SAFEGUARD SCIENTIFICS INC
Form 10-K/A
April 29, 2008

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
Amendment No. 2
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007
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)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of each exchange on which registered**
Common Stock ($.10 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No þ

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

Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

Yes o No þ

As of June 30, 2007, the aggregate market value of the Registrant s common stock held by non-affiliates of the registrant was $338,086,524 based on the closing sale price as reported on the New York Stock Exchange.

The number of shares outstanding of the Registrant s Common Stock, as of April 25, 2008 was 121,564,111.

TABLE OF CONTENTS

Explanatory Note

PART I I

Item 8. Financial Statements and Supplementary Data	1

PART III

Item 10. Directors, Executive Officers and Corporate Governance	53
Item 11. Executive Compensation	60
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	87
Item 13. Certain Relationships and Related Transactions, and Director Independence	91
Item 14. Principal Accountant Fees and Services	91
Item 15. Exhibits and Financial Statement Schedules	93

Certification of Peter J. Boni
Certification of Raymond J. Land
Certification of Peter J. Boni
Certification of Raymond J. Land

Explanatory Note

Safeguard Scientifics, Inc. (Safeguard, the Company, we, us, and our) is filing this Amendment No. 2 on Form 10-K/A for the year ended December 31, 2007 (Form 10-K/A) to amend our Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission (the SEC) on March 31, 2008 (the Original 10-K). The Company is hereby amending the Form 10-K as follows:

To include Part III of the Original 10-K in its entirety (which includes an updated list of the Company s executive officers that was initially included as an Annex to Part I of the Original 10-K), which items were originally expected to be incorporated by reference in our definitive proxy statement to be delivered to our shareholders in connection with our 2008 annual meeting of shareholders;

To amend and restate Item 8 of the Original 10-K to correct the last paragraph of the report of our independent registered public accounting firm on the company s consolidated financial statements, which report appears on page 3, that incorrectly referred to an unqualified audit report on the effectiveness of the Company s internal control over financial reporting when the report of our independent registered public accounting firm on internal control over financial reporting, which report appears on page 2, expressed an adverse opinion on the effectiveness of internal control over financial reporting; Although we are required to file the complete text of Item 8 in accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, there has been no change to the financial statements other than the referenced change in the audit report of our independent registered public accounting firm; and

On the cover page, (i) to delete the reference in the Original 10-K to the incorporation by reference of the Company s proxy statement for its 2008 annual shareholders meeting and (ii) to update the date as of which the number of outstanding shares of the Company s common stock is being provided.

This Form 10-K/A does not reflect events that occurred after the filing of the Original 10-K. As a result of this amendment, we also are filing the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002 as exhibits to this Form 10-K/A. These certifications are included as Exhibits 31.3, 31.4, 32.3 and 32.4.

Except for the amendments and updates described above, this Amendment No. 2 on Form 10-K/A does not modify or update in any other way the Original 10-K.

Table of Contents

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

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

	Page
Report of Independent Registered Public Accounting Firm	2
Report of Independent Registered Public Accounting Firm	3
Consolidated Balance Sheets as of December 31, 2007 and 2006	4
Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005	5
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2007, 2006 and 2005	6
Consolidated Statements of Shareholders Equity for the years ended December 31, 2007, 2006 and 2005	7
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	8
Notes to Consolidated Financial Statements	9

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited Safeguard Scientifics, Inc. s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Safeguard Scientifics, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting (Item 9A.(b)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses related to the following have been identified and included in management s assessment: (i) Ineffective policies and procedures for ensuring financial reporting risks are identified timely and corresponding control activities implemented and (ii) the combined effect of significant deficiencies related to accounting for refunds due to customers and the allowance for doubtful accounts.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Safeguard Scientifics, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income (loss), shareholder s equity and cash flows for each of the years in the three-year period ended December 31, 2007. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 consolidated financial statements, and this report does not affect our report dated March 31, 2008, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, Safeguard Scientifics, Inc. has not maintained effective internal control over financial reporting as of December 31, 2007, based on *criteria* established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 31, 2008

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Safeguard Scientifics, Inc. (the Company) and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Safeguard Scientifics, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financials statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, effective January 1, 2007. Also, as discussed in Note 12 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Safeguard Scientifics, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 31, 2008 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
Philadelphia, Pennsylvania
March 31, 2008

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2007	2006
	(In thousands except per share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 99,965	$ 67,012
Cash held in escrow current	20,345	
Marketable securities	590	94,155
Restricted marketable securities	3,904	3,869
Accounts receivable, less allowances ($3,818 2007; $1,713 2006)	37,578	33,481
Prepaid expenses and other current assets	6,000	5,080
Current assets of discontinued operations		11,703
Total current assets	168,382	215,300
Property and equipment, net	35,573	34,209
Ownership interests in and advances to companies	92,985	54,548
Long-term marketable securities		487
Long-term restricted marketable securities	1,949	5,737
Intangible assets, net	9,960	11,984
Goodwill	76,824	80,418
Cash held in escrow long term	2,341	19,398
Other	3,848	3,764
Non-current assets of discontinued operations		17,850
Total Assets	$ 391,862	$ 443,695
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current portion of credit line borrowings	$ 40,012	$ 25,014
Current maturities of long-term debt	3,752	3,192
Accounts payable	7,654	10,581
Accrued compensation and benefits	13,467	13,432
Accrued expenses and other current liabilities	18,925	19,256
Deferred revenue	6,100	3,560
Current liabilities of discontinued operations		3,465
Total current liabilities	89,910	78,500
Long-term debt	4,746	4,010
Other long-term liabilities	9,765	10,319
Convertible senior debentures	129,000	129,000
Deferred taxes	1,026	1,026

Minority interest	2,692	5,404
Non-current liabilities of discontinued operations		1,656
Commitments and contingencies Redeemable consolidated partner company stock-based compensation	84	2,021
Shareholders Equity:		
Preferred stock, $0.10 par value; 1,000 shares authorized		
Common stock, $0.10 par value; 500,000 shares authorized; 121,123 and 120,419 shares issued and outstanding in 2007 and 2006, respectively	12,112	12,042
Additional paid-in capital	758,515	750,361
Accumulated deficit	(616,013)	(551,180)
Accumulated other comprehensive income	25	536
Total shareholders equity	154,639	211,759
Total Liabilities and Shareholders Equity	$ 391,862	$ 443,695

See Notes to Consolidated Financial Statements.

4

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands except per share data)		
Revenue	$ 176,119	$ 162,642	$ 103,775
Operating Expenses:			
Cost of sales	124,739	118,749	81,437
Selling, general and administrative	97,108	93,016	66,309
Research and development	2,407	2,501	125
Purchased in-process research and development			1,974
Amortization of intangible assets	2,024	2,498	1,092
Goodwill impairment	5,438		
Total operating expenses	231,716	216,764	150,937
Operating loss	(55,597)	(54,122)	(47,162)
Other income (loss), net	(4,866)	5,559	7,066
Recovery related party	12	360	28
Interest income	7,539	6,907	4,974
Interest expense	(7,660)	(6,630)	(6,365)
Equity loss	(14,143)	(3,267)	(6,597)
Minority interest	5,829	6,112	6,922
Net loss from continuing operations before income taxes	(68,886)	(45,081)	(41,134)
Income tax benefit	781	1,186	230
Net loss from continuing operations	(68,105)	(43,895)	(40,904)
Income from discontinued operations, net of tax	3,272	89,803	8,834
Net income (loss)	$ (64,833)	$ 45,908	$ (32,070)
Basic and Diluted Income (Loss) Per Share:			
Net loss from continuing operations	$ (0.56)	$ (0.36)	$ (0.34)
Net income from discontinued operations	0.03	0.74	0.07
Net income (loss) per share	$ (0.53)	$ 0.38	$ (0.27)
Shares used in computing basic and diluted income (loss) per share	122,352	121,476	120,845

See Notes to Consolidated Financial Statements.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
Net loss from continuing operations	$ (68,105)	$ (43,895)	$ (40,904)
Other comprehensive income (loss), before taxes:			
Foreign currency translation adjustments	(24)	5	69
Holding losses on available-for-sale securities	(487)	(2,824)	(8,653)
Other comprehensive loss from continuing operations	(511)	(2,819)	(8,584)
Comprehensive loss from continuing operations	(68,616)	(46,714)	(49,488)
Income from discontinued operations	3,272	89,803	8,834
Other comprehensive income (loss) from discontinued operations		189	(36)
Comprehensive income (loss)	$ (65,344)	$ 43,278	$ (40,690)

See Notes to Consolidated Financial Statements.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock		Additional		Accumulated Other Comprehensive	Treasury Stock		Unamortized	
	Shares	Amount	Paid-In Capital	Accumulated Deficit	Income (Loss)	Shares	Amount	Deferred Compensation	Total
				(In thousands)					
Balance December 31, 2004	119,893	$ 11,989	$ 745,991	$ (565,018)	$ 11,786		$	$ (3,518)	$ 201,230
Net loss				(32,070)					(32,070)
Stock options exercised, net	42	4	48			(2)	9		61
Acceleration of vesting of restricted stock								279	279
Amortization of deferred compensation, net of forfeitures			(203)					1,371	1,168
Impact of subsidiary equity transactions			1,859					838	2,697
Issuance of restricted stock, net			113			4	(15)	(13)	85
Employee stock option expense			145						145
Other comprehensive loss					(8,620)				(8,620)
Balance December 31, 2005	119,935	11,993	747,953	(597,088)	3,166	2	(6)	(1,043)	164,975
Net income				45,908					45,908
Stock options exercised, net	236	25	346			(2)	6		377
Reclassification of unamortized deferred compensation			(1,043)					1,043	
Reclassification of redeemable subsidiary			(2,021)						(2,021)

stock-based compensation								
Impact of subsidiary equity transactions			(1,763)					(1,763)
Issuance of restricted stock, net	248	24	47					71
Stock-based compensation expense continuing and discontinued operations			6,842					6,842
Other comprehensive loss					(2,630)			(2,630)
Balance December 31, 2006	120,419	12,042	750,361	(551,180)	536			211,759
Net loss				(64,833)				(64,833)
Stock options exercised, net	492	49	692					741
Change in redeemable subsidiary stock-based compensation			937					937
Issuance of restricted stock, net	212	21	146					167
Stock-based compensation expense continuing and discontinued operations			6,379					6,379
Other comprehensive loss					(511)			(511)
Balance December 31, 2007	121,123	$ 12,112	$ 758,515	$ (616,013)	$ 25	$	$	$ 154,639

See Notes to Consolidated Financial Statements.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
Cash Flows from Operating Activities:			
Net income (loss)	$ (64,833)	$ 45,908	$ (32,070)
Adjustments to reconcile to net cash used in operating activities:			
Income from discontinued operations	(3,272)	(89,803)	(8,834)
Depreciation and amortization	10,666	9,816	6,440
Purchased in-process research and development			1,974
Deferred income taxes			304
Equity loss	14,143	3,267	6,597
Other (income) loss, net	4,866	(5,559)	(7,066)
Goodwill impairment	5,438		
Recovery related party		(360)	(28)
Non-cash stock-based compensation expense	6,603	6,637	2,034
Minority interest	(5,829)	(6,112)	(6,922)
Changes in assets and liabilities, net of effect of acquisitions and dispositions:			
Accounts receivable, net	(3,652)	2,296	(2,595)
Accounts payable, accrued expenses, deferred revenue and other	(1,092)	10,568	7,261
Cash flows from operating activities of discontinued operations	709	4,963	10,995
Net cash used in operating activities	(36,253)	(18,379)	(21,910)
Cash Flows from Investing Activities:			
Proceeds from sales of available-for-sale and trading securities		3,551	241
Proceeds from sales of and distributions from companies and funds	2,783	1,530	28,242
Advances to partner companies	(682)		(2,299)
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(62,759)	(43,596)	(35,034)
Acquisitions by consolidated partner companies, net of cash acquired		(5,366)	
Repayment of note receivable-related party, net		360	1,413
Increase in marketable securities	(111,858)	(208,514)	(55,602)
Decrease in marketable securities	205,422	146,129	57,387
Proceeds from sales of property and equipment	44	435	4,170
Capital expenditures	(9,336)	(14,555)	(5,913)
Capitalized software costs	(156)	(171)	(171)
Proceeds from sale of discontinued operations, net	29,967	99,649	14,680
Other, net		424	788
Cash flows from investing activities of discontinued operations	(362)	(7,466)	(6,491)
Net cash provided by (used in) investing activities	53,063	(27,590)	1,411

Cash Flows from Financing Activities:			
Repurchase of convertible senior debentures		(16,215)	
Borrowings on revolving credit facilities	153,364	137,221	101,936
Repayments on revolving credit facilities	(138,366)	(124,842)	(100,521)
Borrowings on term debt	5,093	2,724	2,051
Repayments on term debt	(3,805)	(4,057)	(6,623)
Decrease in restricted cash			508
Issuance of Company common stock, net		448	61
Issuance of subsidiary common stock, net	741	432	6,196
Purchase of subsidiary common stock, net	703	(1,112)	(611)
Offering costs on issuance of subsidiary common stock		(70)	(343)
Cash flows from financing activities of discontinued operations	(230)	(56)	(294)
Net cash provided by (used in) financing activities	17,500	(5,527)	2,360
Net Increase (Decrease) in Cash and Cash Equivalents	34,310	(51,496)	(18,139)
Changes in Cash and Cash Equivalents from Pacific Title & Art Studio and Mantas included in assets of discontinued operations	(1,357)	(3,561)	(1,866)
	32,953	(55,057)	(20,005)
Cash and Cash Equivalents at beginning of period	$ 67,012	$ 122,069	$ 142,074
Cash and Cash Equivalents at end of period	$ 99,965	$ 67,012	$ 122,069

See Notes to Consolidated Financial Statements.

8

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Description of the Company

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

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

Technology including companies focused on providing software as a service (SaaS), technology-enabled services and information technology services for analytics, enterprise applications and infrastructure, security and communication; and

Life Sciences including companies focused on specialty pharmaceuticals, drug delivery, diagnostics and medical devices.

Basis of Presentation

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

The Company s Consolidated Statements of Operations, Comprehensive Income (Loss) and Cash Flows for each of the years in the three-year period ended December 31, 2007 and the Consolidated Balance Sheets as of December 31, 2007 and 2006 include the following partner companies in continuing operations:

Acsis, Inc. (Acsis) (since December 2005)
Alliance Consulting Group Associates, Inc. (Alliance Consulting)
Clarient, Inc. (Clarient)
Laureate Pharma, Inc. (Laureate Pharma)

As discussed in Note 24, in February 2008, the Company entered into a definitive agreement to sell its interests in Acsis, Alliance Consulting and Laureate Pharma, which is expected to close during the second quarter of 2008.

Alliance Consulting operates on a 52 or 53-week fiscal year, ending on the Saturday closest to December 31. Alliance Consulting s last three fiscal years have ended on December 29, 2007, December 30, 2006 and December 31, 2005. Fiscal years 2007, 2006 and 2005 were periods of 52 weeks. The Company and all other consolidated partner companies operate on a calendar year.

During 2007, 2006 and 2005, certain consolidated partner companies, or components thereof, were sold. See Note 2 for discontinued operations treatment of Pacific Title & Art Studio, Inc., Clarient s technology group, Mantas, Inc., Alliance Consulting s Southwest region business and Laureate Pharma s Totowa operation.

Principles of Accounting for Ownership Interests in Companies

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

Table of Contents

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

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

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

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

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

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

Accounting Estimates

The preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. These

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

estimates include the evaluation of the recoverability of the Company s ownership interests in and advances to companies and investments in marketable securities, the evaluation of the impairment of goodwill, intangible assets and property and equipment, revenue recognition, income taxes, stock-based compensation and commitments and contingencies.

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

It is reasonably possible that the Company s accounting estimates with respect to the ultimate recoverability of the carrying value of the Company s ownership interests in and advances to companies, goodwill and intangible assets and the estimated useful life of amortizable intangible assets could change in the near term and that the effect of such changes on the financial statements could be material. At December 31, 2007, the Company believes the recorded amount of carrying value of the Company s ownership interests in and advances to companies, goodwill and intangible assets is not impaired, although there can be no assurance that the Company s future results will confirm this assessment, that a significant write-down or write-off will not be required in the future, or that a significant loss will not be recorded in the future upon the sale of a company.

Reclassifications and Revisions

Certain prior year amounts have been reclassified to conform to the current year presentation, including the reclassification to discontinued operations of Pacific Title & Art Studio which was sold in March 2007, Clarient s technology group which was sold in March 2007, Mantas which was sold in October 2006, Alliance Consulting s Southwest region business which was sold in May 2006 and Laureate Pharma s Totowa, New Jersey operation which was sold in December 2005. The impact of these reclassifications did not affect the Company s net income (loss).

During the fourth quarter of 2007, an accounting error at Clarient was identified. The error related to Clarient s accounting for customer refunds which affected the Company s previously reported quarterly results in 2007 and 2006, totaling $0.9 million.

In accordance with Staff Accounting Bulletin No. 108, the Company evaluated the materiality of the error from qualitative and quantitative perspectives, and evaluated the quantified error under both the iron curtain and the roll-over methods. The Company concluded that the error was not material to the Consolidated Financial Statements in any interim or annual prior periods. Clarient determined that the error was not material to its financial statements for any interim or annual prior periods, but that its correction in the fourth quarter of 2007 would be material to its fourth quarter results. Consequently, Clarient, which is a public company, recorded an immaterial correction of an error in prior periods as a reduction in revenue with a corresponding increase in accrued expenses and other current liabilites in its financial statements for the years ended December 31, 2007 and 2006. The Company revised its Consolidated Financial Statements as summarized in Note 20. Accordingly, the quarterly financial information (unaudited) presented in Note 22 has also been revised.

The Company has disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations. Included in these amounts were net cash flows of $(1.2) million, $(4.6) million and $3.8 million in 2007, 2006 and 2005, respectively, attributable to Clarient s technology group, Alliance Consulting s Southwest region business and Laureate Pharma s Totowa operation. Because these businesses did not maintain separate bank accounts, any net cash provided by (used in) these businesses increased (decreased) the cash and cash equivalents balance of the Company s continuing operations as shown on the Consolidated Balance Sheets. Cash flows related to Pacific Title & Art Studio in 2007, 2006 and 2005 and Mantas in 2006 and 2005 are adjusted in the Statement of Cash Flows to reconcile to cash and cash equivalents associated with continuing operations.

Cash and Cash Equivalents and Short-Term Marketable Securities

The Company considers all highly liquid instruments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of deposits that are readily convertible into cash. The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. Held-to-maturity securities are carried at amortized cost,

which approximates fair value. Short-term marketable securities consist of held-to-maturity securities, primarily consisting of commercial paper and certificates of deposits.

Restricted Marketable Securities

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

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

Long-Term Marketable Securities

The Company records its ownership interest in cost method equity securities that have readily determinable fair value as available-for-sale or trading securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of Shareholders Equity. Unrealized losses are charged against net loss when a decline in the fair value is determined to be other than temporary. Trading securities are carried at fair value, based on quoted market prices, with the unrealized gain or loss included in Other Income, Net, in the Consolidated Statements of Operations. The Company records its ownership interest in debt securities at amortized cost based on its ability and intent to hold these securities until maturity.

Financial Instruments

The Company s financial instruments (principally cash and cash equivalents, marketable securities, restricted marketable securities, accounts receivable, notes receivable, accounts payable and accrued expenses) are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The Company s long-term debt is carried at cost. At December 31, 2007, the market value of the Company s outstanding 2024 Debentures was approximately $106.5 million, based on quoted market prices.

Property and Equipment

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

Intangible Assets, net

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

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

Goodwill Impairment

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

Impairment of Equity Method and Cost Method Companies

On a periodic basis, but no less frequently than at the end of each quarter, the Company evaluates the carrying value of its equity and cost method partner companies for possible impairment based on achievement of business

Table of Contents

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

plan objectives and milestones, the fair value of each partner company relative to its carrying value, the financial condition and prospects of the partner company and other relevant factors. The business plan objectives and milestones the Company considers include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. Management then determines whether there has been an other than temporary decline in the value of its ownership interest in the company. Impairment is measured by the amount by which the carrying value of an asset exceeds its fair value.

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

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

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

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

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews long-lived assets, including property and equipment and amortizable intangibles, for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to forecasted undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Recoverability of Note Receivable Related Party

The Company evaluates the recoverability of its Note Receivable Related Party in accordance with SFAS No. 114 Accounting by Creditors for Impairment of a Loan an Amendment of FASB Statements No. 5 and 15 . Under SFAS No. 114, a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company does not accrue interest when a note is considered impaired. All cash receipts from impaired notes are applied to reduce the original principal amount of such note until the principal has been fully recovered and would be recognized as interest income thereafter. Cash receipts in excess of the carrying value of the note are included in Recovery Related Party in the Consolidated Statements of Operations until such time that the original principal has been recovered.

Deferred Revenue

Deferred revenue represents cash collections on contracts in advance of performance of services or delivery of products and is recognized as revenue when the related services are performed or products are delivered.

Revenue Recognition

Acsis generates revenue from (i) software fees, which consist of revenue from the licensing of software, (ii) services revenue, which consist of fees from consulting, implementation and training services, plus customer support services, and (iii) hardware and reimbursed project expenses. Acsis recognizes software fees in accordance with

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

Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2), as amended. Acsis recognizes software license revenue when the following criteria are met: (1) a signed contract is obtained; (2) delivery of the products has occurred; (3) the license fee is fixed or determinable; and (4) collectibility is probable. Acsis generally recognizes license revenue using the residual method when there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting. For those contracts that contain significant customization or modifications, Acsis recognizes license revenue using the percentage-of-completion method. Acsis recognizes revenue from professional consulting services under fixed-price arrangements, using the proportional-performance method based on direct labor costs incurred to date as a percentage of total estimated labor costs required to complete the project. Project losses are provided for in their entirety in the period they become known, without regard to the percentage-of-completion. Acsis recognizes hardware revenue upon shipment by the vendor to the customer unless the hardware is an element of an arrangement that includes services involving significant customization or modifications to software, in which case, hardware revenue is bundled with the software and services, and recognized on a percentage-of-completion basis.

Alliance Consulting generates revenue primarily from consulting services. Alliance Consulting generally recognizes revenue when persuasive evidence of an arrangement exists, services are performed, the service fee is fixed or determinable and collectibility is probable. Alliance Consulting recognizes revenue from services as services are performed. Alliance Consulting also performs certain services under fixed-price service contracts related to discrete projects. Alliance Consulting recognizes revenue from these contracts using the percentage-of-completion method, primarily based on the actual labor hours incurred to date compared to the estimated total hours of the project. Any losses expected to be incurred on jobs in process are charged to income in the period such losses become known. Changes in estimates of total costs could result in changes in the amount of revenue recognized.

Clarient generates revenue from diagnostic services and recognizes such revenue at the time of completion of services at amounts equal to the contractual rates allowed from third parties including Medicare, insurance companies and, to a small degree, private-pay patients. These expected amounts are based both on Medicare allowable rates and Clarient s collection experience with other third-party payors.

Laureate Pharma s revenue is derived primarily from contract manufacturing work, process development services, and formulation and filling. Laureate Pharma may enter into contractual arrangements with multiple deliverables in order to meet its customers needs. Multiple element revenue agreements are evaluated under Emerging Issues Task Force (EITF) Issue Number 00-21, Revenue Arrangements with Multiple Deliverables, to determine whether the delivered item has value to the customer on a stand-alone basis and whether objective and reliable evidence of the fair value of the undelivered item exists. Deliverables in an arrangement that do not meet the separation criteria in EITF 00-21 are treated as one unit of accounting for purposes of revenue recognition. Revenue generally is recognized upon the performance of services. Certain services are performed under fixed-price contracts. Revenue from these contracts is recognized on a percentage of-completion basis. When current cost estimates indicate a loss is expected to be incurred, the entire loss is recorded in the period in which it is identified. Changes in estimates of total costs could result in changes in the amount of revenue recognized.

Taxes collected from customers and remitted to government authorities are presented on a net basis (excluded from revenue).

Defined Contribution Plans

Defined contribution plans are contributory and cover eligible employees of the Company and certain consolidated partner companies. The Company s defined contribution plan allows eligible employees, as defined in the plan, to contribute to the plan up to 75% of their pre-tax compensation, subject to the maximum contributions allowed by the Internal Revenue Code. The Company determines the amount, if any, of the employer-paid matching contribution at the end of each calendar year. Additionally, the Company may make annual discretionary contributions under the plan based on a participant s eligible compensation. Certain consolidated partner companies

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

also generally match from 25% to 50% of the first 3% to 6% of employee contributions to these plans. Expense relating to defined contribution plans was $1.0 million in 2007, $0.8 million in 2006 and $0.7 million in 2005.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes , under the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company measures deferred tax assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. The Company recognizes the effect on deferred tax assets and liabilities of a change in tax rates in income in the period of the enactment date. The Company provides valuation allowances against the net deferred tax asset for amounts which are not considered more likely than not to be realized.

Net Income (Loss) Per Share

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

Comprehensive Income (Loss)

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

Segment Information

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

New Accounting Pronouncements

In June 2007, the AICPA issued Statement of Position 07-1, Clarification of the Scope of the Audit and Accounting Guide: Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies (SOP 07-1). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide: Investment Companies (the Guide). SOP 07-1 amends the Guide to include criteria for determining whether an entity is an investment company for accounting purposes and is therefore within the Guide s scope. Those criteria include a definition of an investment company and factors to consider in determining whether an entity meets that definition. Entities meeting the definition of an investment company, as well as entities regulated by the Investment Company Act of 1940 or similar requirements, are required to follow the Guide s specialized accounting guidance. In October 2007, the Financial Accounting Standards Board (FASB) indefinitely delayed the effective date of SOP 07-01.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). SFAS No. 159 allows companies to choose, at specific election dates, to measure eligible financial assets and liabilities that are not otherwise required to be measured at fair value, at fair value. Under SFAS

Table of Contents

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

No. 159, companies would report unrealized gains and losses for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize up-front costs and fees related to those items in earnings as incurred. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material impact on its financial statements due to its election to not measure partner company holdings accounted for under the equity method at fair value.

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

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained upon examination by the applicable taxing authority. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 effective January 1, 2007 (See Note 14).

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

- Acquisition costs will be generally expensed as incurred;
- 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.

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). SFAS No. 160 establishes new accounting and

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

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. The amount of net income attributable to noncontrolling interests will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation are treated as equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the 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. The adoption of SFAS No. 160 will result in the reclassification of minority interests from long term liabilities to shareholders equity. Minority interest at December 31, 2007 was $3.0 million.

2. Discontinued Operations

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

Pacific Title & Art Studio

In March 2007, the Company sold Pacific Title & Art Studio for net cash proceeds of approximately $21.9 million, including $2.3 million cash deposited into escrow. As a result of the sale, the Company recorded a pre-tax gain of $2.7 million in 2007.

Clarient Technology Group

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

Mantas

In October 2006, the Company completed the sale of its interest in Mantas for net cash proceeds of approximately $112.8 million, including $19.3 million deposited into escrow. The Company recorded a pre-tax gain of $83.9 million in 2006. Mantas sold its telecommunications business and certain related assets and liabilities in the first quarter of 2006 for $2.1 million in cash. As a result of the sale, Mantas recorded a gain of $1.9 million in 2006 which is also reported in discontinued operations. Goodwill of $19.9 million related to Mantas was included in discontinued operations.

Alliance Consulting Southwest Region Business

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

Table of Contents

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

Laureate Pharma Totowa Operation

In December 2005, Laureate Pharma sold its Totowa operation for $16.0 million in cash. Laureate Pharma recorded a $7.7 million gain in 2005 related to such sale.

Results of the discontinued operations were as follows:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Revenue	$ 7,386	$ 64,685	$ 89,279
Operating expenses	(8,107)	(62,434)	(87,579)
Other	(103)	(680)	190
Income (loss) before income taxes and minority interest	(824)	1,571	1,890
Income tax (expense) benefit	8	(391)	(187)
Income (loss) before minority interest	(816)	1,180	1,703
Minority interest	(2,185)	1,095	(566)
Net income (loss) from operations	(3,001)	2,275	1,137
Gain on disposal, net of tax	6,273	87,528	7,697
Income from discontinued operations, net of tax	$ 3,272	$ 89,803	$ 8,834

Table of Contents

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

The assets and liabilities of discontinued operations were as follows:

	December 31, 2006 (In thousands)
Cash	$ 4,239
Accounts receivable, less allowances	5,393
Inventory	1,525
Other current assets	546
Total current assets	11,703
Property and equipment, net	10,680
Intangibles	4,442
Goodwill	2,080
Other assets	648
Total Assets	$ 29,553
Current debt	$ 746
Accounts payable	530
Accrued expenses	1,499
Deferred revenue	690
Total current liabilities	3,465
Long-term debt	1,057
Other long-term liabilities	599
Total Liabilities	$ 5,121
Carrying value	$ 24,432

3. Business Combinations

Acquisitions by the Company 2007

In October 2007, the Company acquired 50.0% of Alverix, Inc. (Alverix) for $2.4 million in cash. Alverix has developed a next-generation platform for quantifying and analyzing assays in the point-of-care diagnostics market. The technology utilizes optical sensors, image processing software and signal enhancement algorithms to achieve more accurate measurements in an inexpensive, miniaturized meter. The Company accounts for its holdings in Alverix under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Alverix was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests and advances to companies on the Consolidated Balance Sheet.

In October 2007, the Company increased its ownership interest in NuPathe, Inc (NuPathe) from 21.3% to 26.2% for $2.0 million in cash. The Company previously had acquired an interest in NuPathe in September 2006 for $3.0 million in cash. NuPathe develops therapeutics in conjunction with novel delivery technologies. The Company accounts for its holdings in NuPathe under the equity method. The difference between the Company s cost and its

interest in the underlying net assets of NuPathe has been allocated to in-process research and development, resulting in charges of $0.2 million and $1.0 million in 2007 and 2006, respectively, which are reflected in Equity loss in the Consolidated Statement of Operations and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In September 2007, the Company increased its ownership interest in NexTone Communications, Inc. (NexTone) from 16.1% to 16.5%, for $2.2 million in cash. In December 2007, the Company funded an additional $2.1 million in cash which was held in an escrow account until January 2008, at which time NexTone merged with Reef Point Systems, Inc. to form NextPoint Networks, Inc. (NextPoint). The January 2008 merger and related

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

financing resulted in the Company holding approximately 12.2% of NextPoint. The Company accounted for its holdings in NexTone under the cost method.

In August 2007, the Company acquired 21.1% of Bridgevine, Inc. (Bridgevine), formerly known as Broadband National, Inc., for $8.0 million in cash. Bridgevine is an internet media company that operates a network of shopping websites focused on digital services and products such as high speed internet, digital phone, VoIP, TV and music. The Company accounts for its holdings in Bridgevine under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Bridgevine was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In August 2007, the Company acquired 14.0% of a yet-to-be-publicly launched web-based software company for $2.2 million in cash, which acquisition is accounted for under the cost method.

In June 2007, the Company acquired 40.3% of Cellumen, Inc. (Cellumen) for $6.0 million in cash. Cellumen is a cellular systems biology company whose technology optimizes the drug discovery process. The Company accounts for its holdings in Cellumen under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Cellumen was allocated to in-process research and development, resulting in a $0.2 million charge in the second quarter of 2007, and to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In June 2007, the Company increased its ownership interest in Authentium, Inc. (Authentium) to 19.9%, for an additional $3.0 million in cash. The Company previously had acquired a 12.4% interest in Authentium in April 2006 for $5.5 million in cash. Authentium is a provider of security software to internet service providers. The Company accounts for its holdings in Authentium under the cost method.

In May 2007, the Company acquired 14.2% of Avid Radiopharmaceuticals, Inc. (Avid) for $7.3 million in cash. Avid develops molecular imaging products for neurodegenerative diseases and diabetes. The Company accounts for its holdings in Avid under the cost method.

In May 2007, the Company increased its ownership interest in Advanced BioHealing, Inc. (ABH) to 28.3% for $2.8 million in cash. The Company previously had acquired a 23.9% interest in ABH in February 2007 for $8.0 million in cash. ABH is a specialty biotechnology company focused on the development and marketing of cell-based and tissue engineered products. The Company accounts for its holdings in ABH under the equity method. The difference between the Company s cost and its interest in the underlying net assets of ABH was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In March 2007, the Company acquired 37.1% of Beyond.com, Inc. (Beyond.com) for $13.5 million in cash. Beyond.com is a provider of online technology and career services to job seekers and corporations. The Company accounts for its holdings in Beyond.com under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Beyond.com was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

Acquisitions by the Company 2006

In November 2006, the Company acquired 32.2% of Advantedge Healthcare Solutions (AHS) for $5.8 million in cash. 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. The difference between the Company s cost and its interest in underlying net assets of AHS was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

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

In September 2006, the Company acquired additional common shares of Clarient for $3.0 million in cash to fund Clarient s acquisition of Trestle Holdings, Inc. (Trestle). The difference between the Company s cost and its interest in the underlying net assets of Clarient was allocated to fixed assets of $0.2 million with estimated depreciable lives of three years and to intangible assets which were subsequently sold in the ACIS Sale.

In August 2006, the Company acquired 46.9% of Portico Systems (Portico) for $6.0 million in cash. 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. The difference between the Company s cost and its interest in the underlying net assets of Portico has been allocated to intangible assets and goodwill, as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In August 2006, the Company acquired 35.7% of Rubicor Medical, Inc. (Rubicor) for $20.0 million in cash. Rubicor develops and distributes technologically advanced, disposable, minimally-invasive breast biopsy devices. The Company accounts for its holdings in Rubicor under the equity method. The difference between the Company s cost and its interest in the underlying net assets of Rubicor has been allocated to in-process research and development resulting in a $0.6 million charge, which is reflected in Equity loss in the Consolidated Statement of Operations for 2006, and intangible assets as reflected in the carrying value in Ownership interests in and advances to companies on the Consolidated Balance Sheet.

In June 2006, the Company acquired additional common shares of Acsis for an aggregate purchase price of $6.0 million in cash at the same per share value as our December 2005 purchase. The result of the June 2006 incremental equity purchase was an increase in ownership in Acsis to 96.2%.

Acquisitions by Consolidated Partner Companies

Acquisitions by Consolidated Partner Companies 2006

In September 2006, Clarient completed the purchase of substantially all of the assets of Trestle for $3.4 million of cash and assumed liabilities and transaction costs.

In June 2006, Alliance Consulting completed the acquisition of Fusion Technologies, Inc. (Fusion) for $5.6 million, including $5.3 million in cash and $0.3 million in its stock. Based on achievement of earnings targets by the Fusion business in the post-acquisition period and settlement of a claim under the escrow agreement, additional purchase price consideration of $2.0 million was paid by Alliance Consulting, reduced by a $0.2 million settlement of a claim under the escrow agreement in 2007.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed:

	Alliance Consulting	**Clarient**
	(In thousands)	
Working capital	$ 70	$ (34)
Property and equipment	443	76
Intangible assets	730	2,820
Goodwill	6,217	550
Total purchase price	$ 7,460	$ 3,412

The intangible assets acquired by Alliance Consulting consist of customer lists with a seven year life and property and equipment which are being depreciated over their weighted average lives (three to five years). The assets acquired by Clarient were subsequently sold in the ACIS Sale and are reflected in assets of discontinued operations on the 2006 Consolidated Balance Sheet.

Table of Contents

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

4. Marketable Securities

Marketable securities included the following:

	Current		Non Current	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Held-to-maturity:				
Commercial paper	$ 590	$ 94,155	$	
Restricted U.S. Treasury securities	3,904	3,869	1,949	5,737
Available-for-sale:				
Equity securities				487
	$ 4,494	$ 98,024	$ 1,949	$ 6,224

As of December 31, 2007, the contractual maturities of securities were as follows:

	Years to Maturity (In thousands)			
	Less Than One Year	One to Five Years	No Single Maturity Date	Total
Held-to-maturity	$4,494	$1,949	$	$6,443

During 2007, the Company s investment in available-for-sale securities was written-off due to the cancellation of the underlying securities in connection with a bankruptcy liquidation. The change is reflected in Accumulated other comprehensive income on the Consolidated Balance Sheets.

5. Property and Equipment

Property and equipment consisted of the following:

	As of December 31,	
	2007	2006
	(In thousands)	
Building and improvements	$ 23,642	$ 21,176
Machinery and equipment	38,106	30,691
	61,748	51,867
Accumulated depreciation	(26,175)	(17,658)
	$ 35,573	$ 34,209

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

6. Ownership Interests in and Advances to Companies

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

	As of December 31,	
	2007	**2006**
	(In thousands)	
Equity Method:		
Partner companies	$ 60,822	$ 32,155
Private equity funds	2,326	4,569
	63,148	36,724
Cost Method:		
Partner companies	26,048	14,283
Private equity funds	3,370	3,541
Advances to partner companies	419	
	$ 92,985	$ 54,548

In 2005, the Company sold certain interests in private equity funds and recorded a gain of $7 million. Following the sale, the Company retained an indirect interest in certain publicly traded securities held by a private equity fund and the carried interest in a portion of its general partner interest in certain funds. During 2006, the Company received a distribution of the publicly traded securities and sold these securities for a gain of $0.1 million.

Impairment charges related to cost method partner companies were $5.3 million and $1.4 million for the years ended December 31, 2007 and 2005, respectively. The amount of each impairment charge was determined by comparing the carrying value of the company to its estimated fair value. Impairment charges associated with equity method partner companies are included in Equity loss in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies are included in Other income (loss), net in the Consolidated Statements of Operations.

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

The following unaudited summarized financial information for partner companies and funds accounted for under the equity method at December 31, 2007 and 2006 and for the three years ended December 31, 2007, 2006 and 2005, has been compiled from the unaudited financial statements of our respective partner companies and funds and reflects certain historical adjustments. Results of operations of the partner companies and funds are excluded for periods prior to their acquisition and subsequent to their disposition.

	As of December 31,	
	2007	2006
	(In thousands)	
Balance Sheets:		
Current assets	$ 83,845	$ 41,025
Non-current assets	102,196	104,413
Total Assets	$ 186,041	$ 145,438
Current liabilities	$ 24,808	$ 6,021
Non-current liabilities	9,311	310
Shareholders equity	151,922	139,107
Total Liabilities and Shareholders Equity	$ 186,041	$ 145,438

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Results of Operations:			
Revenue	$ 35,505	$ 956	$ 14,772
Gross profit	$ 18,248	$ 365	$ 9,287
Net loss	$ (35,567)	$ (25,544)	$ (35,302)

The Company reports its share of the income or loss of the equity method partner companies on a one quarter lag.

7. Goodwill and Other Intangible Assets

The following is a summary of changes in the carrying amount of goodwill by segment (In thousands):

	Alliance Consulting	Clarient	Acsis	Total
Balance at December 31, 2005	$ 51,782	$ 12,179	$ 11,931	$ 75,892
Additions	4,373	550		4,923
Purchase price adjustments [1]			(397)	(397)
Balance at December 31, 2006	56,155	12,729	11,534	80,418
Additions [2]	1,844			1,844

Impairment	(5,438)			(5,438)
Balance at December 31, 2007	$ 52,561	$ 12,729	$ 11,534	$ 76,824

(1) The above purchase price adjustments represent activity to complete the final purchase price allocation.

(2) In July 2006, Alliance Consulting acquired Fusion for $5.6 million. Based on achievement of earnings targets by the Fusion business in the post-acquisition period, additional purchase price consideration of $2.0 million was paid, reduced by a $0.2 million settlement of a claim under the escrow agreement.

Table of Contents

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

In the third quarter of 2007, the Company conducted a goodwill impairment review related to its Alliance Consulting segment, due to underperformance relative to historical and expected operating results. The Company engaged an outside valuation firm to assist in determining the fair value of Alliance Consulting using valuation methods which included discounted cash flows and revenue and acquisition multiples for comparable public companies. The Company determined that the carrying value of Alliance Consulting exceeded its fair value, indicating a potential impairment of goodwill. The Company then estimated the implied fair value of the Alliance Consulting goodwill. The excess of the carrying value of goodwill over the implied fair value of goodwill was $5.4 million, which amount was recognized as an impairment loss within Goodwill impairment in the Consolidated Statements of Operations.

Intangible assets with definite useful lives are amortized over their respective estimated useful lives to their estimated residual values. The following table provides a summary of the Company s intangible assets with definite and indefinite useful lives:

	December 31, 2007			
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Net
		(In thousands)		
Customer-related	7 - 10-years	$ 9,721	$ 3,845	$ 5,876
Technology-related	3 years	1,376	955	421
Process-related	3 years	1,363	1,363	
Trade names	20 years	1,222	126	1,096
		13,682	6,289	7,393
Trade names	Indefinite	2,567		2,567
Total		$ 16,249	$ 6,289	$ 9,960

	December 31, 2006			
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Net
		(In thousands)		
Customer-related	7 - 10 years	$ 9,721	$ 2,719	$ 7,002
Technology-related	3 years	1,376	496	880
Process-related	3 years	1,363	984	379
Trade names	20 years	1,222	66	1,156

		13,682	4,265	9,417
Trade names	Indefinite	2,567		2,567
Total		$ 16,249	$ 4,265	$ 11,984

Amortization expense related to intangible assets was $2.0 million, $2.5 million and $1.1 million for the years ended December 31, 2007, 2006 and 2005, respectively. The following table provides estimated future amortization expense related to intangible assets (assuming there is not an impairment associated with these intangible assets causing an acceleration of expense):

	Total (In thousands)
2008	$ 1,610
2009	1,164
2010	670
2011	670
2012 and thereafter	3,279
	$ 7,393

Table of Contents

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

8. Long-term Debt and Credit Arrangements

Consolidated long-term debt consisted of the following:

	As of December 31,	
	2007	2006
	(In thousands)	
Subsidiary credit line borrowings (guaranteed by the Company)	$ 27,500	$ 22,000
Subsidiary credit line borrowings (not guaranteed by the Company)	12,512	3,014
Subsidiary term loans and other borrowings (guaranteed by the Company)	6,019	3,000
	46,031	28,014
Capital lease obligations and other borrowings	2,479	4,202
	48,510	32,216
Less current maturities	(43,764)	(28,206)
Total long-term debt, less current portion	$ 4,746	$ 4,010

The Company maintains a revolving credit facility that provides for borrowings and issuances of letters of credit and guarantees up to $75.0 million. This revolving credit facility expires June 30, 2008. Borrowing availability under the facility is reduced by the amounts outstanding for the Company s borrowings and letters of credit and amounts guaranteed under consolidated partner company facilities maintained with that same lender. This credit facility bears interest at the prime rate (7.25% at December 31, 2007) for outstanding borrowings. The credit facility is subject to an unused commitment fee of 0.125%, which is subject to reduction based on deposits maintained at the bank. The credit facility requires the Company to maintain an unrestricted cash collateral account at that same bank, equal to the Company s borrowings and letters of credit and amounts borrowed by partner companies under the guaranteed portion of the partner company facilities maintained with that same bank. At December 31, 2007, the required cash collateral, pursuant to the Company s credit facility agreement, was $38.8 million, which amount was included within Cash and cash equivalents on the Consolidated Balance Sheet as of December 31, 2007.

In November 2006, the Company entered into an additional revolving credit facility with a separate bank that provided for borrowings and issuances of letters of credit and guarantees of up to $20.0 million. This facility expired in November 2007 and the Company chose not to renew it.

Availability under the Company s revolving credit facility at December 31, 2007 was as follows:

	Total
	(In thousands)
Size of facility	$ 75,000
Guarantees of consolidated partner company facilities at same bank (a)	(40,800)
Outstanding letter of credit (b)	(6,336)
Amount available at December 31, 2007	$ 27,864

(a) The Company s ability to borrow under its credit facility is

limited by the amounts outstanding for the Company s borrowings and letters of credit and amounts guaranteed under partner company facilities maintained at the same bank. Of the total facilities, $33.5 million was outstanding under this facility at December 31, 2007 and was included as debt on the Consolidated Balance Sheet.

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

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

Alliance Consulting, Clarient and Laureate Pharma maintain credit facilities with the same lender as the Company. Borrowings are secured by substantially all of the assets of the respective consolidated partner companies. These obligations bear interest at variable rates ranging between the prime rate minus 0.5% and the prime rate plus 0.5%. These facilities contain financial and non-financial covenants. At December 31, 2007, Alliance Consulting and Clarient did not comply with certain financial covenants under their facilities and subsequently received waivers from the lender regarding such non-compliance.

On February 28, 2008, the credit facilities for Alliance Consulting, Clarient and Laureate Pharma were extended through February 26, 2009. In addition to the extension of the maturity date, Laureate Pharma s equipment facility was increased by $3.0 million, which the Company guaranteed, and it entered into a new non-guaranteed $4.0 million working capital facility. Alliance Consulting s credit facility was amended to reduce its aggregate facility by $3.0 million. Interest rates on outstanding borrowings and unused facility fees for certain consolidated partner companies were also amended. Availability under the Company s $75.0 million revolving credit facility at March 28, 2008 was $ 31.3 million.

In July 2007, Acsis amended and restated its credit facility with its bank, providing up to $4.5 million of availability subject to a borrowing base calculation. The facility expires in July 2008 and bears interest at rates ranging from the prime rate (7.25% at December 31, 2007) plus 1.5% to the prime rate plus 2.25%, depending on Acsis liquidity. As of December 31, 2007, Acsis had $1.6 million outstanding borrowings under this facility and had $0.4 million availability based on the level of qualified accounts receivable.

In September 2006, Clarient entered into a $5.0 million senior secured revolving credit agreement. Borrowing availability under the agreement was based on the level of Clarient s qualified accounts receivable, less certain reserves. The agreement bore interest at variable rates based on the lower of the one month London Interbank Offered Rate (LIBOR) (5.24% at December 31, 2007) plus 3.25% or the prime rate plus 0.5%. As of December 31, 2007, under this facility Clarient had $5.0 million outstanding borrowings under this facility, had no availability based on the level of qualified accounts receivable and was not in compliance with certain financial covenants. On March 17, 2008, Clarient borrowed $4.6 million from the Company under its subordinated revolving credit line to repay and terminate this facility, and borrowed $2.8 million from the Company under its subordinated revolving credit line to repay and terminate its equipment line of credit with the same lender (see Note 24).

Debt as of December 31, 2007 bore interest at fixed rates between 4.62% and 20.33%, with a weighted average rate of 5.1%, and variable rates between the prime rate minus 0.5% and the prime rate plus 1.5%. Debt as of December 31, 2006 bore interest at fixed rates between 4.62% and 20.33% with a weighted average rate of 13.0%, and variable rates indexed to prime rate plus 1.75%.

The Company s debt matures as follows:

	Total (In thousands)
2008	$ 43,764
2009	3,229
2010	1,302
2011	215
2012 and thereafter	
Total debt	$ 48,510

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

9. 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 debenture holders option, the 2024 Debentures are convertible into the Company s common stock through March 14, 2024, subject to certain conditions. The conversion rate of the debentures is $7.2174 of principal amount per share. The closing price of the Company s common stock at December 31, 2007 was $1.80. The 2024 Debenture 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 Debenture 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, the Company may redeem all or some of the 2024 Debentures commencing March 20, 2009. During 2006, the Company repurchased $21 million of face value of the 2024 Debentures for $16.4 million in cash, including accrued interest. The Company recorded $0.4 million of expense related to the acceleration of deferred debt issuance costs associated with the 2024 Debentures, resulting in a net gain of $4.3 million, which is included in Other income (loss), net in the Consolidated Statements of Operations. At December 31, 2007, the market value of the 2024 Debentures was approximately $106.5 million based on quoted market prices.

As required by the terms of the 2024 Debentures, after completing the sale of CompuCom in October 2004, the Company escrowed $16.7 million for interest payments through March 15, 2009 on the 2024 Debentures. A total of $5.9 million is included in Restricted marketable securities on the Consolidated Balance Sheet at December 31, 2007, of which $3.9 million is classified as a current asset.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses consisted of the following:

	As of December 31,	
	2007	2006
	(In thousands)	
Accrued professional fees	$ 2,831	$ 2,810
Other	16,094	16,446
	$ 18,925	$ 19,256

11. Shareholders Equity

Preferred Stock

Shares of preferred stock, par value $0.10 per share, are voting and are issuable in one or more series with rights and preferences as to dividends, redemption, liquidation, sinking funds and conversion determined by the Board of Directors. At December 31, 2007 and 2006, there were one million shares authorized and none outstanding.

Shareholders Rights Plan

In February 2000, the Company adopted a shareholders rights plan. Under the plan, each shareholder of record on March 24, 2000 received the right to purchase 1/1000 of a share of the Company s Series A Junior Participating Preferred Stock at the rate of one right for each share of the Company s common stock then held of record. Each 1/1000 of a share of the Company s Series A Junior Participating Preferred Stock is designed to be equivalent in voting and dividend rights to one share of the Company s common stock. The rights will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company s common stock or commences a tender or exchange offer that would result in such a person or group owning 15% or more of the Company s common stock. If the rights do become exercisable, the Company s shareholders, other than the shareholders that caused the rights to become exercisable, will be able to exercise each right at an exercise price of $300 and receive

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

shares of the Company s common stock having a market value equal to approximately twice the exercise price. As an alternative to paying the exercise price in cash, if the directors of the Company so determine, shareholders may elect to exercise their rights and, without the payment of any exercise price, receive half the number of shares of common stock that would have been received had the exercise price been paid in cash.

12. Stock-Based Compensation

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

Equity Compensation Plans

The Company has three equity compensation plans: the 1999 Equity Compensation Plan, with 9.0 million shares authorized for issuance; the 2001 Associates Equity Compensation Plan with 5.4 million shares authorized for issuance; and the 2004 Equity Compensation Plan, with 6.0 million shares authorized for issuance. Employees and consultants are eligible for grants of stock options, restricted stock awards, stock appreciation rights, stock units, performance units and other stock-based awards under each of these plans; directors and executive officers are eligible for grants only under the 1999 and 2004 Equity Compensation Plans. During 2007 and 2005, 2.5 million and 6.0 million options, respectively, were awarded outside of existing plans as inducement awards in accordance with New York Stock Exchange rules.

To the extent allowable, all grants are incentive stock options. Options granted under the plans are at prices equal to the fair market value at the date of grant. Upon exercise of stock options, the Company issues shares first from treasury stock, if available, then from authorized but unissued shares. At December 31, 2007, the Company had reserved 25.2 million shares of common stock for possible future issuance under its equity compensation plans. Several subsidiaries also maintain separate equity compensation plans for their employees, directors and advisors.

Classification of Stock-Based Compensation Expense

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

	Year Ended December 31,	
	2007	2006
	(In thousands)	
Cost of sales	$ 119	$ 72
Selling, general and administrative	6,411	6,518
Research and development	73	47
	$ 6,603	$ 6,637

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

Table of Contents

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

Prior to adopting SFAS No. 123(R) on January 1, 2006, the Company accounted for stock-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Had compensation cost been recognized consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company s consolidated net loss from continuing operations and discontinued operations and loss per share from continuing operations and from discontinued operations would have been as follows:

		Year Ended December 31, 2005 (In thousands)	
Consolidated net loss from continuing operations	As reported	$	(40,904)
Add: Stock-based compensation expense included in net loss from continuing operations, net of minority interest	As reported		1,809
Deduct: Total stock based employee compensation expense from continuing operations determined under fair value based method for all awards, net of minority interest and related tax effects			(7,297)
Consolidated net loss from continuing operations	Pro forma		(46,392)
Add: Stock-based compensation expense included in net loss of discontinued operations			630
Net income from discontinued operations	As reported		8,834
Deduct: Total stock based employee compensation expense from discontinued operations determined under fair value based method for all awards, net of related tax effects			(1,009)
	Pro forma	$	(37,937)
Basic and Diluted Income (Loss) Per Share:			
Net loss from continuing operations	As reported	$	(0.34)
Net income from discontinued operations	As reported		0.07
		$	(0.27)
Net loss from continuing operations	Pro forma	$	(0.38)
Net income from discontinued operations	Pro forma		0.07
		$	(0.31)

Table of Contents

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

The Company

The fair value of the Company s stock-based awards to employees during the years ended December 31, 2007, 2006 and 2005 was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected life of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility for a period equal to the stock option s expected life.

	Year Ended December 31,		
	2007	2006	2005
Service-Based Awards			
Dividend yield	0%	0%	0%
Expected volatility	61%	69%	84%
Average expected option life	5 years	5 years	5 years
Risk-free interest rate	4.5%	4.7%	4.4%

	Year Ended December 31,		
	2007	2006	2005
Market-Based Awards			
Dividend yield	0%	0%	0%
Expected volatility	55%	62%	67%
Average expected option life	5 7 years	5 7 years	5 7 years
Risk-free interest rate	5.0%	4.8%	4.3%

The weighted-average grant date fair value of options issued by the Company during the years ended December 31, 2007, 2006 and 2005 was $1.46, $1.36 and $0.95 per share, respectively.

The Company granted 2.4 million, 1.6 million and 8.6 million market-based stock option awards to employees during the years ended December 31, 2007, 2006 and 2005, respectively. The awards entitle participants to vest in a number of options determined by achievement 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. Based on the achievement of market capitalization targets, 0.9 million and 1.7 million shares vested during the years ended December 31, 2007 and 2006, respectively. During the years ended December 31, 2007 and 2006, respectively, 0.5 million and 0.8 million market-based awards were canceled or forfeited. The Company recorded $1.7 million and $1.9 million of compensation expense related to the market-based awards in the years ended December 31, 2007 and 2006, respectively. The maximum number of unvested shares at December 31, 2007 attainable under these grants is 8.7 million shares.

Substantially all other outstanding options are service-based awards that generally vest over four years after the date of grant and expire eight years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period for service-based awards is the period over which the award vests. The Company recorded $1.8 million and $2.0 million of compensation expense related to these awards during the years ended December 31, 2007 and 2006, respectively.

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

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

Option activity of the Company is summarized below:

	Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2004	9,216	$ 4.15		
Options granted	10,924	1.44		
Options exercised	(44)	1.39		
Options canceled/forfeited	(1,125)	10.82		
Outstanding at December 31, 2005	18,971	2.20		
Options granted	2,723	2.19		
Options exercised	(238)	1.58		
Options canceled/forfeited	(2,728)	3.74		
Outstanding at December 31, 2006	18,728	1.98		
Options granted	3,835	2.51		
Options exercised	(492)	1.51		
Options canceled/forfeited	(652)	3.62		
Outstanding at December 31, 2007	21,419	2.04	5.1	$ 4,245
Options exercisable at December 31, 2007	10,035	2.19	3.6	1,809
Options vested and expected to vest at December 31, 2007	15,596	2.08	4.6	3,029
Shares available for future grant	2,589			

The total intrinsic value of options exercised for the years ended December 31, 2007, 2006 and 2005 was $0.5 million, $0.2 million and $0.0 million, respectively.

At December 31, 2007, total unrecognized compensation cost related to non-vested stock options granted under the plans for service-based awards was $2.3 million. That cost is expected to be recognized over a weighted-average period of 2.4 years.

At December 31, 2007, total unrecognized compensation cost related to non-vested stock options granted under the plans for market-based awards was $3.9 million. That cost is expected to be recognized over a weighted-average period of 3.9 years, but would be accelerated if market capitalization targets are achieved earlier than estimated.

Total compensation expense for restricted stock issuances was approximately $0.1 million, $0.0 million and $0.4 million for the years ended December 31, 2007, 2006 and 2005, respectively, including amounts recorded by consolidated partner companies. Unrecognized compensation expense related to restricted stock issuances was $0.1 million at December 31, 2007.

The Company has previously issued deferred stock units to certain employees. The Company issued deferred stock units during the years ended December 31, 2007, 2006 and 2005 to directors who elected to defer all or a portion of directors fees earned. Deferred stock units issued to directors in lieu of directors fees are 100% vested at the grant date; matching deferred stock units equal to 25% of directors fees deferred vest one year following the grant date. Deferred stock units are payable in stock on a one-for-one basis. Payments in respect of the deferred stock units are

generally distributable following termination of employment or service, death, permanent disability or retirement. Total compensation expense for deferred stock units was approximately $0.1 million, $0.4 million and $1.0 million for the years ended December 31, 2007, 2006 and 2005, respectively, including amounts recorded by consolidated partner companies. Unrecognized compensation expense related to deferred stock units at December 31, 2007 was $0.0 million. The total fair value of deferred stock units vested during the years ended December 31, 2007 and 2006 was $0.1 million and $0.4 million, respectively.

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

Deferred stock unit and restricted stock activity is summarized below:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2006	71	$ 2.82
Granted	88	2.63
Vested	(91)	3.20
Forfeited		
Unvested at December 31, 2007	68	2.51

Consolidated Partner Companies

The fair value of the Company s consolidated partner companies stock-based awards issued to employees during the years ended December 31, 2007, 2006 and 2005 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 life of stock options granted was estimated using the historical exercise behavior of employees. The expected life of stock options granted by consolidated partner companies that do not have sufficient historical exercise behavior of employees was calculated using the simplified method of determining expected term as provided in Staff Accounting Bulletin No. 107, Share-Based Payment . Expected volatility for Clarient, the Company s only publicly-held consolidated partner company, was based on historical volatility for a period equal to the stock option s expected life. Expected volatility for the Company s privately-held consolidated partner companies was based on the average historical volatility of comparable companies for a period equal to the stock option s expected life. The fair value of the underlying stock of the Company s privately held consolidated partner companies on the date of grant was determined based on a number of valuation methods, including discounted cash flows and revenue and acquisition multiples.

	Year Ended December 31,		
	2007	2006	2005
Dividend yield	0%	0%	0%
Expected volatility	36% to 87%	38% to 92%	50% to 103%
Average expected option life	5 to 6 years	5 to 8 years	4 to 5 years
Risk-free interest rate	3.4% to 3.6 %	4.5% to 5.3 %	3.9% to 4.5 %

Stock options granted by consolidated partner companies generally are service-based awards that vest four years after the date of grant and expire seven to 10 years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period is the period over which the award vests. The Company s consolidated partner companies recorded $3.1 million, $2.6 million and $0.8 million of stock-based compensation expense in continuing operations related to these awards during the years ended December 31, 2007, 2006 and 2005, respectively.

At December 31, 2007, total unrecognized compensation cost related to non-vested stock options granted under the consolidated partner companies plans was $3.0 million. That cost is expected to be recognized over a weighted-average period of 2.5 years.

During the year ended December 31, 2007, certain consolidated partner companies granted stock options to advisory boards, which comprise non-employees. Such awards vest over four years, are equity classified and are

marked-to-market each period.

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

Certain employees of the Company s consolidated partner companies have the right to require the respective consolidated partner company to purchase shares of its common stock received by the employee pursuant to the exercise of options or the conversion of deferred stock units. The employee must hold the shares for at least six months prior to exercising this right. The required purchase price is 75% to 100% of the fair market value at the time the right is exercised. These options and deferred stock units qualify for equity classification under SFAS No. 123(R). In accordance with EITF Issue No. D-98, however, these instruments are classified outside of permanent equity on the Consolidated Balance Sheet as Redeemable consolidated partner company stock-based compensation at their current redemption amount based on the number of options and deferred stock units vested as of December 31, 2007 and 2006, respectively. Following the sale of Pacific Title & Art Studio, amounts payable related to deferred stock units issued to a former employee of Pacific Title & Art Studio were classified in accrued expenses and other current liabilities on the Consolidated Balance Sheet at December 31, 2007 at the expected redemption amount. At December 31, 2006, these instruments were classified outside of permanent equity as Redeemable consolidated partner company stock-based compensation.

13. Other Income

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
Gain on sale of companies and funds, net	$	$ 1,181	$ 7,292
Gain (loss) on trading securities		321	(229)
Impairment charges on cost method partner companies	(5,331)		(1,425)
Other	465	4,057	1,428
	$ (4,866)	$ 5,559	$ 7,066

Gain on sale of companies and funds for the year ended December 31, 2006 of $1.2 million primarily related to the sale of a cost method holding whose carrying value was zero. Total proceeds from the sales of certain interests in private equity funds during 2005 were $27.6 million. As a result of the sale, the Company also was relieved of $9.1 million of future fund commitments.

Gain on trading securities in 2006 primarily reflects a net gain of $0.4 million on the sale of our holdings in Traffic.com. Loss on trading securities in 2005 reflects the loss on the sale of our holdings in stock distributed from a private equity fund, which was sold in the third quarter of 2005.

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

For the year ended December 31, 2006, the Company recognized a net gain of $4.3 million on the repurchase of $21 million of face value of the 2024 Debentures, which is included in Other above.

34

Table of Contents

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

14. Income Taxes

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

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Current, primarily state	$ (781)	$ (1,186)	$ (230)
Deferred, primarily state			
	$ (781)	$ (1,186)	$ (230)

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

	Year Ended December 31,		
	2007	2006	2005
Statutory tax benefit	(35.0)%	(35.0)%	(35.0)%
Increase (decrease) in taxes resulting from:			
State taxes, net of federal tax benefit	(1.1)	(2.5)	(0.6)
Non-deductible amortization and impairment	2.2		4.1
Valuation allowance	31.5	36.0	29.7
Other adjustments	1.3	(1.0)	1.2
	(1.1)%	(2.5)%	(0.6)%

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

	As of December 31,	
	2007	2006
	(In thousands)	
Deferred tax asset (liability):		
Carrying values of partner companies and other holdings	$ 33,908	$ 41,468
Tax loss and credit carryforwards	207,405	185,177
Accrued expenses	5,473	4,417
Intangible assets	(2,164)	(2,095)
Other	8,456	4,079
	253,078	233,046
Valuation allowance	(254,104)	(234,072)
Net deferred tax liability	$ (1,026)	$ (1,026)

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

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

As of December 31, 2007, the Company and its subsidiaries consolidated for tax purposes had federal net operating loss carryforwards and federal capital loss carryforwards of approximately $274.5 million and $175.4 million, respectively. These carryforwards expire as follows:

	Total (In thousands)
2008	$ 24,886
2009	101,565
2010	14,055
2011	3,215
2012 and thereafter	306,175
	$ 449,896

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

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

Clarient, the Company s consolidated partner company, which is not consolidated for tax return purposes, had additional federal net operating loss carryforwards of $122.0 million, which expire in various amounts from 2011 to 2027. Limitations on utilization of the net operating loss carryforwards may apply. Accordingly, valuation allowances have been provided to account for the potential limitations on utilization of these tax benefits.

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

As of December 31, 2006, the Company had accrued $0.8 million for unrecognized tax benefits, including $0.2 million for the payment of penalties and interest. Upon adoption of FIN 48 the Company identified an additional $3.2 million of uncertain tax positions that the Company did not believe met the recognition threshold under FIN 48 which is more likely than not to be sustained upon examination. Because the $3.2 million of uncertain tax positions had not been utilized and had a full valuation allowance established, the Company reduced its gross deferred tax asset and valuation allowance by $3.2 million. The adoption of FIN 48 had no net impact on the Company s consolidated results of operations and financial position. All uncertain tax positions relate to unrecognized tax benefits that would impact the effective tax rate when recognized.

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

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

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

	Total (In thousands)
Balance at January 1, 2007	$ 754
Settlements / lapses in statutes of limitation	(710)
Balance at December 31, 2007	$ 44

The Company and its consolidated partner companies file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax years 2004 and forward remain open for examination for federal tax purposes and tax years 2002 and forward remain open for examination for the Company s more significant state tax jurisdictions. To the extent utilized in future years tax returns, net operating loss and capital loss carryforwards at December 31, 2007 will remain subject to examination until the respective tax year is closed. The Company recognizes penalties and interest accrued related to income tax liabilities in the provision (benefit) for income taxes in its Consolidated Statements of Operations.

15. Net Income (Loss) Per Share

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

	Year Ended December 31,		
	2007	2006	2005
	(In thousands except per share data)		
Basic:			
Net loss from continuing operations	$ (67,715)	$ (43,773)	$ (40,904)
Net income from discontinued operations	3,272	89,803	8,834
Net income (loss)	$ (64,443)	$ 46,030	$ (32,070)
Average common shares outstanding	122,352	121,476	120,845
Net loss per share from continuing operations	$ (0.56)	$ (0.36)	$ (0.34)
Net income per share from discontinued operations	0.03	0.74	0.07
Net income (loss) per share	$ (0.53)	$ 0.38	$ (0.27)
Diluted:			
Net loss from continuing operations	$ (67,715)	$ (43,773)	$ (40,904)
Net income from discontinued operations	3,272	89,803	8,834
Effect of holdings		(126)	(106)
Adjusted net income (loss)	$ (64,443)	$ 45,904	$ (32,176)

Average common shares outstanding	122,352	121,476	120,845
Net loss per share from continuing operations	$ (0.56)	$ (0.36)	$ (0.34)
Net income per share from discontinued operations	0.03	0.74	0.07
Diluted net income (loss) per share	$ (0.53)	$ 0.38	$ (0.27)

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

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

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

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

At December 31, 2007, 2006 and 2005, options to purchase 21.4 million, 18.7 million and 19.0 million shares of common stock, respectively, at prices ranging from $1.03 to $45.47 per share, were excluded from the calculation.

At December 31, 2007, 2006 and 2005, unvested restricted stock units and DSUs convertible into 0.1 million, 0.1 million and 0.2 million shares of stock, respectively, were excluded from the calculations.

At December 31, 2007, 2006 and 2005 a total of 17.9 million, 19.3 million, and 20.8 million shares, respectively, related to the Company s 2024 Debentures (See Note 9) representing the weighted average effect of assumed conversion of the 2024 Debentures were excluded from the calculation.

16. Related Party Transactions

In May 2001, the Company entered into a $26.5 million loan agreement with Warren V. Musser, the Company s former Chairman and Chief Executive Officer. Through December 31, 2007, the Company recognized impairment charges against the loan of $15.7 million. The Company s efforts to collect Mr. Musser s outstanding loan obligation have included the sale of existing collateral, obtaining and selling additional collateral, litigation and negotiated resolution. Since 2001 and through December 31, 2007, the Company received a total of $16.3 million in cash payments on the loan. In December 2006, the Company restructured the obligation to reduce the amount outstanding to $14.8 million, bearing interest at a rate of 5.0% per annum, in order to obtain new collateral, which is expected to be the primary source of repayment. Subsequent to the restructuring of the obligation, the Company received cash from the sale of collateral of approximately $1.0 million in 2006, and $12 thousand in 2007, which exceeded the Company s then carrying value of the loan. The excess is reflected as Recovery-related party in the Consolidated Statements of Operations. The carrying value of the loan at December 31, 2007 was zero.

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

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

As described in Note 6, the Company sold certain holdings in private equity funds in 2005.

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

The Company and its consolidated partner companies conduct a portion of their operations in leased facilities and lease machinery and equipment under leases expiring at various dates to 2015. Total rental expense under operating leases was $6.0 million, $5.0 million and $4.0 million in 2007, 2006 and 2005, respectively. Future minimum lease payments under non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2007, are (in millions): $6.0 2008; $5.2 2009; $4.4 2010; $3.1 2011; $3.1 2012; and $9.3 thereafter.

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

The Company had the following outstanding guarantees at December 31, 2007:

	Amount (In thousands)	Debt Included on Consolidated Balance Sheet (In thousands)
Consolidated partner companies guarantees credit facilities	$ 40,800	$ 33,519
Other consolidated partner company guarantees operating leases	4,748	
Other guarantees	3,750	
Total	$ 49,298	$ 33,519

The Company has committed capital of approximately $4.2 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 $3.5 million which is expected to be funded during the next 12 months.

Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner of certain private equity funds (the clawback). Assuming the private equity funds in which the Company was a general partner were liquidated or dissolved on December 31, 2007 and assuming for these purposes the only distributions from the funds were equal to the carrying value of the funds on the December 31, 2007 financial statements, the maximum clawback the Company would be required to return due to our general partner interest is approximately $8.0 million. The Company estimates its liability to be approximately $6.7 million, of which $5.3 million was reflected in Accrued expenses and other current liabilities and $1.4 million was reflected in other long-term liabilities on the Consolidated Balance Sheets.

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

In anticipation of the sale of Pacific Title & Art Studio in the first quarter of 2007, the Company permitted the employment agreement of the Pacific Title & Art Studio CEO to expire without renewal, and thereby his employment ceased. Following the sale, the former CEO s counsel demanded payment of severance benefits under his employment agreement, as well as payment of his deferred stock units and other amounts substantially in excess of the maximum amounts the Company believed were arguably due. The former CEO and the Company thereafter engaged in negotiations, but were ultimately unable to settle on the appropriate amounts due. On or about August 13, 2007, the former CEO filed a complaint in the Superior Court of the State of California, County of Los Angeles, Central District, against the Company and Pacific Title & Art Studio, alleging, among other things: wrongful termination, conversion, unfair competition, violation of the labor code, breach of contract and negligence. On or about March 28, 2008, the Plaintiff amended his complaint to add as a defendant the party which purchased Pacific Title and Art Studio from the company and to add several further causes of action. In his amended complaint, the former CEO makes claims for compensatory damages in excess of $24.6 million, plus exemplary and punitive damages and interest. While the Company does not dispute that certain amounts may be due the former CEO under various agreements, the Company and the other defendants deny the majority of the claims under his complaint and the amounts claimed and intend to vigorously defend against such claims. The Company has engaged counsel to represent

the Company and Pacific Title & Art Studio in this matter, and has also put the Company s insurance carriers on notice of the claims. Counsel answered the original complaint and filed a cross-complaint on the Company s and Pacific Title & Art Studio s behalf. The answer denied the relief sought and the cross complaint alleged breach of fiduciary duty and breach of contract. A response to the amended complaint is not yet due. The case is proceeding through the discovery phase. It is the Company s belief that amounts presently reserved in its financial statements in connection with this matter are sufficient to cover the portion of any amounts ultimately due under the various agreements that existed between the former CEO and Pacific Title & Art Studio and the Company for which the Company may have responsibility.

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

In October 2001, the Company entered into an agreement with Mr. Musser, its former Chairman and Chief Executive Officer, to provide for annual payments of $650,000 per year and certain health care and other benefits for life. The related current liability of $0.8 million was included in Accrued expenses and the long-term portion of $2.0 million was included in Other long-term liabilities on the Consolidated Balance Sheet at December 31, 2007.

The Company has agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or an employee terminates his employment for good reason. The maximum aggregate exposure under the agreements was approximately $8.0 million at December 31, 2007.

18. Parent Company Financial Information

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

Parent Company Balance Sheets

	As of December 31,	
	2007	2006
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 94,685	$ 59,933
Cash held in escrow current	20,345	
Marketable securities	590	94,155
Restricted marketable securities	3,904	3,869
Other current assets	709	1,978
Assets held-for-sale		17,852
Total current assets	120,233	177,787
Ownership interests in and advances to companies	177,136	160,435
Long-term marketable securities		487
Long-term restricted marketable securities	1,949	5,737
Cash held in escrow long-term	2,341	19,398
Other	2,565	3,377
Total Assets	$ 304,224	$ 367,221
Liabilities and Shareholders Equity:		
Current liabilities	$ 15,489	$ 18,816
Long-term liabilities	5,012	5,625
Convertible senior debentures	129,000	129,000
Shareholders equity	154,723	213,780
Total Liabilities and Shareholders Equity	$ 304,224	$ 367,221

Parent Company Statements of Operations

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		

Operating expenses	$ (22,783)	$ (24,346)	$ (18,063)
Other income (loss), net	(5,089)	5,441	6,343
Recovery related party	12	360	28
Interest income	7,460	6,703	4,871
Interest expense	(4,220)	(4,617)	(4,914)
Equity loss	(44,195)	(28,720)	(29,169)
Net loss from continuing operations before income taxes	(68,815)	(45,179)	(40,904)
Income tax benefit	710	1,284	
Equity income attributable to discontinued operations	3,272	89,803	8,834
Net income (loss)	$ (64,833)	$ 45,908	$ (32,070)

Table of Contents

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

Parent Company Statements of Cash Flows

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Cash Flows from Operating Activities:			
Net income (loss)	$ (64,833)	$ 45,908	$ (32,070)
Adjustments to reconcile to net cash used in operating activities:			
Equity income from discontinued operations	(3,272)	(89,803)	(8,834)
Depreciation	195	197	183
Equity loss	44,195	28,720	29,169
Non-cash compensation charges	3,530	4,037	1,264
Other income, net	5,089	(5,441)	(6,343)
Recovery related party		(360)	(28)
Changes in assets and liabilities, net of effect of acquisitions and dispositions:			
Current assets			1,111
Current liabilities	(1,681)	4,703	2,014
Net cash used in operating activities	(16,777)	(12,039)	(13,534)
Cash Flows from Investing Activities			
Proceeds from sales of available-for-sale and trading securities		3,551	241
Proceeds from sales of and distributions from companies and funds	2,783	1,530	29,467
Advances to partner companies	(4,182)		(3,898)
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(61,025)	(52,596)	(44,964)
Repayment of note receivable-related party, net		360	1,413
Increase in restricted cash and short-term investments	(111,858)	(208,514)	(55,602)
Decrease in restricted cash and short-term investments	205,422	146,129	57,387
Capital expenditures	(7)	(101)	(44)
Other, net		72	
Proceeds from sale of discontinued operations	19,655	93,410	
Net cash provided by (used in) investing activities	50,788	(16,159)	(16,000)
Cash Flows from Financing Activities:			
Repurchase of convertible senior debentures		(16,215)	
Decrease in restricted cash		1,098	
Advance (to) from consolidated partner company		(5,500)	9,511
Issuance of Company common stock, net	741	448	61
Net cash provided by (used in) financing activities	741	(20,169)	9,572

Net Increase (Decrease) in Cash and Cash Equivalents	34,752	(48,367)	(19,962)
Cash and Cash Equivalents at beginning of period	59,933	108,300	128,262
Cash and Cash Equivalents at end of period	$ 94,685	$ 59,933	$ 108,300

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

19. Supplemental Cash Flow Information

During the years ended December 31, 2006 and 2005, the Company converted $0.2 million and $2.3 million, respectively, of advances to partner companies into ownership interests in partner companies.

Interest paid in 2007, 2006 and 2005 was $7.4 million, $6.7 million and $6.5 million, respectively, of which $3.4 million in 2007, $3.7 million in 2006 and $3.9 million in 2005 was related to the Company s 2024 Debentures.

Cash paid for taxes in the years ended December 31, 2007, 2006 and 2005 was $0.0 million, $0.3 million and $0.2 million, respectively.

Table of Contents

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

During the years ended December 31, 2006 and 2005, the Company received distributions from a private equity fund of common shares of Arbinet-the-exchange (Arbinet), valued at $0.5 million and $0.5 million on the date of distribution, respectively. The Arbinet shares were sold during 2006 and 2005 for net cash proceeds of $0.3 million and $0.2 million, respectively.

20. Immaterial Correction of an Error in Period Periods

During the fourth quarter of 2007, an accounting error at Clarient was identified. The error related to Clarient s accounting for customer refunds which affected the Company s previously reported quarterly results in 2007 and 2006, totaling $0.9 million.

In accordance with Staff Accounting Bulletin No. 108, the Company evaluated the materiality of the error from qualitative and quantitative perspectives, and evaluated the quantified error under both the iron curtain and the roll-over methods. The Company concluded that the error was not material to the Consolidated Financial Statements in any interim or annual prior periods. Clarient determined that the error was not material to its financial statements for any interim or annual prior periods, but that its correction in the fourth quarter of 2007 would be material to its fourth quarter results. Consequently, Clarient, which is a public company, recorded an immaterial correction of an error in prior periods as a reduction in revenue with a corresponding increase in accrued expenses and other current liabilites in its financial statements for the years ended December 31, 2007 and 2006. The Company revised its Consolidated Financial Statements as summarized below. Accordingly, the quarterly financial information (unaudited) presented in Note 22 has also been revised.

The following tables summarize the quarterly and annual effects of the revision (in thousands):

	Quarter Ended March 31, 2007		Quarter Ended June 30, 2007		Quarter Ended September 30, 2007	
	Previously Reported	As Revised	Previously Reported	As Revised	Previously Reported	As Revised
Balance Sheet:						
Accounts receivable	$ 34,837	$ 35,192	$ 36,427	$ 36,427	$ 37,573	$ 37,573
Total assets	428,518	428,873	422,678	422,678	402,738	402,738
Current liabilities	73,146	73,738	81,150	81,850	84,941	85,763
Total liabilities	225,498	225,992	231,419	231,834	233,964	234,451
Accumulated deficit	(562,723)	(562,862)	(576,288)	(576,703)	(600,338)	(600,825)
Shareholders Equity	202,496	202,357	190,687	190,272	168,636	168,149
Statement of Operations:						
Revenue	$ 39,509	$ 39,481	$ 43,732	$ 43,269	$ 45,747	$ 45,625
Gross profit	10,134	10,106	12,814	12,351	14,338	14,216
Minority interest	1,651	1,640	1,130	942	1,224	1,173
Net loss from continuing operations	(14,946)	(14,963)	(13,544)	(13,820)	(24,122)	(24,194)
Net income (loss)	$ (11,665)	$ (11,682)	$ (13,565)	$ (13,841)	$ (24,050)	$ (24,122)
Basic and diluted loss per share from continuing operations	$ (0.12)	$ (0.12)	$ (0.11)	$ (0.11)	$ (0.20)	$ (0.20)

Table of Contents

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

	Year Ended December 31, 2006	
	Previously Reported	As Revised
Balance Sheet:		
Accounts receivable	$ 33,167	$ 33,481
Total assets	443,381	443,695
Current liabilities	77,977	78,500
Total liabilities	229,479	229,915
Accumulated deficit	(551,058)	(551,058)
Shareholders Equity	211,881	211,759

	Quarter Ended December 31, 2006		Year Ended December 31, 2006	
	Previously Reported	As Revised	Previously Reported	As Revised
Statement of Operations:				
Revenue	$ 44,422	$ 44,213	$162,851	$162,642
Gross profit	12,267	12,058	44,102	43,893
Minority interest	1,439	1,414	7,120	7,032
Net loss from continuing operations	(12,170)	(12,292)	(43,773)	(43,895)
Net income (loss)	$ 71,324	$ 71,202	$ 46,030	$ 45,908
Basic and diluted loss per share from continuing operations	$ (0.10)	$ (0.10)	$ (0.36)	$ (0.36)

21. Operating Segments

The Company presents its consolidated partner companies as separate segments Acsis, Alliance Consulting, Clarient and Laureate Pharma. The results of operations of the Company s non-consolidated partner companies and the Company s ownership in private equity funds are reported in the Other Companies segment. The Other Companies segment also includes the gain or loss on the sale of companies and funds, except for gains and losses included in discontinued operations.

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

Other items includes certain expenses which are not identifiable to the operations of the Company s operating business segments. Other items primarily consists of general and administrative expenses related to the Company s corporate operations including employee compensation, insurance and professional fees, including legal, finance and consulting. Other items also includes interest income, interest expense and income taxes, which are reviewed by management independent of segment results.

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

43

Table of Contents

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

Segment assets in Other items included primarily cash, cash equivalents and marketable securities of $95.3 million and $154.1 million at December 31, 2007 and 2006, respectively.

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

As of December 31, 2007 and 2006, the Company s assets were located primarily in the United States.

The following represents the segment data from continuing operations:

For the Year Ended December 31, 2007
(In thousands)

	Acsis	Alliance Consulting	Clarient	Laureate Pharma	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenue	$20,344	$ 85,673	$ 42,996	$27,106	$	$176,119	$	$176,119
Operating loss	(8,184)	(10,023)	(11,918)	(2,689)		(32,814)	(22,783)	(55,597)
Net loss from continuing operations	(8,284)	(10,732)	(7,379)	(3,728)	(19,499)	(49,622)	(18,483)	(68,105)
Segment Assets:								
December 31, 2007	$23,209	$ 76,225	$ 39,502	$32,853	$ 92,985	$264,774	$127,088	$391,862
December 31, 2006	$27,266	$ 83,766	$ 34,002	$25,626	$ 55,035	$225,695	$188,447	$414,142

For the Year Ended December 31, 2006
(In thousands)

	Acsis	Alliance Consulting	Clarient	Laureate Pharma	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenue	$18,634	$104,571	$ 27,723	$11,714	$	$162,642	$	$162,642
Operating income (loss)	(8,776)	808	(12,679)	(9,129)		(29,776)	(24,346)	(54,122)
Net income (loss) from continuing operations	(8,264)	127	(7,481)	(9,737)	(2,455)	(27,810)	(16,085)	(43,895)

For the Year Ended December 31, 2005
(In thousands)

	Acsis	Alliance Consulting	Clarient	Laureate Pharma	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenue	$ 2,022	$82,604	$ 11,440	$ 7,709	$	$103,775	$	$103,775
Operating loss	(2,579)	(422)	(15,627)	(10,471)		(29,099)	(18,063)	(47,162)
	(2,556)	(1,194)	(8,912)	(10,870)	(791)	(24,323)	(16,581)	(40,904)

Net loss from
continuing
operations

Other Items

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
Corporate operations	$ (19,264)	$ (17,271)	$ (16,811)
Income tax benefit	781	1,186	230
	$ (18,483)	$ (16,085)	$ (16,581)

Table of Contents

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

22. Selected Quarterly Financial Information (Unaudited)

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share data)			
2007:				
Revenue	$ 39,481	$ 43,269	$ 45,625	$ 47,744
Cost of sales	29,375	30,918	31,409	33,037
Selling, general and administrative	24,020	23,283	24,606	25,199
Research and development	872	509	495	531
Goodwill impairment			5,438	
Amortization of intangible assets	524	525	526	449
Total operating expenses	54,791	55,235	62,474	59,216
Operating loss	(15,310)	(11,966)	(16,849)	(11,472)
Other income (loss), net	101	(747)	(4,260)	40
Recovery related party			12	
Interest income	2,159	2,169	1,763	1,448
Interest expense	(1,832)	(1,853)	(1,965)	(2,010)
Equity loss	(1,729)	(3,450)	(4,169)	(4,795)
Minority interest	1,662	1,317	1,274	1,576
Net loss from continuing operations before income taxes	(14,949)	(14,530)	(24,194)	(15,213)
Income tax (expense) benefit	(14)	710		85
Net loss from continuing operations	(14,963)	(13,820)	(24,194)	(15,128)
Income (loss) from discontinued operations, net of tax	3,281	(21)	72	(60)
	$ (11,682)	$ (13,841)	$ (24,122)	$ (15,188)
Basic and diluted loss per share (a)				
Net loss from continuing operations	$ (0.12)	$ (0.11)	$ (0.20)	$ (0.12)
Net income from discontinued operations	0.02			
	$ (0.10)	$ (0.11)	$ (0.20)	$ (0.12)
2006:				
Revenue	$ 37,306	$ 39,286	$ 41,837	$ 44,213
Cost of sales	28,042	28,733	29,819	32,155
Selling, general and administrative	22,025	23,022	23,145	24,824

Research and development		640		441		616		804
Amortization of intangible assets		620		627		646		605
Total operating expenses		51,327		52,823		54,226		58,388
Operating loss		(14,021)		(13,537)		(12,389)		(14,175)
Other income (loss), net		3,124		(1,228)		3,076		587
Recovery related party								360
Interest income		1,539		1,576		1,398		2,394
Interest expense		(1,595)		(1,600)		(1,723)		(1,712)
Equity income (loss)		(605)		335		(1,910)		(1,087)
Minority interest		1,749		1,503		1,432		1,428
Net loss from continuing operations before income taxes		(9,809)		(12,951)		(10,116)		(12,205)
Income tax (expense) benefit		(9)		1,284		(2)		(87)
Net loss from continuing operations		(9,818)		(11,667)		(10,118)		(12,292)
Income from discontinued operations, net of tax		3,366		2,432		511		83,494
	$	(6,452)	$	(9,235)	$	(9,607)	$	71,202
Basic and diluted income (loss) per share (a) Net loss from continuing operations	$	(0.08)	$	(0.10)	$	(0.08)	$	(0.10)
Net income from discontinued operations		0.03		0.02				0.69
	$	(0.05)	$	(0.08)	$	(0.08)	$	0.59

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

quarterly amounts may not add to the annual amounts because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive, and because of the adjustments to net income (loss) for the dilutive effect of partner company common stock equivalents and convertible securities.

Table of Contents

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

23. Trade Accounts Receivable

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

	(In thousands)
Balance, December 31, 2004	$ 974
Charged to costs and expenses	1,578
Charge-offs	(1,152)
Other	250
Balance, December 31, 2005	1,650
Charged to costs and expenses	932
Charge-offs	(869)
Balance, December 31, 2006	1,713
Charged to costs and expenses	4,073
Charge-offs	(1,968)
Balance, December 31, 2007	$ 3,818

24. Subsequent Events

In March 2007, the Company provided a subordinated revolving credit line (the Mezzanine Facility) to Clarient. Under the Mezzanine Facility, the Company committed to provide Clarient access to up to $12.0 million in working capital funding, which was reduced to $6.0 million as a result of the ACIS Sale. At December 31, 2007, $2.0 million was outstanding under the Mezzanine Facility. The Mezzanine Facility originally had a term expiring on December 8, 2008. On March 14, 2008, the Mezzanine Facility was extended through April 15, 2009 and increased from $6.0 million to $21.0 million. The Mezzanine Facility is subject to reduction back to $6.0 million under certain circumstances involving the completion of replacement financing by Clarient.

As reported in its Form 10-K for the year ended December 31, 2007, Clarient s independent auditors have determined that there is substantial doubt about Clarient s ability to continue as a going concern. Clarient s bank credit facility matures in February 2009, at which time, Clarient will need to extend, renew or refinance such debt and possibly secure additional debt or equity financing in order to fund anticipated working capital needs and capital expenditures and to execute its strategy. There can be no assurance Clarient will be able to maintain compliance with financial covenants in its credit facility which could result in the lender requiring repayment of the debt earlier than the scheduled maturity. Clarient has not had a history of complying with such covenants. This facility is guaranteed by the Company. Should Clarient s sources of funding be inadequate, Clarient management s plans would include seeking waivers from existing lenders, pursuing additional sources of funding or curtailment of expenses.

On February 29, 2008, the Company entered into a definitive agreement to sell all of the equity and debt securities held by the Company in Acsis, Alliance Consulting, Laureate Pharma, ProModel, NextPoint and Neuronyx (the Six Partner Companies) for approximately $100.0 million in cash (the Bundle Transaction).

The Company presently intends to use the cash proceeds from the pending sale to acquire interests in new partner companies, increase its ownership interest in certain existing partner companies, consider steps to modify the Company s capital structure (which may include the repurchase of a portion of the Company s outstanding 2024 Debentures, and for general corporate purposes.

The Bundle Transaction is expected to close in the second quarter of 2008. In its quarterly report on Form 10-Q for the quarter ending March 31, 2008, the Company expects to present the results of operations of its consolidated

partner companies that are included in the Bundle Transaction, Acsis, Alliance Consulting and Laureate Pharma, as discontinued operations for all periods presented. The Company expects to record a net gain on the Bundle Transaction of approximately $16.3 million, based on the carrying amount of the Six Partner Companies at December 31, 2007. The amount of the gain on sale of the Six Partner Companies will be affected by certain factors, including the Six Partner Companies results of operations from January 1, 2008 to closing, and any adjustments to current estimates of proceeds and transaction costs.

46

Table of Contents

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

Pro Forma Financial Information

The following unaudited pro forma condensed consolidated financial information as of December 31, 2007 and for the years ended December 31, 2007, 2006 and 2005, gives effect to the consummation of the Bundle Transaction. The unaudited pro forma consolidated balance sheet assumes the disposition of the Six Partner Companies in the pending sale as if it had occurred as of December 31, 2007. The unaudited pro forma consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005 assume the disposition of the Company s interests in the Six Partner Companies occurred on January 1, 2005.

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

Unaudited Pro Forma Consolidated Balance Sheet
December 31, 2007

	As Reported December 31, 2007	Deconsolidate / Remove Interests in Six Partner Companies	Pending Transaction	Pro Forma December 31, 2007[1]
	(In thousands)			
Current Assets:				
Cash and cash equivalents	$ 99,965	$ (3,764)	$ 98,250[2][3]	$ 194,451
Cash held in escrow current	20,345			20,345
Marketable securities	590			590
Restricted marketable securities	3,904			3,904
Accounts receivable, net	37,578	(24,824)		12,754
Prepaid expenses and other current assets	6,000	(4,245)		1,755
Assets held for sale		81,904	(81,904)[4]	
Total current assets	168,382	49,071	16,346	233,799
Property and equipment, net	35,573	(23,859)		11,714
Ownership interests in and advances to companies	92,985	(5,699)		87,286
Long-term restricted marketable securities	1,949			1,949
Intangible assets, net	9,960	(9,960)		
Goodwill	76,824	(64,095)		12,729
Cash held in escrow long term	2,341			2,341
Other	3,848	(1,506)		2,342
Total assets	$ 391,862	$ (56,048)	$ 16,346	$ 352,160
Current Liabilities:				
Current portion of credit line borrowings	$ 40,012	$ (26,015)	$	$ 13,997
Current maturities of long-term debt	3,752	(2,242)		1,510
Accounts payable	7,654	(4,520)		3,134
Accrued compensation and benefits	13,467	(6,533)		6,934
Accrued expenses and other current liabilities	18,925	(4,722)		14,203
Deferred revenue	6,100	(6,100)		
Total current liabilities	89,910	(50,132)		39,778
Long-term debt	4,746	(3,840)		906
Other long-term liabilities	9,765	(654)		9,111
Convertible senior debentures	129,000			129,000

Deferred taxes		1,026		(1,026)				
Minority interest		2,692		(396)				2,296
Commitments and contingencies								
Redeemable subsidiary stock-based compensation		84						84
Shareholders Equity:								
Preferred stock, $0.10 par value; 1,000 shares authorized								
Common stock, $0.10 par value; 500,000 shares authorized; 121,124 shares issued and outstanding		12,112						12,112
Additional paid-in capital		758,515						758,515
Accumulated deficit		(616,013)				16,346(4)		(599,667)
Accumulated and other comprehensive income		25						25
Total shareholders equity		154,639				16,346		170,985
Total liabilities and shareholders equity	$	391,862	$	(56,048)	$	16,346	$	352,160

48

Table of Contents

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Notes to Unaudited Pro Forma Consolidated Balance Sheet

(1) The pro forma consolidated balance sheet gives effect to the Bundle Transaction, assuming the sale occurred on December 31, 2007.

(2) Pending Transaction.

The pending Bundle Transaction assumes the following for the Company (in thousands):

Gross proceeds	$ 100,000
Estimated transaction costs	(1,750)
Net cash proceeds	$ 98,250

(3) Use of Proceeds.

The pro forma condensed consolidated balance sheet assumes for the purpose of this presentation that the net sale proceeds of $96.6 million from the Bundle Transaction are maintained in short term

deposit accounts classified as Cash and cash equivalents.

(4) Gain on Sale.

The pro forma consolidated balance sheet assumes that the Company recognized a gain on sale of $16.3 million, net of tax, representing the excess of the estimated net proceeds of $98.3 million over the carrying value of the Six Partner Companies as of December 31, 2007 of $81.9 million.

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

Unaudited Pro Forma Consolidated Statement of Operations
For The Year Ended December 31, 2007

	As Reported for the Year Ended December 31, 2007	Deconsolidate/ Remove Interests in Six Partner Companies	Pro Forma for the Year Ended December 31, 2007[1]
	(In thousands except per share amounts)		
Revenue	$ 176,119	$ (133,123)	$ 42,996
Operating expenses:			
Cost of sales	124,739	(102,353)	22,386
Selling, general and administrative	97,108	(41,797)	55,311
Research and development	2,407	(2,407)	
Amortization of intangible assets	2,024	(2,024)	
Goodwill impairment	5,438	(5,438)	
Total operating expenses	231,716	(154,019)	77,697
Operating loss	(55,597)	20,896	(34,701)
Other income (loss), net	(4,866)	(223)	(5,089)
Recovery related party	12		12
Interest income	7,539	(20)	7,519
Interest expense	(7,660)	2,171	(5,489)
Equity loss	(14,143)		(14,143)
Minority interest	5,829	(80)	5,749
Net loss from continuing operations before income taxes	(68,886)	22,744	(46,142)
Income tax benefit	781	(85)	696
Net loss from continuing operations	$ (68,105)	$ 22,659	$ (45,446)
Basic and diluted loss per share from continuing operations [2]	$ (0.56)		$ (0.37)

Table of Contents

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

Unaudited Pro Forma Consolidated Statement of Operations
For The Year Ended December 31, 2006

	As Reported for the Year Ended December 31, 2006	Deconsolidate / Remove Interests in Six Partner Companies	Pro Forma for the Year Ended December 31, 2006[1]
	(In thousands except per share amounts)		
Revenue	$ 162,642	$ (134,919)	$ 27,723
Operating expenses:			
Cost of sales	118,749	(103,136)	15,613
Selling, general and administrative	93,016	(43,881)	49,135
Research and development	2,501	(2,501)	
Amortization of intangible assets	2,498	(2,498)	
Total operating expenses	216,764	(152,016)	64,748
Operating loss	(54,122)	17,097	(37,025)
Other income (loss), net	5,559	(157)	5,402
Recovery related party	360		360
Interest income	6,907	(102)	6,805
Interest expense	(6,630)	1,427	(5,203)
Equity loss	(3,267)		(3,267)
Minority interest	6,112	(391)	5,721
Net loss from continuing operations before income taxes	(45,081)	17,874	(27,207)
Income tax benefit	1,186	84	1,270
Net loss from continuing operations	$ (43,895)	$ 17,958	$ (25,937)
Basic and diluted loss per share from continuing operations [2]	$ (0.36)		$ (0.21)

51

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

Unaudited Pro Forma Consolidated Statement of Operations
For The Year Ended December 31, 2005

	As Reported for the Year Ended December 31, 2005	Deconsolidate / Remove Interests in Six Partner Companies	Pro Forma for the Year Ended December 31, 2005[(1)]
	(In thousands except per share amounts)		
Revenue	$ 103,775	$ (92,335)	$ 11,440
Operating expenses:			
Cost of sales	81,437	(72,638)	8,799
Selling, general and administrative	66,309	(29,979)	36,330
Research and development	125	(124)	1
Purchased in-process research and development	1,974	(1,974)	
Amortization of intangible assets	1,092	(1,092)	
Total operating expenses	150,937	(105,807)	45,130
Operating loss	(47,162)	13,472	(33,690)
Other income, net	7,066	7	7,073
Recovery related party	28		28
Interest income	4,974	(2)	4,972
Interest expense	(6,365)	1,170	(5,195)
Equity loss	(6,597)		(6,597)
Minority interest	6,922	(27)	6,895
Net loss from continuing operations before income taxes	(41,134)	14,620	(26,514)
Income tax benefit	230	(230)	
Net loss from continuing operations	$ (40,904)	$ 14,390	$ (26,514)
Basic and diluted loss per share from continuing operations [(2)]	$ (0.34)		$ (0.22)

Notes to Unaudited Pro Forma Consolidated Statements of Operations

(1) The pro forma consolidated

statements of operations give effect to the Bundle Transaction, assuming it occurred on January 1, 2005. The Company expects to record a gain on the sale of the Six Partner Companies based upon the difference between the carrying value and the net cash proceeds ultimately received. The gain on sale is not reflected in the unaudited pro forma consolidated statements of operations above.

(2) If a consolidated or equity method public company has dilutive options or securities outstanding, diluted loss per share is computed first by deducting from net loss the income attributable to the potential exercise of the dilutive options or securities of the company. The impact is

shown as an adjustment to net loss for purposes of calculating diluted loss per share. The pro forma diluted loss per share shown in the above tables excludes the effect of the Six Partner Companies diluted options and securities.

52

Table of Contents

PART III

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

Directors

The members of the Board of Directors of the Company, as of the date of this Form 10-K/A, are as follows:

Peter J. Boni, age 62, joined Safeguard as President and Chief Executive Officer and a member of the Board in August 2005. Mr. Boni also is a director of Clarient, Inc. Positions held include Operating Partner for Advent International, Inc., a global private equity firm with $10 billion under management (April 2004 to August 2005); Chairman and Chief Executive Officer of Surebridge, Inc., an applications outsourcer serving the mid-market (March 2002 to April 2004); Managing Principal of Vested Interest LLC, a management consulting firm (January 2001 to March 2002); and President and Chief Executive Officer of Prime Response, Inc., an enterprise applications software provider (February 1999 to January 2001).

Michael J. Cody, age 58, has served on our Board since 2006. Positions held include Senior Vice President of Corporate Development (November 2007 to present) of Ensign-Bickford Industries, a provider of ordnance initiation systems for the aerospace and defense industries and pet food palatability products; Partner, Meadowood Capital, LLC, a private equity firm (April 2007 to November 2007); Vice President of Corporate Development, responsible for mergers, acquisitions and divestitures at EMC Corporation, a provider of products, services and solutions for information storage and management (1998 until his retirement in March 2007); Director of Corporate Development at United Technologies Corporation, a diversified technology company (1993 to 1998); Managing Director of the investment banking group at Price Waterhouse (1990 to 1993); and Vice President of Investment Banking at Kidder Peabody & Co. (1980 to 1989).

Julie A. Dobson, age 51, has served on our Board since 2003. Ms. Dobson also is a director of PNM Resources, Inc. and non-executive Chairperson of the Board of LCC International, Inc. Positions held include Chief Operating Officer (1998 until February 2002) of TeleCorp PCS, Inc., a wireless/mobile phone company that was acquired by AT&T Wireless, Inc. in late 2001; President of Bell Atlantic Corporation s New York/ New Jersey Metro Region mobile phone operations (1997 to 1998); and a number of executive positions during her 18-year career with Bell Atlantic Corporation, including sales, operations, and strategic planning and development in the chief executive officer s office.

Robert E. Keith, Jr., age 66, has served on our Board since 1996 and was appointed Chairman of the Board in October 2001, prior to which he served as Vice Chairman since February 1999. Mr. Keith also is a director of Internet Capital Group, Inc. Positions held include Managing Director of TL Ventures, a group of venture capital funds, and its predecessor funds (1988 to present); senior adviser to, and co-founder of, EnerTech Capital Partners (1996 to present); member of the Office of the Chief Executive of Safeguard (April 2001 to October 2001); and President (1991 to December 2002) and Chief Executive Officer (February 1996 to December 2002), of Technology Leaders Management, Inc., a private equity capital management company.

Andrew E. Lietz, age 69, has served on our Board since 2003. Mr. Lietz also is a director of Amphenol Corporation and DDi Corp. and a member of the Board of Trustees of the University System of New Hampshire. Positions held include Managing Director and Founder of Rye Capital Management, LLC, a private equity investment firm (2001 to present); Executive Chairman (late 2000 until mid 2002) of Clare Corporation, a designer and manufacturer of integrated circuits, solid-state relays and electronic switches, which was acquired by Ixys Corporation in June 2002; President and Chief Executive Officer (1995 to 2000) of, and several other executive positions during his 16-year career with, Hadco Corporation, a global manufacturer of electronic interconnect products and services; and a variety of positions at IBM Corporation.

George MacKenzie, age 59, has served on our Board since 2003. Mr. MacKenzie also is a director of American Water Works Company, Inc., C&D Technologies, Inc. and Tractor Supply Company. Positions held include non-executive Chairman of the Board (May 2006 to present) and interim Chief Executive Officer (January 2006 to April 2006) of American Water, a provider of water services in North America; interim Chief Executive Officer of C&D Technologies, Inc., a technology company that produces and markets systems for the conversion and storage of electrical power (March 2005 to July 2005); Executive Vice President and Chief Financial Officer of P.H. Glatfelter Company, a manufacturer of specialty papers and engineered products (September 2001 to June 2002); Vice Chairman (2000 to 2001) and Chief Financial Officer (1995 until his retirement in 2001) of, and several other executive positions during his 22-year career with, Hercules, Incorporated, a global chemical specialties manufacturer.

George D. McClelland, age 61, has served on our Board since 2006. Positions held include Chairman, CEO and Founder of eSecLending, a provider of securities lending services to the pension industry (2000 to 2001); a director of Riverstone Networks, Inc. and Storage Networks, Inc.; Senior Vice President, responsible for managing many of the portfolio companies of United Asset Management Corporation, a public holding company (1994-2001); multiple corporate management roles at FMR Corp., a diversified financial services company (1987-1991); and Corporate Treasurer of Data General Corporation, a technology company (1972-1987).

Jack L. Messman, age 68, has served on our Board since 1994. Mr. Messman also is a director of AMG Advanced Metallurgical Group N.V., RadioShack Corporation and Timminco Limited. Positions held include Chairman of the Board and Chief Executive Officer of Novell, Inc., a provider of infrastructure software products focused around Linux and identity management (2001 to 2006); Chief Executive Officer and President of Cambridge Technology Partners (Massachusetts), Inc., an e-business systems integration company (August 1999 until its acquisition by Novell, Inc. in July 2001); Chairman and Chief Executive Officer of Union Pacific Resources Group Inc., an independent oil and gas exploration and production company (April 1991 to August 1999); and Chairman and Chief Executive Officer of USPCI, Inc., Union Pacific s environmental services company (May 1988 to April 1991).

Dr. John W. Poduska, Sr., age 70, has served on our Board since 1987. Dr. Poduska also is a director of Novell, Inc. and Anadarko Petroleum Corporation. Positions held include Chairman of Advanced Visual Systems, Inc., a provider of visualization software and solutions (January 1992 to December 2001); President and Chief Executive Officer of Stardent Computer, Inc, a computer manufacturer (December 1989 to December 1991); and Founder, Chairman and Chief Executive Officer of Stellar Computer, Inc., a computer manufacturer and the predecessor of Stardent Computer, Inc. (December 1985 to December 1989).

John J. Roberts, age 63, has served on our Board since 2003. Mr. Roberts also is a director of Armstrong World Industries, Inc. and Vonage Holdings Corp. and a trustee of Pennsylvania Real Estate Investment Trust. Mr. Roberts is a C.P.A. Positions held include Global Managing Partner and a Member of the Leadership Team of PricewaterhouseCoopers LLP at the time of his retirement in June 2002, completing a 35-year career with the professional services firm during which he served in a variety of client service and operating positions.

Dr. Robert J. Rosenthal, age 51, has served on our Board since 2007. Dr. Rosenthal also is a member of the Board of Advisors of the University of Maryland. Positions held include President, Chief Executive Officer and a director of Magellan Biosciences, Inc., a provider of clinical diagnostics and life sciences research tools (October 2005 to present); President, Chief Executive Officer and a director of TekCel, Ltd., a provider of life sciences research tools (October 2003 to January 2007); President and Chief Executive Officer of Boston Life Sciences, Inc., a diagnostic and therapeutic development company (July 2002 to October 2003); President and Chief Executive Officer of Magellan Discovery Technologies, LLC, a life sciences acquisition company (January 2001 to July 2002); Senior Vice President of PerkinElmer Corporation and President of its instrument division (March 1999 to November 2000); and in various executive positions at Thermo Optek Corporation (September 1995 to February 1999).

Table of Contents

Executive Officers

The executive officers of the Company, as of the date of this Form 10-K/A, are as follows:

Name	Age	Position	Executive Officer Since
Peter J. Boni	62	President, Chief Executive Officer and Director	2005
James A. Datin	45	Executive Vice President and Managing Director, Life Sciences	2005
Raymond J. Land	63	Senior Vice President and Chief Financial Officer	2007
John A. Loftus	46	Executive Vice President and Managing Director, Technology	2004
Brian J. Sisko	47	Senior Vice President and General Counsel	2007

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

Mr. Datin joined Safeguard as Executive Vice President and Managing Director, Life Sciences Group in September 2005. Mr. Datin served as Chief Executive Officer of Touchpoint Solutions, Inc., a provider of software that enables customers to develop and deploy applications, content and media on multi-user interactive devices, from December 2004 to June 2005; Group President in 2004, and as Group President, International, from 2001 to 2003, of Dendrite International, a provider of sales, marketing, clinical and compliance solutions and services to global pharmaceutical and other life sciences companies; Group Director, Corporate Business Strategy and Planning at GlaxoSmithKline, from 1999 to 2001, where he also was a member of the company s Predictive Medicine Board of Directors that evaluated acquisitions and alliances; and Chief Executive Officer of Isuta Holdings Berhad, a publicly traded distributor and manufacturer of medical and clean room products, from 1997 to 1999. His prior experience also includes international assignments with and identifying strategic growth opportunities for E Merck and Baxter. Mr. Datin is a director of Clarient, Inc.

Mr. Land joined Safeguard as Senior Vice President and Chief Financial Officer in June 2007. Prior to joining Safeguard, Mr. Land served as Executive Vice President and Chief Financial Officer from August 2006 through May 2007 of Medcenter Solutions, Inc., a global pharmaceutical marketing company specializing in online solutions for physicians, patients and sales representatives; Senior Vice President and Chief Financial Officer from June 2005 to July 2006 of Orchid Cellmark, Inc., a publicly traded DNA profiling company; Senior Vice President and Chief Financial Officer from 1997 to June 2005, of Genencor International, Inc., a biotechnology company; Senior Vice President, Chief Financial Officer of West Pharmaceutical Services, Inc., a publicly traded global manufacturer of packing and drug delivery products; multiple financial and managerial roles at Campbell Soup Company; and audit manager at Coopers & Lybrand (now PricewaterhouseCoopers). Mr. Land is a director of Anika Therapeutics, Inc., a publicly traded manufacturer of therapeutic products.

Mr. Loftus joined Safeguard in May 2002, became Senior Vice President and Chief Technology Officer in December 2003 and Executive Vice President and Managing Director, Technology Group in September 2005. Mr. Loftus is a founder of Gestalt LLC where he served as Chief Technology Officer from September 2001 to May 2002. Mr. Loftus served as Senior Vice President, e-Solutions (and in other executive roles) at Breakaway Solutions from May 1999 until August 2001 (Breakaway Solutions filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in September 2001); and served as Senior Vice President and Chief Technology Officer of WPL Laboratories from February 1997 to May 1999. Mr. Loftus spent the first 14 years of his career in a variety of executive, management and engineering positions at GE and PECO Energy.

55

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

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and greater than 10% holders of our common stock to file with the SEC reports of ownership of our securities and changes in ownership of our securities. Based solely on our review of the copies of reports we have received and upon written representations from the reporting persons that no Form 5 reports were required to be filed by those persons, Safeguard believes there were no late filings by our directors and executive officers during 2007 other than one transaction reported late on a Form 5 by Michael J. Cody. There were no known holders of greater than 10% of our common stock during 2007.

CORPORATE GOVERNANCE AND BOARD MATTERS

Safeguard s Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters for the Board s Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee are available at www.safeguard.com/governance. Shareholders also may obtain a print copy of these documents, at no cost, by writing to our Secretary at 435 Devon Park Drive, Building 800, Wayne, PA 19087-1945. The Code of Business Conduct and Ethics is applicable to all employees of Safeguard, including each of our executive and financial officers, and the members of our Board. Safeguard intends to post information regarding amendments to or waivers from our Code of Business Conduct and Ethics (to the extent applicable to Safeguard s directors or executive officers) in the Corporate Governance section of our website. Our website is not part of this Form 10-K/A. All references to our website address are intended to be inactive textual references only.

Board Independence. Safeguard s common stock is listed on the New York Stock Exchange, which we refer to below as the NYSE. To assist the Board in making independence determinations, the Board has adopted categorical standards which are reflected in our Corporate Governance Guidelines. Generally, under these standards, a director does not qualify as an independent director if any of the following relationships exist:

- Currently or within the previous three years, the director has been employed by us, someone in the director s immediate family has been one of our executive officers, or the director or someone in the director s immediate family has been employed as an executive officer of another company where any of our present executive officers at the same time serves or served on that company s compensation committee;

- The director or someone in the director s immediate family is a current partner of a firm that is our internal or external auditor, the director is a current employee of the firm, someone in the director s family is a current employee of the firm who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice, or the director or someone in the director s immediate family is a former partner or employee of such a firm and personally worked on our audit within the last three years;

- The director or someone in the director s immediate family received, during any 12-month period within the last three years, more than $100,000 in direct compensation from us (other than director and committee fees and pension or other forms of deferred compensation for prior service that are not contingent in any way on continued service);

Table of Contents

The director is a current employee or holder of more than 10% of the equity of another company, or someone in the director s immediate family is a current executive officer or holder of more than 10% of the equity of another company, that has made payments to or received payments from us, in any of the last three fiscal years of the other company, that exceeds the greater of $1 million or 2% of such other company s consolidated gross revenues; or

The director is a current executive officer of a charitable organization to which we have made charitable contributions in any of the charitable organization s last three fiscal years that exceeds the greater of $1 million or 2% of that charitable organization s consolidated gross revenues.

The Board has determined that Michael Cody, Julie Dobson, Andrew Lietz, George MacKenzie, George McClelland, Jack Messman, John Poduska, John Roberts and Robert Rosenthal have no direct or indirect material relationships with us other than their directorship and, therefore, are independent within the meaning of the NYSE listing standards and satisfy the categorical standards contained in our Corporate Governance Guidelines.

Board Structure and Committee Composition. At the date of this Form 10-K/A, Safeguard s Board has 11 members and four standing committees. The Board held seven meetings in 2007. Each incumbent director attended at least 75% of the total number of meetings of the Board and committees of which he or she was a member. Directors are invited, but not required, to attend annual meetings of Safeguard shareholders. All directors who were serving on our Board at the time of the meeting attended the 2007 annual meeting of shareholders. Under our Corporate Governance Guidelines and NYSE listing standards, non-employee directors meet in executive session at each regularly scheduled Board meeting, outside of the presence of any management directors and any other members of Safeguard s management who may otherwise be present, and during at least one session per year, only independent directors are present. The Chairperson of the Nominating & Corporate Governance Committee presides at these sessions. The table below describes the membership of each of the standing committees during 2007 and the number of meetings held by each of these committees during 2007.

	Acquisition	Audit	Compensation	Nominating & Corporate Governance
Number of Meetings held in 2007	7	11	8	6
Membership:				
Peter J. Boni	**ü**			
Michael J. Cody	**ü**			**ü**
Julie A. Dobson			Chairperson	
Robert E. Keith, Jr.	Chairperson			
Andrew E. Lietz				Chairperson
George MacKenzie		Chairperson		
George D. McClelland		**ü**	**ü**	
Jack L. Messman	**ü**			**ü**
John W. Poduska, Sr.	**ü**			**ü**
John J. Roberts		**ü**	**ü**	
Robert J. Rosenthal	**ü**	**ü**		

An denotes former committee member. Ms. Dobson and Mr. Lietz served on the Audit Committee and Compensation Committee, respectively, until June 2007; Messrs. McClelland and Cody were appointed to the Compensation Committee and Nominating & Corporate Governance Committee, respectively, in June 2007. Dr. Rosenthal was appointed to the Acquisition Committee when he joined our Board in July 2007 and to the Audit Committee in September 2007.

Acquisition Committee. The Board has delegated to the Acquisition Committee the authority to approve, between regularly scheduled Board meetings, the following transactions:

follow-on transactions in existing partner companies involving amounts between $5 million and $20 million;

new transactions involving amounts between $10 million and $20 million; and

divestitures of existing partner companies involving amounts between $10 million and $20 million.

Audit Committee. The Audit Committee s responsibilities, which are described in detail in its charter, include, among other duties, the responsibility to:

Assist the Board in fulfilling its responsibilities regarding general oversight of the integrity of Safeguard s financial statements, Safeguard s compliance with legal and regulatory requirements, and the performance of Safeguard s internal audit function;

Interact with and evaluate the performance, qualifications and independence of Safeguard s independent registered public accounting firm;

Review and approve related party transactions; and

Prepare the report required by SEC regulations to be included in the proxy statement.

The Audit Committee has the sole authority to retain, set compensation and retention terms for, terminate and oversee the relationship with Safeguard s independent registered public accounting firm (which reports directly to the Audit Committee). The Audit Committee also oversees the activities of the internal auditor, reviews the effectiveness of the internal audit function and approves the appointment of the internal auditor. The Audit Committee has the authority to obtain advice, counsel and assistance from internal and external legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and to receive appropriate funding from Safeguard for such advice and assistance. The full responsibilities of the Audit Committee are set forth in the Audit Committee Charter, which is reviewed annually by the Committee. The Audit Committee Charter is available through the Corporate Governance link on our website at www.safeguard.com/governance.

The Board has determined that each member of the Audit Committee meets the independence requirements established by SEC regulations, the NYSE listing standards and by our Corporate Governance Guidelines. The Board has determined that Messrs. MacKenzie, McClelland and Roberts and Dr. Rosenthal are audit committee financial experts within the meaning of the SEC regulations, and the Board has determined that each member of the Audit Committee has accounting and related financial management expertise within the meaning of the NYSE listing standards. Mr. MacKenzie and Mr. Roberts each serve as a member of the audit committee of the board of directors of four publicly traded companies, including our Audit Committee. The Board has determined that such simultaneous service does not impair Mr. MacKenzie s or Mr. Roberts ability to effectively serve on our Audit Committee.

Compensation Committee. The Compensation Committee s responsibilities, which are described in detail in its charter, include, among other duties, the responsibility to:

Approve the philosophy for compensation of our executive officers and other employees;

Establish compensation (including base salary, incentive compensation and equity-based programs) for our Chief Executive Officer and other executive officers;

Administer the long- and short-term compensation and performance-based incentive plans (which are cash and equity based);

Approve employment agreements and perquisites provided to our executive officers;

Review management s recommendations for our broad-based employee benefit plans;

Evaluate and recommend to the Board the compensation for all non-employee directors for service on the Board and its committees; and

Review and discuss with management the Compensation Discussion and Analysis and recommend to the Board its inclusion in our Form 10-K and proxy statement.

The Compensation Committee Charter is available through the Corporate Governance link on our website at www.safeguard.com/governance. The Board has determined that each member of the Compensation Committee meets the independence requirements established in the NYSE listing standards and by our Corporate Governance

Guidelines.

A discussion of some of the Compensation Committee s processes and procedures for the consideration and determination of executive compensation is contained in Compensation Discussion and Analysis Setting Executive Compensation. Additional processes and procedures include the following:

58

Meetings. The Compensation Committee generally meets five times each year, with additional meetings being scheduled as needed. The annual committee calendar is established prior to the beginning of each year, and agendas for each meeting are established in consultation with the Compensation Committee Chairperson. The Compensation Committee meets in executive session during or prior to the end of each regularly scheduled meeting.

Role of Consultant. The Compensation Committee has retained the services of a third party compensation consultant to assist the Compensation Committee in its deliberations regarding senior executive and director compensation. Hewitt Associates LLC served as the Compensation Committee s consultant from December 2003 until October 2007, at which time the Compensation Committee retained Mercer LLC, a wholly owned subsidiary of March & McLennan Companies, Inc. Specifically, the consultant provides the Compensation Committee with information relating to competitiveness of pay levels, compensation design, market trends and technical considerations, concerning both executive officers and directors, and assists the Compensation Committee with the reporting of executive compensation under the SEC s proxy disclosure rules. These services, which are provided in support of decision-making by the Compensation Committee, are the only formal services that the compensation consultant performs for Safeguard. From time to time since its hire, Mercer has provided miscellaneous data and research to the Compensation Committee relating to various compensation topics generally. The consultant reports to and acts at the direction of, and attends selected meetings as requested by, the Chairperson of the Compensation Committee. The Compensation Committee has the sole authority to hire and terminate the consultant and evaluates the performance of its consultant annually.

Role of Executive Team. Our Chief Executive Officer, with the assistance of other company employees as he requests, provides support to the Compensation Committee by preparing materials to assist the Committee in making its compensation decisions; conferring with the Committee and its consultant on the selection of peer companies and industries used for comparison purposes; providing suggestions to the Committee in the area of executive compensation, including suggestions in the context of terms of employment agreements, performance measures and targets under our management incentive plan, and equity awards; and ultimately implementing the Committee s compensation decisions. Management also provides the Compensation Committee with comprehensive tally sheets on an annual basis to facilitate the Committee s review of the total compensation of our senior executives. The tally sheets include both historical data and estimated forward looking amounts for the current calendar year. The tally sheets summarize: cash compensation (salary, actual/target cash incentive awards and perquisites); the dollar value of benefits provided; potential severance amounts payable under various scenarios; and outstanding equity awards held by each senior executive. The Compensation Committee discusses its compensation views with the Chief Executive Officer, and the Chief Executive Officer makes recommendations to the Compensation Committee for salary adjustments and equity and non-equity plan participation and awards to the named executive officers and other senior executives. However, other than for compensation that has been established contractually or under quantitative formulas established by the Compensation Committee each year under our management incentive plan, the Compensation Committee exercises its own discretion in determining additional compensation, which may take the form of cash or equity, for the named executive officers and other senior executives. Additional information can be found in Compensation Discussion and Analysis Role of Executive Team in Compensation Decisions.

Nominating & Corporate Governance Committee. The Nominating & Corporate Governance Committee s responsibilities, which are described in detail in its charter, include, among other duties, the responsibility to:

Establish criteria for the selection of directors;

Consider qualified Board candidates recommended by shareholders;

Recommend to the Board the nominees for director, including nominees for director in connection with Safeguard s annual meeting of shareholders;

Conduct an annual evaluation of the Board and its members and oversee the evaluations of each of the Board committees;

Take a leadership role in shaping Safeguard s corporate governance policies, including developing and recommending to the Board Safeguard s Corporate Governance Guidelines and Code of Business Conduct and Ethics;

Evaluate the performance of the Chief Executive Officer; and

Monitor the process of succession planning for the Chief Executive Officer and executive management.

The Nominating & Corporate Governance Committee Charter is available through the Corporate Governance link on our website at www.safeguard.com/governance. The Board has determined that each member of the committee meets the independence requirements established in the NYSE listing standards and by our Corporate Governance Guidelines.

The Nominating & Corporate Governance Committee considers properly submitted shareholder recommendations of director candidates in substantially the same manner as it considers director candidate recommendations from other sources. Any shareholder recommendation must include the following: the nominee s name and the information about the nominee that would be required in a proxy statement under the SEC s rules; information about the relationship between the nominee and the nominating shareholder; proof of the number of shares of Safeguard common stock that the nominating shareholder owns and the length of time the shares of Safeguard common stock have been owned; and a letter from the nominee certifying his or her willingness to serve, if elected, as a director.

Item 11. ***Executive Compensation***

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Compensation Committee (for purposes of this analysis, the Committee) is responsible for establishing our company-wide compensation philosophy and for determining the compensation provided to the individuals who serve as our Chief Executive Officer, Chief Financial Officer and the other individuals included in the Summary Compensation Table (collectively referred to as the named executive officers) and our other senior executives. As of the date hereof, our senior executive group is comprised of a total of nine persons, including the named executive officers. The Committee reviews our compensation philosophy each year to assure that its principles and objectives are aligned to our overall business strategy and aligned with the interests of shareholders in increasing the value of our common stock over the long-term.

Compensation Philosophy and Objectives

Our overall goals in compensating our senior executives are to:

Attract, retain and motivate executives who are particularly qualified, as a result of their prior professional experience, to shape Safeguard s business model and pursue our business plan, and whose experience and skills can be leveraged across our partner companies to facilitate the partner companies growth and success;

Promote and reward the achievement of short-term and long-term corporate and individual objectives that our Board and management believe will lead to long-term growth in shareholder value; and

Encourage meaningful equity ownership and the alignment of executive and shareholder interests as an incentive to increase shareholder value.

The executive compensation program the Committee has created is intended to: provide an appropriate mix of fixed and variable, at-risk cash compensation; balance rewards for short-term performance with our ultimate goal of producing long-term shareholder value; and facilitate executive recruitment and retention. There is no pre-established target for the allocation between either cash or non-cash; short-term or long-term compensation; and/or fixed or variable items of compensation. Rather, the Committee reviews information provided by management as well as its consultant to determine the appropriate level and mix of each of these components. During 2007, we used the following principal elements of compensation to meet our overall goals:

Base Pay	à	Fixed compensation, based on competitive market practice and existing salary levels, that rewards an executive s core competencies relative to his skills, experience and anticipated contributions to us and our partner companies;
Annual Cash Incentives	à	Variable, at-risk, performance-based incentive compensation, based on competitive market practice and existing incentive compensation levels, that rewards an executive s contributions towards the achievement of short-term corporate and individual performance objectives;
Long-Term Incentives	à	Equity awards that encourage executive ownership of our stock and promote continued employment with us during the long-term vesting period, thereby aligning our executives interests with those of our shareholders regarding increases in shareholder value through improvement in our stock price over the long-term;
Health and Welfare Benefits	à	Benefits that are part of our broad-based employee benefit programs, including medical, dental, life insurance, and disability plans, our 401(k) plan and our nonqualified deferred compensation plan;
Perquisites	à	Limited additional benefits that are available to our senior executives; and
Severance and Change-in-Control Arrangements	à	Severance benefits that are payable in the event a termination of employment occurs without cause or for good reason and which provide retention incentives for our senior executives as well as continuity of executive management in the event of an actual or threatened change in control.

Role of Executive Team in Compensation Decisions

The Committee makes or has final approval authority regarding all compensation decisions with respect to our senior executives. Within the parameters approved by the Committee each year, senior management is responsible for evaluating and setting compensation with respect to our other employees.

Our Chief Executive Officer, with the assistance of other company employees as he requests, provides support to the Committee by preparing materials to assist the Committee in making its compensation decisions; conferring with the Committee and its consultant on the selection of peer companies and industries used for comparison purposes; providing suggestions to the Committee in the area of executive compensation, including suggestions in the context of terms of employment agreements, performance measures and targets under our management incentive plan, and equity awards; and ultimately implementing the Committee s compensation decisions. Management also provides the Committee with comprehensive tally sheets on an annual basis to facilitate the Committee s review of the total compensation of our senior executives. The tally sheets include both historical data and estimated forward looking amounts for the current calendar year. The tally sheets summarize: cash compensation (salary, actual/target cash incentive awards and perquisites); the dollar value of benefits provided; potential severance amounts payable under various scenarios; and outstanding equity awards held by each senior executive.

In determining the compensation of our Chief Executive Officer, the Committee considers the results of the performance assessment conducted each year by our Nominating & Corporate Governance Committee, which includes our Chief Executive Officer s self-assessment of achievement of his individual prior year objectives and the assessment of his performance by each Board member. The Committee also discusses its compensation views with our Chief Executive Officer directly. Our Chief Executive Officer is not present when the Committee makes its determinations concerning his compensation.

Our Chief Executive Officer annually assesses each other senior executive s performance and makes a recommendation to the Committee concerning achievement of individual objectives. Our Chief Executive Officer also makes recommendations to the Committee concerning salary adjustments and equity and non-equity grants to the

named executive officers and other senior executives. In determining the compensation of other senior executives, the Committee considers our Chief Executive Officer s assessment and recommendations. However, other than for compensation that has been established contractually or under quantitative formulas established by the Committee each year under our management incentive plan, the Committee exercises its own discretion in

determining whether to accept or modify our Chief Executive Officer s recommendations. These individuals are not present when the Committee and our Chief Executive Officer review their performance or when the Committee makes its determinations concerning their compensation.

From time to time during the year, our Chief Executive Officer may recommend to the Committee one-time cash bonuses or stock option or other equity grants to certain senior executives or other employees relating to instances of superior performance. The Committee acts on such recommendations on a case-by-case basis.

Role of Consultant

Hewitt Associates LLC assisted the Committee in its deliberations regarding executive officer and director compensation levels for 2007. Specifically, Hewitt Associates provided information relating to competitiveness of pay levels, compensation design, market trends and technical considerations, concerning both executive officers and directors, and assisted the Committee with the reporting in the 2007 proxy statement of executive compensation under the SEC s proxy disclosure rules. These services, which were provided in support of decision-making by the Committee, are the only services that Hewitt Associates performed for Safeguard. Hewitt Associates reported to and acted at the direction of, and attended selected meetings as requested by, the Chairperson of the Committee.

The Committee, which has the sole authority to hire and terminate its consultant, evaluates the performance of its consultant annually. During 2007, the Committee not only evaluated the services provided by Hewitt Associates but also solicited and reviewed proposals from Hewitt Associates and a number of other compensation consulting firms concerning the Committee s 2008 compensation decisions. Following its evaluation, the Committee directly retained Mercer LLC as its consultant to assist the Committee in its evaluation of senior executive and director compensation for 2008 and with the reporting in the 2008 proxy statement of executive compensation under the SEC s proxy disclosure rules. Because Mercer was hired in October 2007, the Committee also consulted with Mercer concerning certain of its deliberations regarding payments to be made under the 2007 MIP.

Setting Executive Compensation

The Committee believes that a significant portion of each senior executive s total compensation should be variable or at-risk. These variable components are not guaranteed. The components that make up the at-risk portion of our executive compensation program are of two different types: cash and equity. The at-risk variable cash component requires the achievement of strategic and operating corporate objectives, as well as the achievement of individual performance objectives, before any cash payment is triggered. Theoretically, the same achievements are required to drive stock price appreciation, which makes it possible for senior executives to realize value from stock options and other equity incentive awards granted as long-term incentives.

As described above, management provides the Committee with comprehensive tally sheets on an annual basis to facilitate the Committee s review of the total compensation of our senior executives. The Committee has found these tally sheets to be useful in its evaluation of the total compensation program for our senior executives.

The Committee from time to time has reviewed a comparison of each element of total compensation against a group of specific companies and industries against which we believe we compete for talent and for shareholder investment, including the venture capital and private equity industries, as well as by reference to industry-specific compensation surveys. The analysis provided by Hewitt Associates in December 2006 for purposes of the Committee s consideration of 2007 cash and total compensation levels measured our compensation against data from the following sources:

Proxy data	à	The following two comparator groups were specifically identified by us in consultation with Hewitt: Business development companies, registered investment companies and holding companies that are representative of the unique nature of our business model for a publicly owned company. Included in this group were: Allied Capital Corporation; American Capital Strategies, Ltd.; Capital Southwest Corporation; Harris & Harris Group, Inc.; Hercules Technology Growth Capital, Inc.; Internet Capital Group, Inc.; Leucadia National Corporation; MCG Capital Corporation; MVC Capital, Inc.; TICC Capital Corp.; and Wesco Financial Corporation; and Operating companies that are representative of peers to certain of our partner companies. Included in this group were: Actuate Corporation; Answerthink Inc.; Bio-Reference Laboratories, Inc.; Ciber Inc.; Covansys Corporation; Cytyc Corporation; i2 Technologies, Inc.; JDA Software Group, Inc.; Keane, Inc.; Logility, Inc.; Manhattan Associates, Inc.; Point.360; S1 Corporation; and Sapient Corp.
Culpepper Global Compensation & Benefits Survey - 2006	à	The following industry cuts from this survey were selected to be representative of our partner companies while the size scope was selected to represent the unique business model of Safeguard and the skill set of the executives needed to execute our strategy: Life sciences companies with $200 to $600 million in revenue; and Software companies with $200 to $600 million in revenue.
Mercer Private Equity Firms Compensation Survey Report 2006	à	The following cuts from this survey were selected as comparables based on assets under management: Private firms with over $500 million committed capital and median committed capital of $1,300 million; and All private firms with median committed capital of $719 million.
Private Equity Analyst-Holt Compensation Study 2006 Edition		The following cuts from this survey were selected as comparables based on assets under management and geographical location: Independent ventures; Mid-size independent ventures with $300 $1,000 million assets under management; and Northeastern United States independent venture firms with median assets under management of $628 million.

The Committee annually evaluates the companies and surveys used for comparison purposes to be certain that the comparables reviewed by the Committee remain appropriate. For 2007, based on surveys and other information available to us, the Committee utilized data derived from the private equity industry as a proxy for data relating to the

venture capital industry, which data was not readily available. In connection with its 2008 compensation review, the Committee determined that reviewing compensation from multiple perspectives was still appropriate given Safeguard s unique business model. However, the Committee felt that the analysis could be improved by refining the comparables utilized. In particular, the Committee eliminated the comparisons to operating companies that are representative of peers to certain of Safeguard s partner companies and limited the industry classifications and asset size parameters of companies used as proxy comparables.

Prior to 2006, we historically targeted base pay levels generally at or near the 50th percentile of base salaries for executives having comparable duties and responsibilities to our senior executives. Total compensation, including both annual cash incentives and long-term incentives, was targeted historically to fall at or near the 75th percentile of total compensation for executives having substantially comparable duties and responsibilities to our senior executives, assuming achievement of Safeguard s corporate, and officers individual, objectives. However, recognizing that our business strategy, industry focus and diverse array of partner companies make comparisons to

other companies difficult, and based on the inherent challenge in matching companies, job positions and skill sets, the Committee has viewed some of these comparisons as more appropriate for some positions than for others and has looked to this data for general guidance rather than rigid adherence to specific percentages. The Committee continues to review compensation in comparison to the historically targeted 50th and 75th percentiles for base pay and total compensation, respectively, but has determined that the overall objectives of our compensation philosophy would be better achieved through flexibility in determining pay levels to address differences in duties and responsibilities, individual experience, skill levels and achievements, and any retention concerns.

2007 Compensation Program

Base Pay. Base pay is established initially on the basis of several factors, including market competitiveness; past practice; individual performance and experience; the level of responsibility assumed; the level of skills and experience that can be leveraged across our partner companies to facilitate their growth and success; and individual employment negotiations with newly hired executives. Each of our named executive officers has an employment agreement with us which sets his minimum base salary. The Committee acknowledges, in particular, that as senior executives leave Safeguard and new officers are hired, candidates for hire typically will review publicly available information regarding our existing compensation levels and will condition their interest in working for Safeguard upon receiving compensation comparable to that of the officer they are replacing and of other senior executives of Safeguard. This situation impacts the Committee s ability to measurably change overall compensation levels over short periods of time. Base salaries typically are reviewed annually by the Committee, as well as in connection with a promotion or other changes in job responsibilities. As noted above, Safeguard competes for executive talent with venture capital and private equity firms. In considering whether to adjust base salary levels for 2007, the Committee took into account:

The private equity market data provided by Hewitt Associates (which showed that base salaries for Messrs. Boni, Datin and Loftus ranged from approximately 14% to 50%, depending upon position, below the medians in the Mercer and Holt private equity compensation studies);

The Committee s assessment of Mr. Boni s initial base salary, which was somewhat below market based on the private equity median values noted in the consultant s survey data, as well as Mr. Boni s performance during his first full year as our President and Chief Executive Officer; and

Mr. Boni s assessment of the individual performance of each of the other named executive officers.

Based on the Committee s review of the market data and its desire to bring base salaries closer to the median base salaries in venture capital and private equity; align the compensation of Messrs. Datin and Loftus to reflect their comparable roles within our organization; and provide for internal consistency in 2007 base salary increases, in December 2006, the Committee approved the following changes in base salary levels for our then named executive officers for 2007 as shown below:

Name	2006 Base Salary	2007 Base Salary
Peter J. Boni	$ 600,000	$ 650,000
James A. Datin	$ 375,000	$ 390,000
John A. Loftus	$ 275,000	$ 390,000
Steven J. Feder	$ 325,000	$ 340,000

During 2007, the Committee also approved the following employment agreements which established the compensation terms for newly hired executive officers based on employment negotiations:

Raymond J. Land joined us as Senior Vice President and Chief Financial Officer in June 2007 at an initial base salary of $325,000. Mr. Land s base salary was based on the salary paid to his predecessor as our Chief Financial Officer, adjusted to reflect that Mr. Land would not be assuming the Chief Administrative Officer title which his predecessor also held; and

Brian J. Sisko joined us as Senior Vice President and General Counsel in August 2007at an initial base salary of $340,000. Mr. Sisko s base salary was based on his prior experience as the general counsel of multiple public companies, his experience in the private equity and venture capital industries, and the salary paid to his predecessor as our General Counsel.

Subsequent to the departure of Christopher Davis as the Company s Chief Administrative and Financial Officer in December 2006 and until Mr. Land assumed the position of Chief Financial Officer in June 2007, Stephen Zarrilli served as our Acting Senior Vice President, Acting Chief Administrative Officer and Acting Chief Financial Officer. Under the terms of his consulting agreement with us, Mr. Zarrilli received a retainer of $2,500 per day, subject to a maximum monthly retainer of $50,000, and a retainer of $50,000 during the 30-day transition period following Mr. Land s commencement of employment. During 2007, we paid Mr. Zarrilli $327,500 for his services.

Beginning in December 2007, the Committee reviewed its compensation philosophy and the market data provided by Mercer and determined that 2008 base salary levels for our named executive officers satisfied the Committee s stated objectives for the role of fixed cash compensation within our overall compensation philosophy and would remain the same as in 2007.

Cash Incentives.

Incentive Opportunity. In April 2007, the Committee adopted the 2007 Management Incentive Plan (the 2007 MIP) to provide variable cash incentives to our senior executives and other employees based on 2007 performance. The 2007 MIP program, which emphasized teamwork among members of management to achieve key business objectives under our 2007 strategic plan, was based on the following mix of corporate and individual objectives for our senior executives and professional staff.

80% on the achievement of corporate objectives; and

20% on the achievement of individual objectives.

As of year-end 2007, this grouping consisted not only of our senior-most executives but also a total of 21 out of our 34 employees (our remaining employees also participated in our 2007 MIP, but their incentives were based 50% on corporate objectives and 50% on individual objectives).

We believe that short-term compensation (such as base salary and annual cash incentive awards) should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather on our executives management of the Company towards achieving our goal of long-term growth in shareholder value. We also believe that under our MIP, all of our executives and professional staff should earn their incentive payments based on the same relative weighting of corporate and individual objectives. The price of our stock should, in the long term, reflect our performance, and the performance of our stock will directly affect the value of stock options and other equity incentive awards provided to our senior executives as part of our compensation program.

Performance Measures. To align the 2007 MIP with our 2007 business strategy, the Committee established the following corporate objectives and weightings (representing 80% (or up to 80 points) of the total 2007 MIP target award):

Weighting	Corporate Objectives
30%	Achievement of specified levels of deployment of capital in new partner companies; capital funding based on reserves established at initial acquisition of certain partner companies; and/or funding to support growth through acquisitions or other strategic opportunities (but excluding working capital funding) for existing partner companies, with achievement being measured based on a matrix involving the amount of capital deployed and the number of transactions completed;
30%	Achievement of capital generation through exit transactions (including transactions by our partner companies as well as transactions by us relating to our interests in partner companies), with achievement being measured based on a matrix involving the amount of capital generated and the number of transactions completed;
20%	Achievement of explicit milestones or specified levels of revenues or profitability for the 15 partner companies in which we held an interest as of the adoption of the 2007 MIP, with each measure selected to reflect the respective partner company s stage of growth and with greater emphasis being

placed on those companies reported as consolidated in our financial statements; and

20% Overall corporate performance of Safeguard, based on the Committee s subjective evaluation.

The Committee established these objectives by taking into consideration the anticipated level of difficulty in achieving our 2007 business plan and the Committee s judgment of acceptable performance. The award criteria were designed to provide management with a meaningful opportunity to meet the criteria for a target award but not guarantee achievement or make achievement somewhat inevitable. This approach was intended to provide increased economic incentives for exceeding the target award and some economic recognition, albeit reduced, for near achievement of the target.

In connection with the development of the 2007 MIP, each then executive officer also prepared written individual objectives that were reviewed and approved by our Chief Executive Officer. Our Chief Executive Officer s individual objectives were reviewed and approved by the Committee. The individual objectives varied depending upon each participant s roles and responsibilities.

Consistent with their respective employment agreements and the Company s overall compensation philosophy, the Committee set the following variable cash target awards for 2007 for our then eligible named executive officers:

Name	Target Variable Cash Incentive
Peter J. Boni	$ 650,000
James A. Datin	$ 390,000
John A. Loftus	$ 390,000
Steven J. Feder	$ 250,000

Mr. Zarrilli was not an eligible participant in our 2007 MIP.

Under the terms of their respective employment agreements with us, entered into during the 2007 calendar year, Messrs. Land and Sisko are eligible for a target MIP bonus of $195,000 and $250,000, respectively, beginning in 2008. In lieu of any actual participation in our 2007 MIP, Mr. Land and Mr. Sisko each received, upon commencement of employment, a payment equal to 100% of the pro rata portion of their variable cash target bonus ($109,375 and $91,096, respectively) based upon hire date. Mr. Land and Mr. Sisko each are required to use 100% of their respective payment, net of taxes, to purchase shares of our common stock in open market transactions in accordance with our insider trading procedures.

There were no mandatory minimum awards payable under the 2007 MIP. The actual cash incentive awards paid to participants were determined based upon the level of achievement of the quantitative and qualitative corporate and individual performance objectives and were measured in the aggregate on a sliding scale basis (e.g., for executives and professional staff, achievement of objectives totaling 50 points would result in payment of 50% of the target award, achievement of objectives totaling 100 points would result in payment of 100% of the target award and achievement of objectives totaling 150 points would result in payment of 150% of the target award). Payments under the 2007 MIP were limited to 150% of each individual s target award.

Payouts. In February 2008, the Committee reviewed our performance against the quantitative and qualitative corporate objectives set forth above and preliminarily determined the following payout levels, subject to final approval upon completion of the audits of our 2007 financial statements and internal controls over financial reporting, which final approval occurred on April 1, 2008.

Corporate Objectives	Target Incentive (in points)	Payout Level (in points)	Factors Affecting Determination
Capital Deployment	24	22	Deployment of $57.4 million of newly committed capital in 12 transactions $47.4 million relating to acquisitions of new partner companies (Advanced BioHealing, Beyond.com, Avid Radiopharmaceuticals, Cellumen, Bridgevine, Veralyte, and a stealth pre-launch technology company; the balance related to capital funded to existing partner companies based on reserves established at the time of acquisition. No credit was given for capital deployment to support partner companies outside of amounts properly reserved for follow-on funding or otherwise earmarked for specific merger and acquisition transactions.
Capital Generation	24	6	Generation of $30.7 million of capital through exit transactions.
Partner Company Performance	16	8	Achievement by approximately one-half of our partner companies of explicit milestones or specified levels of revenue or profitability.
Overall Corporate Performance	16	16	Overall corporate performance, including execution of our business strategy; deal sourcing and pipeline development; organizational staffing and development; facilitating partner company milestone achievements; building value in our partner companies through strategy, management and performance; and management of core corporate functions, including performance of our investor relations and marketing programs, financial reporting and other compliance responsibilities, and management of our corporate operating budget. The Committee specifically noted the following significant 2007 achievements in its review: Continued execution of our strategy of eliminating from our roster of partner companies those companies that no longer fit within our stated areas of capital deployment focus and accomplishing new capital deployment in partner companies that do fit our current parameters; Reception and better understanding of our business model by the financial markets/institutional investors; Improvement in our ability to establish a consistent communication platform with our investors; Continued upgrading of our advisory boards and the efficient and meaningful utilization of such advisory board members to assist our partner companies to increase their value to us; and

			Continued improvement in the overall view of our partner companies regarding the value that we bring to our partner company relationships.
Total Points	80	52	(which equates to 65% achievement of corporate objectives)

At the end of the year, each senior executive also completed a self-assessment of his achievement of individual objectives (representing 20% (or up to 20 points) of the total 2007 MIP target award). The Chief Executive Officer s self-assessment was a component of the annual performance review conducted by the Nominating & Corporate Governance Committee. The Committee reviewed with the Nominating & Corporate Governance Committee its assessment of the performance of the Chief Executive Officer, including his achievement of

67

individual objectives, and discussed with the Chief Executive Officer his review of each other named executive officer s achievement of each officer s specific individual objectives.

Based on its review of the achievement of both quantitative and qualitative 2007 MIP objectives, the Committee (i) authorized the payment of an aggregate company-wide pool equal to approximately 70% of the 2007 MIP target, with payment to each participant, other than the Company s senior executive group, made up, as of year-end 2007, of eight eligible persons, including the named executive officers, to be determined by management based upon an assessment of the achievement of individual objectives, with individual performance being capped at 110%; and (ii) limited acknowledgment of personal achievement for each of Messrs. Boni, Datin and Loftus, and for our other senior executives as a group, to a maximum of 90% of personal objectives.

Based on the Committee s review of the 2007 MIP and the actual achievements of Safeguard and our individual senior executives, the Committee approved the following 2007 MIP payments to the named executive officers eligible for a payment under the 2007 MIP (which amounts are presented in the Summary Compensation Table under Non-Equity Incentive Plan Compensation). Such amounts were paid following the completion of the audit of our financial statements.

Name	Payout Level (in points)	Approved Variable Cash Incentive
Peter J. Boni	70	$ 455,000
James A. Datin	70	$ 273,000
John A. Loftus	70	$ 273,000

Under the terms of his agreements with us (see Severance and Change-in-Control Arrangements below), Mr. Feder received $135,000 (representing an amount equal to his pro rata MIP payment as of September 30, 2007) as part of his severance package.

By way of comparison, after taking into consideration the achievement of both corporate and individual objectives, payments to our then senior executives ranged from 102% to 114% of target under our 2006 MIP and from 88.5% to 130% of target under our 2005 MIP.

Long-Term Incentives. Our executive compensation programs include a significant equity component, primarily in the form of stock options. Our equity compensation plans also allow for the grant of restricted stock awards and such other equity-based awards as the Committee may determine to be appropriate from time to time.

As noted above, we compete for executive talent with venture capital and private equity firms, and we review comparative information regarding venture capital and private equity industry compensation practices. In such industries, executives (referred to as managing partners) typically have compensation programs that include a share of the fund s profits (referred to as carry). We do not provide our executives with a compensation program tied directly to gains from our partner company holdings. Instead, we attempt to utilize our equity compensation plans as an alternative to approximate the economic benefit that would be provided by a carry. The equity awards made to our senior executives were based on our assessment of the carry which would typically be provided to our executives in positions of comparable responsibility at private equity and/or venture capital firms. For example, based upon information available to the Committee through its consultant, as well as directly through the professional experience of committee members, a managing partner of a venture capital or private equity firm would typically expect a carry ranging from about 1% to 5% of profits realized on portfolio transactions. To provide a different, but somewhat comparable, long-term economic benefit to our executive officers, we grant stock options to our executive officers, with each officer s stock option grants ranging in the aggregate from about 1% to 5% of our outstanding shares of common stock, dependent upon the individual s position and responsibilities. The grants, which generally are made upon hire, are intended by the Committee to cover a multi-year period and to be competitive with those held by comparable executives in the comparison data reviewed by the Committee (as adjusted for the senior executive s experience).

Since stock options are granted with an exercise price equal to the average of the high and low trading prices of our common stock on the date of grant, the options will have value only if the market price increases after that date and, in the case of options that vest upon achievement of specified stock price levels, only if the specified stock price levels are achieved. We refer to options that vest upon achievement of specified stock price levels as market-based

vesting options. The Committee has established the following allocation between options subject to time-based vesting and market-based vesting for our executive officers:

25% of the total underlying shares are subject to time-based vesting; of such amount, 25% vests on the first anniversary date of the grant date and the remaining 75% vests in 36 equal monthly installments on the same date of each month thereafter; and

75% of the total underlying shares are subject to market-based vesting.

The Committee believes that granting 75% of the principal option grants held by our executive officers based on a market-based vesting model aligns the long-term interests of Safeguard management and our shareholders. Our senior executives generally will not benefit from such option grants unless the Safeguard stock price achieves and sustains a targeted stock price (based on the average closing price of a share of our common stock as reported on the New York Stock Exchange consolidated tape for 20 consecutive trading days).

The following table shows the per share stock price levels at which portions of the shares underlying the market-based vesting options granted in 2005 to Messrs. Boni, Datin and Loftus will vest:

Percentage of Shares Underlying Options That Vest	Per Share Stock Price
First 10%	$ 2.0359
Next 20%	$ 3.1548
Next 30%	$ 4.6466
Final 40%	$ 6.5114

The options also may vest on a pro rata basis if the per share stock price is between the designated stock price levels set forth in the table for 20 consecutive trading days. We measure for these pro-rata vestings every six months. For example, based on the stock price levels in the above table, if the first 10% of the options have already vested and within the next six month window, the highest average closing price of a share of our common stock as reported on the New York Stock Exchange consolidated tape over 20 consecutive trading days equals $2.5954, an additional 10% of the shares underlying the options will vest.

Upon joining Safeguard, Mr. Land and Mr. Sisko received stock options to purchase 1,500,000 shares and 1,000,000 shares, respectively. These option grants met the employment inducement award exemption provided under Section 303A.08 of the NYSE Listed Company Manual. Of these stock options awarded, 25% of the stock options were subject to time-based vesting and 75% of the stock options were subject to the market-based vesting model described in the following table:

Percentage of Shares Underlying Options That Vest	Per Share Stock Price
First 20%	$ 3.1548
Next 30%	$ 4.6466
Next 40%	$ 6.5114
Final 10%	$ 7.2246

The Committee annually reviews the equity awards held by our senior executives and other employees and also may consider awards periodically during a year in an effort to retain and motivate employees and to ensure continuing alignment of executive and shareholder interests. Other than the grants made to newly hired executive officers who joined us during 2007, the Committee determined that during 2007 and so far through 2008, no additional grants to executive officers were necessary to achieve our compensation objectives.

We expect to continue to use stock options and other equity awards as part of our compensation program, including market-based vesting options. We expect to make appropriate adjustments in the per share stock price levels and vesting schedules used for additional market-based vesting option grants based on our stock price level.

Stock Option Granting Process. The Committee is responsible for equity grants under our equity compensation plans. The Committee approves and grants all equity awards to our senior executives, employees and advisory board members, with the exception of those grants for which the Committee has delegated authority to the Chief Executive Officer which are described below. Equity grants to directors are generally approved by the Board; however, in those cases where the Board has approved the size and form of recurring annual service grants, the Committee may authorize grants without further Board approval.

Grants may be made at regularly scheduled meetings or at special meetings convened to approve compensation arrangements for newly hired executive officers or for executive officers who have been promoted or are otherwise subject to changes in responsibilities. During 2007, the Committee determined that, as a matter of best practice, recurring grants to directors and advisory board members would be made on the date of Safeguard s annual meeting of shareholders.

The Committee has delegated to our Chief Executive Officer the authority to make equity grants between regularly scheduled Committee meetings (primarily to new hires and new advisory board members), provided that the aggregate number of shares granted may not exceed 300,000 shares, the maximum number of shares allocated to any one employee may not exceed 125,000 shares and the aggregate number of shares allocated to any one advisory board member may not exceed 5,000 shares. A report is made to the Committee at each of its regularly scheduled meetings regarding any grants that our Chief Executive Officer has approved, following which the aggregate number of shares available is reset to 300,000 shares. The Chief Executive Officer is not authorized to make equity grants to senior executives or directors without prior Committee approval of the specific grant contemplated.

It recently has become our practice to make all employee grants of options, subject to limited exceptions for new hires, on fixed quarterly grant dates. Grants to newly retained consultants or advisors may be made on the later of the date the award is approved or the date of commencement of services. The exercise price for all stock options granted under our equity compensation plans is the average of the high and low trading prices of our common stock as reported on the New York Stock Exchange consolidated tape on the date of grant, which we believe reflects common practice.

Nonqualified Deferred Compensation. Our senior executives may defer compensation under our qualified 401(k) plan (subject to the limits imposed by the Internal Revenue Code) but generally are not eligible to receive matching company contributions under that plan. Our senior executives are eligible to participate in our nonqualified deferred compensation plan, which is an unfunded plan that does not allow deferral of compensation but does allow participants to obtain credits, in the form of Safeguard contributions that are allocated to accounts for the benefit of a participant. We offer this nonqualified deferred compensation plan to selected employees in light of their ineligibility to obtain a company matching contribution under our qualified 401(k) plan. Additional information regarding participation in this plan by named executive officers can be found below under Executive Compensation Nonqualified Deferred Compensation 2007.

Perquisites (fringes). Contractually, our executives are entitled to a few benefits that are not otherwise available to all of our employees. We do not provide a defined benefit pension arrangement, post-retirement health coverage or similar benefits for our executive officers. The additional perquisites we provided to our executive officers in fiscal 2007 consisted of the following:

- $10,000 annual car allowance;
- $8,000 non-accountable annual expense allowance;
- Universal life insurance coverage ranging from $750,000 to $1,000,000;
- Up to $5,000 reimbursement annually for medical, vision or dental expenses not covered under our other benefit plans; and
- Certain relocation expenses and related tax obligations under the terms of negotiated employment agreements.

The Committee believes that these perquisites, which represent a relatively modest portion of each named executive officer s compensation, are not out of the ordinary for executives of the caliber that we need to be able to attract to Safeguard. These perquisites are taken into consideration by the Committee in determining total compensation payable to the named executive officers. It is the Committee s stated intention to begin to treat certain of such perquisites as fully discretionary in the case of any new hires to our senior executive ranks.

Severance and Change-in-Control Arrangements

Messrs. Boni, Datin, Loftus, Land and Sisko each have agreements with Safeguard which provide certain benefits in the event of termination of their employment by Safeguard without cause or by the officer for good reason (as defined in the agreements).

Upon the occurrence of a termination event, each executive will be entitled to those benefits outlined in his agreement with us, which may include a multiple of his then current base salary, payment of his pro rata bonus for the year of termination or a multiple of the greater of his target bonus for the year of termination or the average of his actual bonuses for up to the last three years, accelerated vesting of equity awards and extension of the post-termination exercise period within which some or all of the equity awards held by the executive may be exercised, coverage under our medical, health and life insurance plans for a designated period of time, and outplacement services or office space. See Potential Payments upon Termination or Change in Control in this Form 10-K/A for a summary of the specific benefits that each executive will receive upon the occurrence of a termination event.

Unlike single trigger change-in-control arrangements that pay out immediately upon a change in control, most of the benefits to which our named executive officers are entitled under their agreements in the event of a change in control require a double trigger, namely a change in control coupled with a loss of employment or a substantial change in job duties. We believe a double trigger provides retention incentives as well as continuity of management in the event of an actual or threatened change in control. However, we note that the acceleration of the vesting of the stock options that were granted to Mr. Boni when he joined Safeguard in 2005 require only a single trigger to be effective that is, only a change in control. This arrangement was specifically negotiated by Mr. Boni as a condition to his agreement to join Safeguard. Since equity represents a significant portion of Mr. Boni s total compensation, we believe that this single trigger can be an important retention device during change-in-control discussions.

Steven J. Feder, our former Senior Vice President and General Counsel, resigned in August 2007. We and Mr. Feder agreed that Mr. Feder s resignation would be treated as having been for good reason, as defined in his agreement with us, and Mr. Feder received the severance benefits described in that agreement consisting of the following:

- A payment equal to his pro rata 2007 MIP payout, as of September 30, 2007, of $135,000, plus one and one-half times his base salary of $340,000, for an aggregate payment of $645,000;
- Coverage under our medical, health and life insurance plans for 12 months;
- $15,000 for outplacement services; and
- Full vesting of all time-vested stock options (which will remain exercisable for 36 months) and a 12-month period within which to exercise vested market-based stock options.

Deductibility of Executive Compensation

The Committee considers the potential impact of Section 162(m) of the Internal Revenue Code in structuring executive compensation. Section 162(m) disallows a tax deduction for any publicly held corporation for certain executive compensation exceeding $1,000,000 per person in any taxable year unless it is performance based within the meaning of Section 162(m). We believe the stock options awarded under our equity compensation plans are in compliance with the provisions of Section 162(m). The portion of cash compensation paid to Mr. Boni for 2007 in excess of $1,000,000 was not performance-based compensation within the meaning of Section 162(m) and, therefore, was not deductible by Safeguard. We believe that providing an appropriate level of cash compensation and maintaining flexibility in determining compensation may be more important than preserving this tax deduction. Therefore, the Committee does not currently plan to take any action to qualify any of our cash incentive compensation plans under Section 162(m).

Stock Ownership Guidelines

Our Board established stock ownership guidelines, effective December 31, 2005, that are designed to closely align the long-term interests of our executive officers with the long-term interests of our shareholders. The guidelines provide that each executive officer should attain an equity position in our common stock equal to two times annual base salary. The ownership level should be achieved (i) within five years of December 31, 2005 for executive officers who were employed on that date or (ii) for individuals who were not employees on December 31, 2005, by the end of the fifth full calendar year following the year in which the executive officer was hired. The Nominating & Corporate Governance Committee monitors compliance as of the end of each calendar year. Shares counted toward these guidelines include:

Shares beneficially owned by the executive officer;

Vested shares of restricted stock;

Vested deferred stock units that have been credited to the executive officer; and

Shares underlying vested, in-the-money options.

Based on information they have provided to us, our named executive officers are working toward meeting the guidelines within the prescribed time frame.

Prohibition on Speculation in Safeguard Stock

Our company policy on securities trading by company personnel prohibits our named executive officers, directors and other employees from engaging in activities with regard to our stock that can be considered as speculative, including but not limited to, short selling (profiting if the market price of our securities decreases); buying or selling publicly traded options (e.g., a put option, which is an option or right to sell stock at a specific price prior to a specified date, or a call option, which is an option or right to buy stock at a specific price prior to a specified date); and hedging or any other type of derivative arrangement that has a similar economic effect. Our executive officers and directors are also prohibited from pledging, directly or indirectly, our common stock or the stock of any of our partner companies, as collateral for indebtedness.

COMPENSATION COMMITTEE REPORT

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company s Annual Report on Form 10-K and the Company s proxy statement.

Members of the Compensation Committee:

Julie A. Dobson, Chair George D. McClelland John J. Roberts

Table of Contents

EXECUTIVE COMPENSATION

Summary Compensation Table   Fiscal Years Ended December 31, 2007 and 2006

The table below is a summary of total compensation paid to or earned by our named executive officers for the fiscal years ended December 31, 2007 and 2006.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)(5)	Total ($)
Peter J. Boni	2007	650,000			710,745	455,000	267	116,049	1,932,061
President and Chief Executive Officer	2006	600,000			1,185,249	684,000		248,935	2,718,814
Raymond J. Land (6) *Senior Vice President and Chief Financial Officer*	2007	182,292	109,375		292,344			32,367	616,378
James A. Datin	2007	390,000			435,321	273,000	267	47,441	1,146,029
Executive Vice President and Managing Director, Life Sciences	2006	375,000			713,813	382,500		44,989	1,516,302
John A. Loftus	2007	390,000		33,330	448,866	273,000	3,667	42,919	1,191,782
Executive Vice President and Managing Director, Technology	2006	275,000	275,000	1,461	745,102	308,000	7,684	43,279	1,655,526
Brian J. Sisko (6) *Senior Vice President and General Counsel*	2007	126,410	91,096		148,345			6,238	372,089
Steven J. Feder (7)	2007	231,461			260,453		272	700,552	1,192,738

Former Senior Vice President and General Counsel	2006	325,000	25,000		300,142	185,500		45,783	881,425
Stephen Zarrilli (8)	2007	327,500			44,563				372,063
Former Acting Senior Vice President, Acting Chief Administrative Officer and Acting Chief Financial Officer	2006	15,000			25,577				40,577

(1) For 2007, the amounts reported for Messrs. Land and Sisko represent amounts paid to each of Messrs. Land and Sisko upon their respective hires in lieu of payments under Safeguard s 2007 management incentive plan (100% of such payments, net of taxes, was required to be used by each of them to purchase Safeguard common stock in orderly open market purchases in accordance with our insider trading procedures). Amounts earned by Messrs. Boni, Datin and Loftus under our 2007 Management Incentive Plan are reported under Non-Equity Incentive Plan

Compensation.

(2) These amounts do not represent compensation actually received. Rather, these amounts represent the aggregate expense we recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007 for restricted stock awards and stock options granted during and prior to 2007, in accordance with FAS 123(R). In accordance with SEC rules, the amounts shown exclude the effect of estimated forfeitures related to service-based vesting conditions other than forfeitures that actually occurred during 2007. In August 2007, Mr. Feder forfeited 359,410 stock options that were subject to market-based vesting upon his termination of employment. The fair value of each stock option is estimated on the date of grant using the Black-Scholes

option-pricing
model with the
following
weighted-average
assumptions for
the years
indicated:

Table of Contents

	2007	2006	2005	2004	2003
Service-Based Awards:					
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	61%	69%	84%	86%	95%
Average expected option life	5 years	5 years	5 years	5 years	5 years
Risk-free interest rate	4.5%	4.7%	4.4%	3.6%	3.0%
Market-Based Awards:					
Dividend yield	0%	0%	0%	N/A	N/A
Expected volatility	55%	62%	67%	N/A	N/A
Average expected option life	5 - 7 years	5 - 7 years	5 - 7 years	N/A	N/A
Risk-free interest rate	5.0%	4.8%	4.3%	N/A	N/A

For information regarding the grant date fair value of awards granted in 2007, see the Grants of Plan-Based Awards-2007 below.

(3) For 2007, the amounts reported in this column represent payments made in April 2008 for awards earned under our 2007 Management Incentive Plan, which is described in detail under Compensation Discussion and Analysis 2007 Compensation Program.

(4) For 2007, the amounts reported in this column represent the earnings on account balances under our nonqualified deferred compensation plan; these amounts also are reported below under Nonqualified Deferred Compensation 2007.

(5) For 2007, All Other Compensation included the following amounts:

Name	Perquisites and Personal Benefits	Nonqualified Deferred Compensation Plan	Life Insurance Premiums	Group Life Insurance Imputed Income	Severance Benefits
Peter J. Boni	$65,101	$ 16,875	$30,509	$3,564	
Raymond J. Land	6,956	16,875	7,265	1,271	
James A. Datin	23,000	16,875	6,930	636	
John A. Loftus	19,383	16,875	6,032	629	
Brian J. Sisko	4,187		1,855	196	
Steven J. Feder	19,327	16,529	4,465	231	$660,000

The perquisites and personal benefits include a $10,000 car allowance (prorated for individuals employed for less than the full year), an $8,000 non-accountable annual expense allowance (for Messrs. Boni, Datin, Loftus and Feder), and reimbursement of up to $5,000 for medical, vision or dental expenses not covered under our other benefit plans. The amount reported for Mr. Boni also includes $25,425 for reimbursement of relocation expenses and $16,676 for reimbursement of tax obligations to respect to such relocation reimbursement. Our executive officers also have occasional personal use of tickets to various sporting events at no incremental cost to us and are eligible to receive matching charitable contributions under our program, which is available to all employees, subject to a maximum of $1,000 in matching contributions for each individual for each calendar year.

The severance benefits reported for Mr. Feder represent the following lump sum payments that he received under his agreements with us dated November 17, 2004 and August 16, 2007: $510,000, representing one and one-half times his salary; $135,000, representing an amount equal to his prorated 2007 MIP payout as of September 30, 2007; and $15,000 for outplacement fees. For further information, see Compensation Discussion and Analysis Severance and Change-in-Control Arrangements.

(6) Messrs. Land and Sisko joined Safeguard in June 2007 and August 2007, respectively.

(7) Mr. Feder resigned in August 2007.

Table of Contents

(8) Mr. Zarrilli served as our Acting Senior Vice President, Acting Chief Administrative Officer and Acting Chief Financial Officer from December 2006 until mid-June 2007 and for a 30-day transition period following Mr. Land s commencement of employment. Mr. Zarrilli was not covered under our health, welfare and other employee benefit plans (with the exception of the stock option granted to him in December 2006 under his consulting agreement with us) and was not entitled to any compensation upon his termination of service other than amounts earned during his term of service under the terms of his consulting agreement with us.

Each of our named executive officers has an employment agreement with us that sets his initial base salary and initial annual cash incentive target award. The initial base salary and initial annual cash incentive target award for each named executive officer were as follows: Mr. Boni ($600,000 salary; $600,000 target award); Mr. Land ($325,000 salary; $195,000 target award); Mr. Datin ($375,000 salary; $375,000 target award); Mr. Loftus ($250,000 salary; $150,000 target award); and Mr. Sisko ($340,000 salary; $250,000 target award). Base salaries and annual cash incentive target awards, which are reviewed by the Compensation Committee each year, currently exceed these contractual amounts for Messrs. Boni, Datin and Loftus. The primary focus of these agreements is to provide our executive officers with severance benefits in the event of a termination of employment involuntarily, for good reason or upon a change in control, as described below under Potential Payments upon Termination or Change in Control.

The components of compensation reported in the Summary Compensation Table, including an explanation of the amount of salary and cash incentive compensation in proportion to total compensation, are described in detail under Compensation Discussion and Analysis.

Table of Contents

Grants of Plan-Based Awards 2007

The following table shows non-equity incentive plan awards and option awards granted during 2007 to our named executive officers. There were no stock awards granted to our named executive officers during 2007.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards ($/Sh)	Market Price on Grant Date ($/Sh)(3)	Grant Date Fair Value of Stock and Option Awards ($)(4)
Peter J. Boni	4/24/07		650,000	975,000					
Raymond J. Land	6/11/07		109,375						
	6/11/07					375,000	$2.620	$2.640	560,513
	6/11/07					1,125,000	$2.620	$2.640	1,651,462
James A. Datin	4/24/07		390,000	585,000					
John A. Loftus	4/24/07		390,000	585,000					
Brian J. Sisko	8/20/07		91,096						
	8/20/07					250,000	$2.106	$2.090	284,175
	8/20/07					750,000	$2.106	$2.090	921,359
Steven J. Feder	4/24/07		250,000	375,000					
Stephen Zarrilli									

(1) These awards were made under the 2007 Management Incentive Plan (or, in the case of Messrs. Land

and Sisko, payments made upon hire in lieu of participation in the 2007 Management Incentive Plan). There were no mandatory minimum awards payable under the 2007 Management Incentive Plan and the maximum awards payable were 150% of the target amounts. The amounts in the table represent payouts that might have been achieved based on performance at target or maximum performance levels. The amounts actually paid under this plan for 2007 to Messrs. Boni, Datin and Loftus have been reported in the Summary Compensation Table under Non-Equity Incentive Plan Compensation. The amount actually paid under this plan for 2007 to Mr. Feder is included in the severance

benefits paid to him, which are reported in the Summary Compensation Table under All Other Compensation. For further information, see Compensation Discussion and Analysis 2007 Compensation Program.

(2) The 375,000 options awarded to Mr. Land and the 250,000 options awarded to Mr. Sisko vest as to 25% of the underlying shares on the first anniversary date of the grant date and as to the remaining 75% of the underlying shares in 36 equal monthly installments thereafter. The 1,125,000 options awarded to Mr. Land and the 750,000 options granted to Mr. Sisko are subject to market-based vesting and vest upon the achievement of the following per share stock price levels (based on the

average closing price of a share of our common stock as reported on the New York Stock Exchange consolidated tape for 20 consecutive trading days):

Percentage of Shares Underlying Options That Vest	Per Share Stock Price
First 20%	$ 3.1548
Next 30%	$ 4.6466
Next 40%	$ 6.5114
Final 10%	$ 7.2246

In addition to vesting upon the achievement of a specified per share stock price level, the shares underlying the options may vest on a pro rata basis on each six-month anniversary of the grant date if the per share stock price is between the designated levels (based on the highest average closing price of a share of our common stock as reported on the New York Stock Exchange consolidated tape for 20 consecutive trading days

during each six-month period).

The options have an eight-year term. The options subject to time-based vesting will vest fully upon an individual s death, permanent disability, retirement on or after his 65th birthday, or termination of employment without cause or for good reason (as defined in each individual s employment agreement with us). All options subject to time-based vesting and market-based vesting will vest fully upon an individual s termination of employment without cause or for good reason within 18 months following a change in control.

(3) The market price reported in this column is the closing price of Safeguard common stock as reported on the New York Stock Exchange consolidated tape on the grant date. Under the terms of Safeguard s equity compensation plans, the exercise price of an option is determined based upon the average of the high and low trading prices of Safeguard s common stock as reported on the New York Stock Exchange consolidated tape on the grant date.

(4) The amounts in this column represent the grant date fair value of the awards computed in accordance with FAS 123(R). For a discussion of the valuation assumptions, see footnote 2 to the Summary Compensation Table.

77

Table of Contents

Outstanding Equity Awards at Fiscal Year-End 2007

The following table shows the equity awards we have made to our named executive officers that were outstanding at December 31, 2007.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#)(1) Exercisable	Number of Securities Underlying Unexercised Options (#)(1)(2) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)(2)(3)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)(4)	Market Value of Shares or Units of Stock That Have Not Vested ($)(5)
Peter J. Boni	583,333	416,667		1.2750	08/16/13		
	861,245(3)		2,138,755	1.2750	08/16/13		
Raymond J. Land	375,000			2.6200	06/11/15		
	12,893		1,112,107	2.6200	06/11/15		
James A. Datin	281,250	218,750		1.5600	09/07/13		
	430,622(3)		1,069,378	1.5600	09/07/13		
John A. Loftus	115,000			2.1700	05/13/10	28,551	51,392
	25,000			1.6850	12/18/10		
	100,000			3.5600	12/19/11		
	168,750	56,250		2.1250	12/15/12		
	427,122(3)		1,069,378	1.5550	09/13/13		
Brian J. Sisko	250,000			2.1060	08/20/15		
			750,000	2.1060	08/20/15		
Steven J. Feder (6)	300,000			1.7800	08/19/10		
	200,000			1.3800	08/19/10		
	140,590(3)			1.3800	08/19/08		
Stephen Zarrilli	150,000(7)			2.3350	06/11/10		

(1)

Unless otherwise identified by footnote, options subject to time-based vesting vest as to 25% of the underlying shares on the first anniversary date of the grant date and in 36 equal installments on the same date of each month thereafter. The vesting dates for each option are listed in the table below by expiration date:

Expiration Date	Initial Vest Date	Subsequent Monthly Vest Dates
05/13/10	05/13/03	06/13/03 through 05/13/06
12/18/10	12/18/03	01/18/04 through 12/18/06
12/19/11	12/19/04	01/19/05 through 12/19/07
12/15/12	12/15/05	01/15/06 through 12/15/08
08/16/13	08/16/06	09/16/06 through 08/16/09
09/07/13	09/07/06	10/07/06 through 09/07/09
09/13/13	09/13/06	10/13/06 through 09/13/09
06/11/15	06/11/08	07/11/08 through 06/11/11
08/20/15	08/20/08	09/20/08 through 08/20/11

(2) Vesting of equity awards may be accelerated upon death, permanent disability, retirement on or after 65th birthday, termination of employment for good reason or without cause, or termination

of employment in connection with a change in control, and, in the case of Mr. Boni s equity awards, upon the occurrence of a change in control. Further information regarding the equity awards that are subject to acceleration of vesting in each circumstance can be found below under Potential Payments upon Termination or Change in Control.

Table of Contents

(3) These options are market-based vesting options and vest only upon the achievement of improvement in Safeguard s stock price. Achievement is measured based on the average daily closing price of Safeguard common stock as reported on the New York Stock Exchange composite tape for 20 consecutive trading days. The following table shows the per share stock prices at which portions of the shares underlying the market-based vesting options held by Messrs. Boni, Datin and Loftus vest:

Percentage of Shares Underlying Options that Vest	Per Share Stock Price
First 10%	$ 2.0359
Additional 20%	3.1548
Additional 30%	4.6466
Remaining 40%	6.5114

The following table shows the per share stock prices at which portions of the shares underlying the market-based vesting options held by Messrs. Land and Sisko vest:

Percentage of Shares Underlying Options that Vest	Per Share Stock Price
First 20%	$ 3.1548
Next 30%	4.6466
Next 40%	6.5114
Final 10%	7.2246

In addition to vesting upon the achievement of a specified per share stock price, the shares underlying the options may vest on a pro rata basis on each six-month anniversary of the grant date if the per share stock price is between the designated stock prices (based on the highest average closing price of a share of our common stock as reported on the New York Stock Exchange consolidated tape for 20 consecutive trading days during each six-month period).

(4) Mr. Loftus stock award vests as to 50% of the shares on each of December 15, 2008 and December 15, 2009.

(5) Under SEC rules, the value is calculated based on the year-end closing stock price of $1.80 per share, as reported on the New York Stock Exchange consolidated tape, multiplied by the number of shares that have not vested.

(6) Under the terms of Mr. Feder s agreements with Safeguard, upon his separation from our employment in August 2007:

He forfeited options to purchase 359,410 shares that were subject to market-based vesting; and

We accelerated the vesting of options to purchase 206,250 shares that were subject to time-based vesting.

(7) Mr. Zarrilli s option vested as to 30,000 underlying shares on March 27, 2007; 15,000 underlying shares on the first day of each of April 1, May 1, June 1 and July 1, 2007; and 75,000 underlying shares on July 11, 2007.

Table of Contents

Option Exercises and Stock Vested 2007

The following table shows stock options exercised by the named executive officers during 2007 and restricted stock awards that vested during 2007.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Option Awards Value Realized on Exercise ($)(1)	Stock Awards Number of Shares Acquired on Vesting (#)	Stock Awards Value Realized on Vesting ($)(2)
Peter J. Boni				
Raymond J. Land				
James A. Datin				
John A. Loftus	3,500	4,358	14,276	25,411
Brian J. Sisko				
Steven J. Feder				
Stephen Zarrilli				

(1) The value realized on exercise is determined by multiplying the number of shares acquired on exercise by the difference between the average of the high and low trading prices of Safeguard common stock, as reported on the New York Stock Exchange consolidated tape, on the exercise date and the exercise price.

(2) The value realized on vesting is determined by

multiplying the number of shares vested by the average of the high and low trading prices of Safeguard s common stock, as reported on the New York Stock Exchange consolidated tape, on each vesting date.

Nonqualified Deferred Compensation 2007

In 2003, Safeguard adopted the Executive Deferred Compensation Plan, which is a nonqualified, unfunded plan that provides for a designated group of employees to obtain credits in the form of Safeguard contributions that are allocated to accounts for the benefit of each participant. Participants may not defer compensation under the plan. Contributions by Safeguard are discretionary and may vary from year to year. For 2007, we credited each eligible participant s account with an amount equal to 4% of up to $225,000 of the participant s 2007 salary and bonus (which amount was fully vested) and 3.5% of up to $225,000 of the participant s 2007 base salary (which amount vests 20% for each year of service in which the participant has attained 1,000 hours of service).

Lump sum distributions of the vested balance in a named executive officer s account are made following termination of employment as follows:

- Amounts that were earned and vested at December 31, 2005, are distributed within 30 business days following termination; and
- The remaining amount is distributed six months following termination.

A committee appointed by Safeguard s Board selects the funds or indices that are used for purposes of calculating the earnings that are credited to each participant s account based on a notional investment in the selected funds or indices. Since the plan s inception, we have calculated earnings based on the performance of the notional investment in the Principal Investors Fund, Inc. Large-Cap S&P 500 Index Fund (PLFPX), which is one of the investment choices available to participants in Safeguard s 401(k) plan. The committee, in its discretion, may replace this fund and add new funds.

The following table shows contributions and earnings for 2007 and account balances at December 31, 2007 for the named executive officers. There were no withdrawals or distributions by the named executive officers during 2007.

Table of Contents

Name	Registrant Contributions in Last Fiscal Year ($)(1)	Aggregate Earnings in Last Fiscal Year ($)(1)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)(2)(3)
Peter J. Boni	16,875	267		33,642
Raymond J. Land				
James A. Datin	16,875	267		33,642
John A. Loftus	16,875	3,667		93,868
Brian J. Sisko				
Steven J. Feder	16,529	272		33,301
Stephen Zarrilli				

(1) Contributions are included in the Summary Compensation Table under All Other Compensation. Earnings in the last fiscal year are included in the Summary Compensation Table under Change in Pension Value and Nonqualified Deferred Compensation Earnings.

(2) The balance in each named executive officer s account consists of contributions credited by us and notional accrued gains or losses. In prior years, the amounts

credited by us under this plan for the benefit of executive officers were reported in our proxy statement as compensation in the Summary Compensation Table.

(3) At December 31, 2007, Mr. Loftus was fully vested, and Messrs. Boni, Datin and Feder had vested account balances of $24,157, $24,157 and $27,116, respectively. Mr. Feder s vested account balance was distributed to him in 2008.

Potential Payments upon Termination or Change in Control

Messrs. Boni, Land, Datin, Loftus and Sisko each have agreements with us which provide certain benefits upon termination of employment without cause or for good reason, either involuntarily or in connection with a change in control. Under these agreements, the following definitions apply:

Cause	à	Violation of any of our written policies; appropriation of a material business opportunity of our company; misappropriation of company assets; conviction of a felony or any other crime with respect to which imprisonment is a possible punishment; or breach of any material term of the executive s employment agreement or any other agreement with, or duty owed to, us or any of our partner companies.
Good Reason	à	A material diminution, without the executive s consent, in the nature or status of the executive s position, title, reporting relationship, duties, responsibilities or authority; a reduction of the executive s base salary or target bonus opportunity; a material breach by us of the executive s agreement; the relocation of our principal office by more than 30 miles; or an executive s assignment, without his consent, to be based anywhere other than our principal office.
Change in Control	à	A change in control generally occurs when:

A person becomes the beneficial owner of securities having 50% or more of the combined voting power of our securities;

Less than a majority of our Board consists of continuing directors (which means a director who either is a member of the Board as of the effective date of the change in control or is nominated or appointed to serve as a director by a majority of the then continuing directors);

We are subject to a merger or other business combination transaction as a result of which holders of a majority of our equity securities do not own a majority of the equity securities of the surviving company;

We sell all or substantially all of our assets or are liquidated.

Table of Contents

Mr. Zarrilli was not covered under our health, welfare and other employee benefit plans and received no compensation upon his termination of service other than amounts earned during his term of service under the terms of his consulting agreement with us.

Payments Made upon Involuntary Termination of Employment without Cause or for Good Reason

Messrs. Boni, Land, Datin, Loftus and Sisko will receive the following benefits upon involuntary termination of employment without cause or for good reason:

Messrs. Boni and Datin:

- A lump sum payment equal to 12 months of the executive s then current base salary and the greater of the executive s target bonus (not less than 100% of current base salary) for the year of termination or the average of the executive s actual bonuses for the last three completed fiscal years;
- All vested stock options will remain exercisable for 12 months; and
- 12 months continued coverage under our medical, health and life insurance plans.

Messrs. Land, Loftus and Sisko:

- A lump sum payment equal to the executive s prorated bonus for the year of termination and 1.5 times the executive s then current base salary;
- All time-vested stock options will fully vest and remain exercisable for 36 months and vested market-based stock options will remain exercisable for 12 months;
- 12 months continued coverage under our medical, health and life insurance plans; and
- Up to $20,000 for outplacement services or office space.

Payments Made upon a Change in Control or Involuntary Termination of Employment without Cause or for Good Reason in Connection with a Change in Control

Upon a change in control, the stock options held by Mr. Boni that have not otherwise vested will become fully vested. Our named executive officers will not be entitled to any other payments or benefits (except those that are provided on a non-discriminatory basis to our employees generally upon termination of employment) unless the change in control is coupled with a loss of employment or a substantial change in job duties as described below.

Upon involuntary termination of employment without cause or for good reason within six months before or 12 months following a change in control (for Messrs. Boni and Datin) or within 18 months following a change in control (for Messrs. Land, Loftus and Sisko), Messrs. Boni, Land, Datin, Loftus and Sisko will receive the following benefits:

Messrs. Boni and Datin:

- A lump sum payment equal to a multiple of the executive s then current base salary and a multiple of the greater of the executive s target bonus (not less than 100% of current base salary) for the year of termination or the average of the executive s actual bonuses for the last three completed fiscal years (the multiple is three times for Mr. Boni and two times for Mr. Datin);
- All stock options that have not otherwise vested will fully vest and will remain exercisable for three years for Mr. Boni and two years for Mr. Datin; and
- Continued coverage under our medical, health and life insurance plans for three years for Mr. Boni and two years for Mr. Datin.

Messrs. Land, Loftus and Sisko:

- A lump sum payment equal to the executive s prorated bonus for the year of termination and 1.5 times the executive s then current base salary;
- All time-vested stock options will fully vest and remain exercisable for 36 months, all market-based stock options that have not otherwise vested will vest and remain exercisable for 24 months and restricted stock

awards held by Mr. Loftus will fully vest;

- 12 months continued coverage under our medical, health and life insurance plans; and
- Up to $20,000 for outplacement services or office space.

Other Payments Made upon Termination of Employment

Regardless of the manner in which a named executive officer s employment terminates, he also generally will receive payments and benefits that are provided on a non-discriminatory basis to our employees upon termination of employment, including the following:

- Amounts earned during his term of employment;
- Accrued unused vacation pay;
- Amounts contributed by us for the year of termination under our 401(k) plan or nonqualified deferred compensation plan (if he has completed the required hours of service, if any, and is an employee on the date as of which we make a contribution);
- Distribution of accrued and vested plan balances under our 401(k) plan and nonqualified deferred compensation plan;
- Reimbursement of eligible dental expenses for services incurred prior to termination;
- Upon his death, disability or retirement on or after his 65th birthday, accelerated vesting of stock options subject to time-based vesting and restricted stock awards that have not otherwise vested and extension of the post-termination exercise period for all stock options from 90 days to 12 months; and
- Upon his death or disability, payment of benefits under our other broad-based employee benefit programs, including short-term and long-term disability plans, life insurance program, accidental death and dismemberment plan and business travel insurance plan, as applicable.

The following table shows the potential incremental payments and benefits which the named executive officers would be entitled to receive upon termination of employment in each situation listed in the table below under their respective agreements and our broad-based employee benefit programs. The amounts shown do not include certain payments and benefits available generally to salaried employees upon termination of employment, such as distributions from our 401(k) and deferred compensation plans. The amounts shown in the table are based on an assumed termination as of December 31, 2007 and represent estimates of the maximum incremental amounts and benefits that would be paid to each executive upon his termination which we have calculated: (i) by multiplying the 2007 annualized base salary for each named executive officer by the multiplier in each scenario that is specified in each such executive s agreement with us; (ii) for Messrs. Boni and Datin, by multiplying their respective 2007 target incentive awards by the multiplier in each scenario that is specified in their respective agreements with us; (iii) for Messrs. Land, Loftus and Sisko, by assuming they would be entitled to their respective full-year 2007 annualized target incentive award; and (iv) by using our 2008 premium costs for calculating the value of the health and welfare benefits. With the exception of Mr. Feder, whose employment was terminated in August 2007, the actual amounts to be paid would depend on the time and circumstances of an executive s separation from Safeguard. For Mr. Feder, the amounts included in the Summary Compensation Table under All Other Compensation and the amounts shown in the table below reflect the actual severance benefits that he received or will receive (with the exception of the medical and welfare benefits which are estimated based on our current premium costs).

Current	Salary and Bonus ($)	Accrued Vacation Pay ($)	Life Insurance Proceeds or Disability Income ($)	Health and Welfare Benefits ($)	Acceleration of Equity Awards ($)(1)	Total Termination Benefits ($)
Peter J. Boni						
· Normal Retirement (65+)		8,125			218,750	226,875
· Permanent disability		8,125	1,029,800		218,750	1,256,675
· Death		8,125	1,500,000		218,750	1,726,875
· Involuntary termination without cause or for good reason	1,300,000	8,125		51,830		1,359,955
· Change in control					1,341,597	1,341,597
· Change-in-control termination, involuntarily or for good reason	3,900,000	8,125		155,491	1,341,597	5,405,213
Raymond J. Land						
· Normal Retirement (65+)		230				230
· Permanent disability		230	476,667			476,897
· Death		230	1,075,000			1,075,230
· Involuntary termination without cause or for good reason	682,500	230		59,554		742,284
· Change-in-control termination, involuntarily or for good reason	682,500	230		59,554		742,284
James A. Datin						
· Normal Retirement (65+)		4,875			52,500	57,375
· Permanent disability		4,875	4,727,450		52,500	4,784,825
· Death		4.875	1,140,000		52,500	1,197,375
· Involuntary termination without cause or for good reason	780,000	4,875		29,341		814,216
· Change-in-control termination, involuntarily or for good reason	1,560,000	4,875		58,683	309,151	1,932,709

John A. Loftus						
· Normal Retirement (65+)					51,392	51,392
· Permanent disability			4,452,500		51,392	4,503,892
· Death			1,140,000		51,392	1,191,392
· Involuntary termination without cause or for good reason	975,000			48,443	51,392	1,074,835
· Change-in-control termination, involuntarily or for good reason	975,000			48,443	313,389	1,336,832
Brian J. Sisko						
· Normal Retirement (65+)		4,250				4,250
· Permanent disability		4,250	3,698,067			3,702,317
· Death		4,250	1,090,000			1,094,250
· Involuntary termination without cause or for good reason	760,000	4,250		48,223		812,473
· Change-in-control termination, involuntarily or for good reason	760,000	4,250		48,223		812,473
Former						
Steve J. Feder						
· Termination for good reason	645,000	16,346		43,199	215,065	919,610

(1) With the exception of Mr. Feder, for whom he have shown the actual expense relating to the acceleration of his equity awards upon his termination of employment in August 2007, the values in this column were calculated based on (i) the number of shares underlying stock

options for which vesting would have been accelerated as of December 31, 2007 in each scenario, multiplied by the difference between our year-end closing stock price of $1.80 per share, as reported on the New York Stock Exchange consolidated tape, and the exercise price of stock options for which vesting would have been accelerated, plus (ii) the number of restricted stock awards for which vesting would have been accelerated as of December 31, 2007 in each scenario, multiplied by our year-end closing stock price of $1.80 per share.

Table of Contents

DIRECTOR COMPENSATION

During 2007, each of our non-employee directors was compensated for his or her service as a director as shown in the table below:

Compensation Item	Amount
Annual Board Retainers:	
Chairman of the Board	$50,000
Other Directors	35,000
Additional Annual Chairperson Retainers:	
Audit Committee	15,000
Compensation Committee	7,500
Nominating & Corporate Governance Committee	5,000
Meeting Attendance Fees:	
Board	2,000
Committee	1,500

We also reimburse our directors for expenses they incur to attend our Board and Committee meetings and to attend a director s continuing education program during each calendar year.

Each director who is not an employee of Safeguard receives an initial option grant to purchase 50,000 shares of Safeguard common stock upon initial election to the Board. Since 2005, each non-employee director also has received an annual service option grant to purchase 25,000 shares. Historically, recurring grants to directors generally have been made in December of each year. Beginning in 2007, the Compensation Committee determined that, as a matter of best practice, the annual service option grants to directors would be awarded on the date of Safeguard s annual meeting of shareholders. Directors options have an eight-year term. Initial option grants vest as to 25% of the underlying shares on each of the first four anniversaries of the grant date. Annual service option grants fully vest on the first anniversary of the grant date. The exercise price is equal to the fair market value of a share of our common stock on the grant date. On May 24, 2007, each non-employee director received an annual service option grant to purchase 25,000 shares at an exercise price of $2.64 per share. Upon his appointment to the Board, on July 25, 2007, Dr. Rosenthal received an initial option grant to purchase 50,000 shares at an exercise price of $2.44 per share. For the Board service year beginning with our 2008 annual meeting of shareholders, in addition to our non-employee directors annual service option grant, each non-employee director also will receive 12,500 deferred stock units annually. The deferred stock unit grants will fully vest on the first anniversary of the grant date. The deferred stock units are payable, on a one-for-one basis, in shares of Safeguard common stock following an individual s termination of service on the Safeguard Board.

Safeguard maintains a Group Deferred Stock Unit Program for Directors (Directors DSU Program) which allows each director, at his or her election, to receive deferred stock units in lieu of retainer and meeting fees paid to directors (Directors Fees). The deferral election applies to Directors Fees to be received for the calendar year following the year in which the election is made and remains in effect for each subsequent year unless the director elects otherwise by the end of the calendar year prior to the year in which the services are rendered. The number of deferred stock units awarded is determined by dividing the Directors Fees by the fair market value of Safeguard s stock on the date on which the director would have otherwise received the Directors Fees. Each director also receives a number of matching share units, based on the same fair market value calculation, equal to 25% of the Directors Fees deferred. A director is always fully vested in Directors Fees deferred; the matching share units vest fully on the first anniversary of the date the matching share units are credited to the director s account. Each deferred stock unit entitles the director to receive one share of Safeguard common stock on or about the first anniversary of the date upon which the director leaves the Safeguard Board. A director also may elect to receive the stock in annual installments over a period of up to five years after leaving the Board.

Table of Contents

The following table provides information on compensation earned during 2007 by each non-employee director who served on our Board at any time during 2007:

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)(3)(5)	Option Awards ($)(3)(4)(5)	All Other Compensation ($)(6)	Total ($)(7)
Michael J. Cody	64,000		72,054	1,250	137,304
Julie A. Dobson	77,500	1,663	57,198		136,361
Robert E. Keith, Jr.	73,000	16,999	37,653		127,652
Andrew E. Lietz	66,000		42,853		108,853
George MacKenzie	80,500		57,198		137,698
George D. McClelland	74,500	5,730	70,632	1,250	152,112
Jack L. Messman	65,000		37,653	1,250	103,903
John W. Poduska, Sr.	65,500		37,653	1,250	104,403
John J. Roberts	72,500	51	57,198		129,749
Robert J. Rosenthal (8)	28,717		7,152		35,869

(1) Ms. Dobson deferred payment of 25%, and Messrs. Keith and McClelland each deferred payment of 100%, of Directors Fees they earned for services provided during 2007. Ms. Dobson, Mr. Keith and Mr. McClelland each received deferred stock units in lieu of Directors Fees that they deferred and matching deferred stock units equal to 25% of the Directors Fees that they deferred.

Directors who defer fees and receive deferred stock units are essentially investing in common stock equivalents that are initially valued based on the current market value of our common stock on the date of issuance. As a result, the value of their deferred stock units fluctuates with the market value of our common stock.

(2) These amounts do not represent compensation actually received. Rather, these amounts represent the aggregate expense we recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007 for matching deferred stock units awarded during and prior to 2007, in accordance with Statement of Financial Accounting Standards

No. 123 (revised), which we refer to as FAS 123(R). In accordance with SEC rules, the amounts shown exclude the effect of estimated forfeitures related to service-based vesting conditions. The fair value of the matching deferred stock units is determined by multiplying the number of shares underlying the matching deferred stock units by the average of the high and low trading prices of Safeguard s common stock, as reported on the New York Stock Exchange consolidated tape, on the grant date. The grant date fair values of the matching deferred stock units issued to Ms. Dobson and Messrs. Keith and McClelland during 2007 were $3,522, $16,999 and $12,687, respectively. A

portion of the matching deferred stock units issued to Mr. Keith during 2007 related to fees deferred by him that were earned during the fourth quarter of 2006. These were the only matching deferred stock units issued to directors during 2007. For a discussion of valuation assumptions, see footnote 2 to the Summary Compensation Table under the heading Executive Compensation.

(3) The directors aggregate holdings of deferred stock units and stock options to purchase shares of our common stock (both vested and unvested), as of December 31, 2007, were as follows:

Name	Deferred Stock Units	Stock Options
Michael J. Cody		100,000
Julie A. Dobson	6,554	122,500
Robert E. Keith, Jr.	154,462	229,500
Andrew E. Lietz		155,000
George MacKenzie		144,500

George D. McClelland	23,806	100,000
Jack L. Messman	20,654	154,500
John W. Poduska, Sr.		154,500
John J. Roberts	26,779	155,000
Robert J. Rosenthal (8)		50,000

(4) These amounts do not represent compensation actually received. Rather, these amounts represent the aggregate expense we recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007 for stock options awarded during and prior to 2007, in accordance with FAS 123(R). In accordance with SEC rules, the amounts shown exclude the effect of estimated forfeitures related to service-based vesting conditions.

The fair value of the stock options is estimated at the date of grant using the Black-Scholes option-pricing model. The grant date fair values of the stock options issued during 2007 were as follows: Dr. Rosenthal $68,850; and each of Ms. Dobson and Messrs. Cody, Keith, Lietz, MacKenzie, McClelland, Messman, Poduska and Roberts $37,653. For a discussion of valuation assumptions, see footnote 2 to the Summary Compensation Table under the heading Executive Compensation.

(5) Our equity compensation plans provide for the accelerated vesting of deferred stock units and stock options granted to non-employee

directors upon retirement from the Board on or after their 65th birthday. Messrs. Keith, Lietz, Messman and Poduska are currently eligible for accelerated vesting if they retire. In accordance with FAS 123(R), the amounts shown for these four directors include the entire expense for all grants awarded to them during 2007.

(6) The amounts in this column represent reimbursement of expenses incurred by these directors for attendance at a director s continuing education program.

(7) Directors also are eligible for reimbursement of expenses incurred in connection with attendance at Board and Committee meetings. These amounts are not included in the table above.

(8) Dr. Rosenthal joined our Board in July 2007.

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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

Our Board is authorized to administer our equity compensation plans, adopt, amend and repeal the administrative rules relating to the plans, and interpret the provisions of the plans. Our Board has delegated to the Compensation Committee of the Board (the Compensation Committee) authority to administer our equity compensation plans. Our Compensation Committee has the authority to select the recipients of grants under our equity compensation plans and determine the terms and conditions of the grants, including but not limited to (i) the number of shares of common stock covered by such grants; (ii) the type of grant; (iii) the dates upon which such grants vest (which for time-based vesting options is typically 25% on the first anniversary of the grant date and in 36 equal monthly installments thereafter) and for market-based vesting options is based upon the achievement of improvement in Safeguard s market capitalization above the base market capitalization established at the time of grant); (iv) the exercise price of options (which is equal to the average of the high and low prices of a share of our common stock as reported on the New York Stock Exchange consolidated tape on the grant date) or the consideration to be paid in connection with restricted stock, stock units or other stock-based grants (which may be no consideration); and (iv) the term of the grant. Deferred stock units issued to directors are payable, on a one-for-one basis, in shares of Safeguard common stock following a director s termination of service on the Board.

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

A total of 5,400,000 shares of our common stock are authorized for issuance under the 2001 Plan. At December 31, 2007, 3,715,001 shares were subject to outstanding options, 18,936 shares were available for future issuance, and 1,666,063 shares had been issued under the 2001 Plan. If any option granted under the 2001 Plan expires or is terminated, surrendered, canceled or forfeited, or if any shares of restricted stock, performance units or other stock-based grants are forfeited, the unused shares of common stock covered by such grants will again be available for grant under the 2001 Plan.

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

During 2005, the Compensation Committee granted employee inducement awards to two newly-hired executive officers. The awards were granted outside of Safeguard s existing equity compensation plans in accordance with NYSE rules and consisted of options to purchase up to an aggregate of 6,000,000 shares of Safeguard common stock. During 2007, the Compensation Committee granted similar employee inducement awards to two other newly-hired executive officers. These awards were likewise granted outside of Safeguard s existing equity compensation plans in accordance with NYSE rules and consisted of options to purchase up to an aggregate of 2,500,000 shares of Safeguard common stock. All of these employee inducement awards have an eight-year term and a per share exercise price equal to the average of the high and low prices of Safeguard common stock on the respective executive s employment commencement date. Of the shares underlying the employee inducement awards, 2,125,000 shares are subject to time-based vesting, with an aggregate of 531,250 shares vesting on the first anniversary of the grant date and 1,593,750 shares vesting in 36 equal monthly installments thereafter. The remaining 6,375,000 shares underlying the employee inducement awards vest incrementally based upon the achievement of certain specified levels of increase in Safeguard s market capitalization. With the exception of the market-based vesting provisions, the terms and provisions of the employee inducement awards are substantially the same as options previously awarded to other executives under Safeguard s equity compensation plans.

The following table provides information as of December 31, 2007 about the securities authorized for issuance under our equity compensation plans.

Table of Contents

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights[1] (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders[2]	10,350,097	$ 2.2223	2,570,090
Equity compensation plans not approved by security holders[3]	12,215,001	$ 1.8967	18,936
Total	22,565,098	$ 2.0366	2,589,026

(1) The weighted average exercise price calculation excludes 1,145,902 shares underlying outstanding deferred stock units included in column (a) which are payable in stock, on a one-for-one basis.

(2) Represents awards granted, and shares available for issuance, under the 1999 Equity Compensation Plan and the 2004 Equity

Compensation Plan. Includes 960,098 shares underlying deferred stock units awarded for no consideration and 185,804 shares underlying deferred stock units awarded to directors in lieu of all or a portion of directors fees. Payments in respect of deferred stock units are generally distributable following termination of employment or service, death, permanent disability or retirement. The value of the deferred stock units was approximately $3.2 million based on the fair value of the stock on the various grant dates. The deferred stock units generally vest over a period of four years, with the exception of deferred stock units issued to directors in lieu of compensation,

which are fully vested at grant, and matching deferred stock units awarded to directors, which vest on the first anniversary of the grant date.

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

89

STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND OFFICERS

The following table shows the number of shares of Safeguard common stock beneficially owned (unless otherwise indicated) as of April 25, 2008, by each person known to us to be the beneficial owner of more than 5% of our outstanding shares of common stock, our directors, persons named in the Summary Compensation Table in this Form 10-K/A, and our directors and executive officers as a group. For purposes of reporting total beneficial ownership, shares that may be acquired within 60 days of April 25, 2008 through the exercise of Safeguard stock options are included. On April 25, 2008, there were 121,564,111 shares of common stock outstanding and 4,595,708 shares underlying stock options held by executive officers and directors that were exercisable within 60 days of April 25, 2008.

Name	Outstanding Shares Beneficially Owned	Options Exercisable Within 60 Days	Shares Beneficially Owned Assuming Exercise of Options	Percent of Outstanding Shares (1)	Other Stock-Based Holdings (2)	
					Vested	Unvested
Dimensional Fund Advisors LP 1299 Ocean Avenue Santa Monica, CA 90401 (3)	7,842,467		7,842,467	6.5%		
Peter J. Boni	190,000	1,569,578	1,759,578	1.4%		
Michael J. Cody	7,500	62,500	70,000	*		
Julie A. Dobson	40,500	122,500	163,000	*	11,681	2,407
Robert E. Keith, Jr.	153,366	229,500	382,866	*	175,597	9,311
Andrew E. Lietz	45,000	155,000	200,000	*		
George MacKenzie	10,500	144,500	155,000	*		
George D. McClelland	10,000	62,500	72,500	*	52,026	11,299
Jack L. Messman	38,000	154.500	192,500	*	30,654	2,500
John W. Poduska, Sr.	12,500	154,500	167,000	*		
John J. Roberts		155,000	155,000	*	26,779	
Robert J. Rosenthal				*		
James A. Datin	60,072	774,372	834,444	*		
John A. Loftus	61,827	863,997	925,824	*		
Raymond J. Land	26,100	106,643	132,743	*		
Brian J. Sisko		40,618	40,618	*		
Steven J. Feder	16,959	640,590	657,549	*		
Stephen T. Zarrilli		150,000	150,000	*		
Executive officers and directors as a group (15 persons)(4)	655,365	4,595,708	5,251,073	4.1%	296,737	25,517

(1) Each director and named executive officer has the

sole power to vote and to dispose of the shares (other than shares held jointly with an individual s spouse) except 900 shares held by Mr. Keith s spouse, as to which Mr. Keith disclaims beneficial ownership, and 3,125 shares held by Mr. Feder s spouse. An * indicates ownership of less than 1% of the outstanding shares.

(2) The shares in this column represent deferred stock units that have been credited to each individual. The deferred stock units, which may not be voted or transferred, are payable, on a one-for-one basis, in shares of Safeguard common stock following an individual s termination of service on the Safeguard Board. See Corporate Governance and Board

Matters Board Compensation.

(3) As reflected in Schedule 13G filed with the Securities and Exchange Commission, Dimensional Fund Advisors LP (Dimensional) is a registered investment advisor which furnishes investment advice to four investment companies and serves as investment manager to certain other commingled group trusts and separate accounts (the Funds). In its role, Dimensional possesses investment and/or voting power over the securities held by the Funds and may be deemed to have beneficial ownership of such shares. Dimensional disclaims beneficial ownership of such shares.

(4) Excludes Messrs. Feder

and Zarrilli, who resigned in August 2007 and June 2007, respectively.

As of April 25, 2008, the executive officers and directors of Safeguard owned less than 1% of the shares of common stock outstanding of Clarient, Inc., a publicly traded partner company of Safeguard. The executive officers and directors of Safeguard did not own shares of any other Safeguard subsidiary.

Table of Contents

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

Review and Approval of Transactions with Related Persons. The Board has adopted a written policy which charges the Audit Committee with the responsibility of reviewing with management at each regularly scheduled meeting and determining whether to approve any transaction (other than a transaction that is available to all employees generally on a non-discriminatory basis) between us and our directors, director nominees and executive officers or their immediate family members. Between regularly scheduled meetings of the Audit Committee, management may preliminarily approve a related party transaction, subject to ratification of the transaction by the Audit Committee. If the Audit Committee does not ratify the transaction, management will make all reasonable efforts to cancel the transaction.

Relationships And Related Transactions With Management And Others

As part of our business, we participate in the management of private equity funds. Robert E. Keith, Jr., Chairman of our Board, is the President and Chief Executive Officer of TL Ventures, the management company for TL Ventures III, TL Ventures IV, and TL Ventures V, and the Chairman of the management companies for EnerTech Capital Partners and EnerTech Capital Partners II. In December 2005, Safeguard sold substantially all of its interests in TL Ventures and EnerTech Capital Partners funds for approximately $24 million in cash with the buyers also assuming approximately $9 million of Safeguard s remaining unfunded capital commitments to these funds. Safeguard retained certain limited rights and obligations related primarily to its former role as a general partner of some of the funds. Under certain circumstances, Safeguard 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). Assuming for these purposes only that the funds were liquidated or dissolved on December 31, 2007 and the only distributions from the funds were equal to the carrying value of the funds on the December 31, 2007 financial statements, the maximum clawback we would be required to return for our general partner interest is $5.8 million.

Director Independence

In accordance with the guidelines set forth above in Item 10 under the caption Board Independence, the Board has determined that Michael Cody, Julie Dobson, Andrew Lietz, George MacKenzie, George McClelland, Jack Messman, John Poduska, John Roberts and Robert Rosenthal have no direct or indirect material relationships with us other than their directorship and, therefore, are independent within the meaning of the NYSE listing standards and satisfy the categorical standards contained in our Corporate Governance Guidelines.

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

The Audit Committee, composed entirely of independent, non-employee members of the Board, approved the reappointment of KPMG LLP (KPMG) as Safeguard s independent registered public accounting firm for the fiscal year ending December 31, 2008.

Services provided to Safeguard and its subsidiaries by KPMG in fiscal 2007 and fiscal 2006 are described below under Independent Registered Public Accounting Firm Audit Fees. Representatives of KPMG are expected to attend our annual meeting of shareholders. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Table of Contents

Independent Registered Public Accounting Firm Audit Fees

The following table presents fees for professional services rendered by KPMG for the audit of Safeguard s consolidated financial statements for fiscal 2007 and fiscal 2006 and fees billed for audit-related services, tax services and all other services rendered by KPMG for fiscal 2007 and fiscal 2006. This table includes fees billed to Safeguard s consolidated subsidiaries for services rendered by KPMG.

	2007	2006
Audit Fees (1)	$ 2,148,774	$ 1,999,974
Audit-Related Fees (2)	17,500	99,786
Tax Fees (3)	331,740	379,119
All Other Fees		
Total	$ 2,498,014	$ 2,478,879

(1) Audit fees include the aggregate fees for professional services rendered in connection with the audit of the consolidated financial statements included in our Annual Report on Form 10-K, the review of the condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q, consents and other services related to SEC and other regulatory filings, and KPMG s assurance services provided in

connection with the assessment and testing of internal controls over financial reporting pursuant to Section 404 of the Sarbanes Oxley Act of 2002.

(2) Audit-related fees include the aggregate fees billed by KPMG principally for audits of financial statements of certain employee benefit plans, statutory audits of non-U.S. subsidiaries and officer expense review.

(3) Tax fees include the aggregate fees billed by KPMG for tax consultation and tax compliance services.

The Audit Committee pre-approves each service to be performed by KPMG at its regularly scheduled meetings. For any service that may require pre-approval between regularly scheduled meetings, the Audit Committee has delegated to the Chairperson of the Audit Committee the authority to pre-approve services not prohibited by law to be performed by Safeguard s independent registered public accounting firm and associated fees up to a maximum for non-audit services of $100,000, and the Chairperson communicates such pre-approvals to the Audit Committee at its next regularly scheduled meeting.

INCORPORATION BY REFERENCE

To the extent that this Amendment No. 2 is incorporated by reference into any other filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, the section of this Amendment No. 2 entitled Compensation Committee Report, to the extent permitted by the rules of the SEC, will not be deemed incorporated unless specifically provided otherwise in such filing.

Table of Contents

PART IV

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

(b) Exhibits

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

Exhibits

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

		Incorporated Filing Reference	
Exhibit Number	Description	Form Type & Filing Date	Original Exhibit Number
31.3	Certification of Peter J. Boni pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
31.4	Certification of Raymond J. Land pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
32.3	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.		
32.4	Certification of Raymond J. Land 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.

By: PETER J. BONI
PETER J. BONI
President and Chief Executive Officer

Dated: April 29, 2008

94