**Risks Related to our Business**

***Our business depends upon our ability to make good decisions regarding the deployment of capital into new or existing partner companies and, ultimately, the performance of our partner companies, which is uncertain.***

If we make poor decisions regarding the deployment of capital into new or existing partner companies, our business model will not succeed. Our success as a company ultimately depends on our ability to choose the right partner companies. If our partner companies do not succeed, the value of our assets could be significantly reduced and require substantial impairments or write-offs and our results of operations and the price of our common stock could decline.

The risks relating to our partner companies include:

- most of our partner companies have a history of operating losses or a limited operating history;
- the intensifying competition affecting the products and services our partner companies offer could adversely affect their businesses, financial condition, results of operations and prospects for growth;
- the inability to adapt to the rapidly changing marketplaces;
- the inability to manage growth;
- the need for additional capital to fund their operations, which we may not be able to fund or which may not be available from third parties on acceptable terms, if at all;
- the inability to protect their proprietary rights and/or infringing on the proprietary rights of others;
- the certain of our partner companies could face legal liabilities from claims made against them based upon their operations, products or work;
- the impact of economic downturns on their operations, results and growth prospects;
- the inability to attract and retain qualified personnel; and

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

## **Table of Contents**

These risks are discussed in greater detail under the caption **Risks Related to Our Partner Companies** below. ***Our partner companies (and the nature of our interests in them) could vary widely from period to period.***

As part of our strategy, we continually assess the value to our shareholders of our interests in our partner companies. We also regularly evaluate alternative uses for our capital resources. As a result, depending on market conditions, growth prospects and other key factors, we may at any time:

- change the partner companies on which we focus;
- sell some or all of our interests in any of our partner companies; 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 Consolidated Financial Statements. For example:

For the period from January 1, 2009 through May 14, 2009 and year ended December 31, 2008, we consolidated the results of operations of Clariant in continuing operations. On May 14, 2009, we deconsolidated Clariant and subsequently account for our holdings in Clariant under the fair value option.

***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 and our net income (loss).***

Fluctuations in the market prices of the common stock of our publicly traded holdings are likely to affect the price of our common stock and our net income (loss). The market prices of our publicly traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance. In addition, we have elected to apply the fair value option to account for our retained interest in Clariant following its deconsolidation on May 14, 2009. As a result, gains and losses on the mark-to-market of our holdings in Clariant will be recognized in income (loss) from continuing operations for each accounting period going forward for which we continue to maintain an interest in Clariant. The aggregate market value of our holdings in Clariant (Nasdaq: CLRT), our only public company holding, at September 30, 2009 was approximately \$126.7 million and could vary significantly from period to period. By way of example, the aggregate market value of our holdings in Clariant was \$69.7 million at November 4, 2009.

***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.

***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 Clariant, 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.



**Table of Contents**

***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
- the 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 consolidated 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.

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 controlling 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 a controlling 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 controlling ownership interest. 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.

**Table of Contents**

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

Events over the past two years 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 Consolidated 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 effect 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 within our Annual Report on Form 10-K for the year ended December 31, 2008.

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 Consolidated 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.

**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;
- frequently introducing new products and services;

shifting distribution channels;  
evolving government regulation;  
frequently changing intellectual property landscapes; and  
  
changing customer demands.

**Table of Contents**

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 affect 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.

***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, Clariant's independent auditors determined that there was substantial doubt about Clariant's ability to continue as a going concern. The going concern explanatory paragraph in Clariant's audit opinion could have a negative impact on:

- Clariant'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;
- Clariant's relationships with existing customers or potential new customers; and
- Clariant's stock price.

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



**Table of Contents*****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.

***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. At present, none of our partner companies 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.



**Table of Contents*****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 have established extensive requirements relating to workplace safety.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to equity price risks on the marketable portion of our securities. At September 30, 2009, these securities included our equity position in Clariant, our 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 price at September 30, 2009, the fair market value of our holdings in Clariant was approximately \$126.7 million. A 20% decrease in Clariant's stock price as of that date would result in an approximate \$25.3 million decrease in the fair value of our holdings in Clariant and a corresponding charge in Other income, net in the Consolidated Statements of Operations. The aggregate market value of our holdings in Clariant was \$69.7 million at November 4, 2009.

In February 2004, we completed the issuance of \$150.0 million of our 2024 Debentures with a stated maturity of March 15, 2024. Through September 30, 2009, we repurchased \$65.3 million 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.

<b>Liabilities</b>	<b>Remainder of</b>				<b>After 2011</b>	<b>Fair Value at September 30, 2009</b>
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>		
2024 Debentures due by year (in millions)	\$	\$	\$	\$	84.7	\$ 78.8
Fixed interest rate	2.625%	2.625%	2.625%	2.625%	2.625%	N/A
Interest expense (in millions)	\$ 0.6	\$ 2.2	\$ 2.2	\$ 27.1		N/A

**Item 4. *Controls and Procedures***

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 material weaknesses in internal control over financial reporting discussed in Management's Report on Internal Control Over Financial Reporting included in our Annual Report on Form 10-K for the year ended December 31, 2008 that were not remediated as of September 30, 2009, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 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.

During the nine months ended September 30, 2009, our efforts continued in addressing the material weaknesses in our internal control over financial reporting. The steps we have undertaken in 2009 are discussed in Item 9A in our Annual Report on Form 10-K for the year ended December 31, 2008. We are in the process of evaluating the design and operating effectiveness of our internal control over financial reporting, which as a result of our remediation plan, include certain enhanced controls within the accounts receivable, revenue and billing processes.

In light of our unremediated material weaknesses, we performed additional post-closing procedures and analyses 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.

**Table of Contents**

Each of the material weaknesses at December 31, 2008 related to Clariant, Inc., our then consolidated partner company. As of May 14, 2009, we deconsolidated Clariant and account for our holdings in Clariant under the fair value option.

No other change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our business strategy involves the acquisition of new businesses on an on-going basis, most of which are young, growing companies. Typically, these companies have not historically 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 there under. 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.

**PART II OTHER INFORMATION****Item 1A. Risk Factors**

Except as set forth below, there have been no material changes in our risk factors from the information set forth above under the heading "Factors That May Affect Future Results" and in our Annual Report on Form 10-K for the year ended December 31, 2008.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

***Fluctuations in the price of the common stock of our publicly traded holdings may affect the price of our common stock and our net income (loss).***

Fluctuations in the market prices of the common stock of our publicly traded holdings are likely to affect the price of our common stock and our net income (loss). The market prices of our publicly traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance. In addition, we have elected to apply the fair value option to account for our retained interest in Clariant following its deconsolidation on May 14, 2009. As a result, gains and losses on the mark-to-market of our holdings in Clariant will be recognized in income (loss) from continuing operations for each accounting period going forward for which we continue to maintain an interest in Clariant. The aggregate market value of our holdings in Clariant (Nasdaq: CLRT), our only public company holding, at September 30, 2009 was approximately \$126.7 million and could vary significantly from period to period. By way of example, the aggregate market value of our holdings in Clariant was \$69.7 million at November 4, 2009.

***Our partner companies (and the nature of our interests in them) could vary widely from period to period.***

As part of our strategy, we continually assess the value to our shareholders of our interests in our partner companies. We also regularly evaluate alternative uses for our capital resources. As a result, depending on market conditions, growth prospects and other key factors, we may at any time:

- change the partner companies on which we focus;
- sell some or all of our interests in any of our partner companies; 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 Consolidated Financial Statements. For example:

- For the period from January 1, 2009 through May 14, 2009 and year ended December 31, 2008, we consolidated the results of operations of Clariant in continuing operations. On May 14, 2009, we deconsolidated Clariant and subsequently account for our holdings in Clariant under the fair value option.



**Table of Contents**

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

The shareholders of the Company voted on three items of business at the Annual Meeting of Shareholders held on August 28, 2009:

1. The election of nine directors;
2. A proposal to amend and restate the Company's 2004 Equity Compensation Plan to increase the number of shares of common stock reserved for issuance there under by 7 million shares (1,166,666 shares as adjusted for the reverse stock split), or from 6 million shares (1,000,000 shares as adjusted for the reverse stock split) to 13 million shares (2,166,666 shares as adjusted for the reverse stock split), and to make certain other clarifying changes and updates; and
3. A proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.

**Table of Contents**

The nominees for director were elected based upon the following votes:

NOMINEE	VOTES FOR	VOTES	
		WITHHELD	NOT VOTED
Peter J. Boni	95,004,335	10,559,099	16,750,878
Michael J. Cody	97,117,893	8,445,541	16,750,878
Julie A. Dobson	93,461,838	12,101,596	16,750,878
Andrew E. Lietz	97,267,715	8,295,719	16,750,878
George MacKenzie	88,283,372	17,280,062	16,750,878
George D. McClelland	84,995,105	20,568,329	16,750,878
Jack L. Messman	97,244,967	8,318,467	16,750,878
John J. Roberts	78,799,691	26,763,743	16,750,878
Robert J. Rosenthal	82,071,273	23,492,161	16,750,878

The proposal to amend and restate the Company's 2004 Equity Compensation Plan received the following votes:

34,791,522	VOTES FOR
29,884,909	VOTES AGAINST
371,738	ABSTENTIONS
57,266,143	NOT VOTED

The proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009, received the following votes:

102,363,818	VOTES FOR
2,496,006	VOTES AGAINST
703,611	ABSTENTIONS
16,750,877	NOT VOTED

**Item 6. Exhibits**

(a) 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 a footnote to this table.

Exhibit Number	Description	Incorporated Filing Reference	
		Form Type & Filing Date	Original Exhibit Number
3.1	Amendment to Second Amended and Restated Articles of Incorporation	Form 8-K 8/27/09	3.1
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

**Table of Contents**

**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.

Date: November 5, 2009

/s/ PETER J. BONI  
Peter J. Boni  
*President and Chief Executive Officer*

Date: November 5, 2009

/s/ STEPHEN T. ZARRILLI  
Stephen T. Zarrilli  
*Senior Vice President and Chief Financial Officer*



**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Description	Incorporated Filing Reference	
		Form Type & Filing Date	Original Exhibit Number
3.1	Amendment to Second Amended and Restated Articles of Incorporation	Form 8-K 8/27/09	3.1
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