

SAFEGUARD SCIENTIFICS INC

Form 10-Q

November 06, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Quarter Ended September 30, 2008

Commission File Number 1-5620
Safeguard Scientifics, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

19087
(Zip Code)

(610) 293-0600

Registrant's telephone number, including area code

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

Yes ☒ No ☐

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

Large accelerated filer	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
<input type="checkbox"/>			

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

Number of shares outstanding as of November 5, 2008
Common Stock 120,660,059

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

PART I FINANCIAL INFORMATION

	Page
Item 1 Financial Statements:	
<u>Consolidated Balance Sheets September 30, 2008 (unaudited) and December 31, 2007</u>	3
<u>Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 30, 2008 and 2007</u>	4
<u>Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 30, 2008 and 2007</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	50
<u>Item 4 Controls and Procedures</u>	51
 PART II OTHER INFORMATION	
<u>Item 1A Risk Factors</u>	52
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	53
<u>Item 6 Exhibits</u>	55
<u>Signatures</u>	56

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

	September 30, 2008	December 31, 2007
	(In thousands, except per share data)	
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 48,191	\$ 96,201
Cash held in escrow current	6,427	20,345
Marketable securities	60,786	590
Restricted marketable securities	1,974	3,904
Accounts receivable, less allowances (\$6,993 - 2008; \$3,370 - 2007)	17,294	12,702
Prepaid expenses and other current assets	2,249	1,755
Assets held for sale		1,465
Current assets of discontinued operations		32,867
Total current assets	136,921	169,829
Property and equipment, net	12,053	11,714
Ownership interests in and advances to partner companies	91,038	90,038
Long-term restricted marketable securities		1,949
Goodwill	12,729	12,729
Cash held in escrow long-term	500	2,341
Other	1,206	2,342
Non-current assets of discontinued operations		99,420
Total Assets	\$ 254,447	\$ 390,362
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of credit line borrowings	\$ 14,384	\$ 13,997
Current maturities of long-term debt	228	1,510
Accounts payable	3,319	3,134
Accrued compensation and benefits	5,729	6,934
Accrued expenses and other current liabilities	6,849	14,203
Current liabilities of discontinued operations		50,132
Total current liabilities	30,509	89,910
Long-term debt	340	906
Other long-term liabilities	9,316	9,111
Convertible senior debentures	91,000	129,000
Minority interest	178	2,296
Non-current liabilities of discontinued operations		5,916
Commitments and contingencies		
Redeemable consolidated partner company stock-based compensation		84

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Shareholders' Equity:

Preferred stock, \$0.10 par value; 1,000 shares authorized

Common stock, \$0.10 par value; 500,000 shares authorized; 121,589 and

121,123 shares issued and outstanding in 2008 and 2007, respectively

Additional paid-in capital

Accumulated deficit

Accumulated other comprehensive income

Treasury stock, at cost

Total shareholders' equity

Total Liabilities and Shareholders' Equity

12,159	12,112
762,323	758,515
(650,132)	(617,513)
(29)	25
(1,217)	

123,104	153,139
---------	---------

\$ 254,447	\$ 390,362
------------	------------

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands, except per share data) (unaudited)			
Revenue	\$ 18,997	\$ 11,936	\$ 51,799	\$ 30,638
Operating Expenses:				
Cost of sales	7,172	5,757	20,175	16,373
Selling, general and administrative	15,878	14,623	47,004	40,514
Total operating expenses	23,050	20,380	67,179	56,887
Operating loss	(4,053)	(8,444)	(15,380)	(26,249)
Other income (loss), net	7,685	(4,431)	10,308	(5,120)
Interest income	913	1,763	2,632	6,071
Recovery related party		12	4	12
Interest expense	(1,202)	(1,342)	(3,767)	(4,111)
Equity loss	(8,363)	(4,407)	(20,290)	(10,054)
Minority interest	928	1,227	3,084	4,181
Net loss from continuing operations before income taxes	(4,092)	(15,622)	(23,409)	(35,270)
Income tax benefit	30		26	696
Net loss from continuing operations	(4,062)	(15,622)	(23,383)	(34,574)
Loss from discontinued operations, net of tax	(1,136)	(8,738)	(9,236)	(15,777)
Net loss	\$ (5,198)	\$ (24,360)	\$ (32,619)	\$ (50,351)
Basic and Diluted Loss Per Share:				
Net loss from continuing operations	\$ (0.03)	\$ (0.13)	\$ (0.19)	\$ (0.28)
Net loss from discontinued operations	(0.01)	(0.07)	(0.08)	(0.13)
Net loss per share	\$ (0.04)	\$ (0.20)	\$ (0.27)	\$ (0.41)
Shares used in computing basic and diluted loss per share	122,605	122,440	122,902	122,299

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2008	2007
	(In thousands) (unaudited)	
Cash Flows from Operating Activities:		
Cash flows from operating activities of continuing operations	\$ (14,408)	\$ (21,783)
Cash flows from operating activities of discontinued operations	(3,288)	(10,370)
Net cash used in operating activities	(17,696)	(32,153)
Cash Flows from Investing Activities:		
Proceeds from sales of and distributions from companies and funds	3,557	2,359
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(19,315)	(54,054)
Advances to companies	(4,210)	(453)
Repayments of note receivable related party	4	
Increase in marketable securities	(63,010)	(111,268)
Decrease in marketable securities	2,814	204,880
Capital expenditures	(3,279)	(2,869)
Capitalized software costs	(156)	
Proceeds from sale of discontinued operations, net	83,934	29,967
Cash flows from investing activities of discontinued operations	(2,867)	(6,293)
Net cash (used in) provided by investing activities	(2,372)	62,113
Cash Flows from Financing Activities:		
Repurchase of convertible senior debentures	(30,000)	
Borrowings on revolving credit facilities	24,143	24,022
Repayments on revolving credit facilities	(23,756)	(18,904)
Borrowings on term debt	672	144
Repayments on term debt	(2,520)	(1,663)
Issuance of Company common stock, net	115	586
Issuance of consolidated partner company common stock, net	965	360
Repurchase of Company common stock	(1,296)	
Cash flows from financing activities of discontinued operations	4,790	11,624
Net cash (used in) provided by financing activities	(26,887)	16,169
Net (Decrease) Increase in Cash and Cash Equivalents	(46,955)	46,129
Changes in cash and cash equivalents from, and advances to Acsis, Alliance Consulting, Laureate Pharma and Pacific Title & Art Studio included in assets of discontinued operations	(1,055)	2,401

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Cash and Cash Equivalents at beginning of period	96,201	60,381
Cash and Cash Equivalents at end of period	\$ 48,191	\$ 108,911

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(unaudited)

1. GENERAL

The accompanying unaudited interim Consolidated Financial Statements of Safeguard Scientifics, Inc. (the Company) were prepared in accordance with accounting principles generally accepted in the United States of America and the interim financial statements rules and regulations of the SEC. In the opinion of management, these statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Consolidated Financial Statements. The interim operating results are not necessarily indicative of the results for a full year or for any interim period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The Consolidated Financial Statements included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-Q and included together with the Company's Consolidated Financial Statements and Notes thereto included in the Company's 2007 Annual Report on Form 10-K.

2. BASIS OF PRESENTATION

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

The Company's Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007, Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 and Consolidated Balance Sheets at September 30, 2008 and December 31, 2007 include Clariant, Inc. (Clariant) in continuing operations.

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

During the first quarter of 2007, Pacific Title & Art Studio and Clariant's technology group were sold.

See Note 3 for discontinued operations treatment of Acsis, Alliance Consulting, Laureate Pharma, Pacific Title & Art Studio and Clariant's technology group.

During the three months ended September 30, 2008, the Company increased its ownership interest in Authentium, Inc. (Authentium) to the 20.0% threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Authentium. In accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock , the Company has adjusted the financial statements for prior periods contained in this Form 10-Q to retrospectively apply the equity method of accounting for its holdings in Authentium since the initial date of acquisition in April 2006.

3. DISCONTINUED OPERATIONS

Acsis, Alliance Consulting and Laureate Pharma

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

In the first quarter of 2008, the Company recognized an impairment loss of \$3.6 million to write down the aggregate carrying value of the Bundle Companies to the total anticipated proceeds, less estimated costs to complete the Bundle Transaction. In the second quarter of 2008, prior to the completion of the Bundle Transaction, the Company recorded a net loss of \$1.6 million in discontinued operations related to the operations of Acsis, Alliance Consulting and Laureate Pharma. In

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

the second quarter of 2008 the Company recorded a charge of \$0.9 million in discontinued operations to accrue for severance payments due to the former CEO of Alliance Consulting in connection with the Bundle Transaction and recorded a pre-tax gain on disposal of \$1.4 million which is also recorded in discontinued operations.

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

Pacific Title & Art Studio

In March 2007, the Company sold Pacific Title & Art Studio for net cash proceeds of approximately \$21.9 million, including \$2.3 million cash to be held in escrow. As a result of the sale, the Company recorded a pre-tax gain of \$2.7 million in the first quarter of 2007. During the three months and nine months ended September 30, 2008, the Company recorded a loss of \$1.1 million and \$1.6 million, which was included within Loss from discontinued operations in the Consolidated Statements of Operations, related to additional compensation paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007 sale and related legal fees (see Note 15). Pacific Title & Art Studio is reported in discontinued operations for all periods presented.

Clarient Technology Group

In March 2007, Clarient sold its ACIS technology group for net cash proceeds of \$11.0 million (excluding \$1.5 million in contingent purchase price). As a result of the sale, Clarient recorded a pre-tax gain of \$3.6 million in the first quarter of 2007. The technology group is reported in discontinued operations for all periods presented. Goodwill of \$2.1 million related to the technology group was included in discontinued operations at December 31, 2007.

Results of all discontinued operations were as follows:

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
	(In thousands) (unaudited)			
Revenue	\$	\$ 33,749	\$ 45,712	\$ 105,123
Operating expenses		(36,563)	(49,668)	(118,180)
Impairment of carrying value		(5,438)	(3,634)	(5,438)
Other		(452)	(1,547)	(1,408)
Net loss before income taxes and minority interest		(8,704)	(9,137)	(19,903)
Income tax benefit				8
Loss from operations		(8,704)	(9,137)	(19,895)
Gain (loss) on disposal, net of tax	(1,136)	(19)	(116)	6,273
Minority interest		(15)	17	(2,155)
Loss from discontinued operations, net of tax	\$ (1,136)	\$ (8,738)	\$ (9,236)	\$ (15,777)

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

The assets and liabilities of discontinued operations were as follows:

	December 31, 2007
Cash	\$ 3,764
Accounts receivable, less allowances	24,858
Inventory	3,333
Other current assets	912
 Total current assets	 32,867
Property and equipment, net	23,859
Intangibles	9,960
Goodwill	64,095
Other assets	1,506
 Total Assets	 \$ 132,287
 Current portion of long-term debt	 \$ 28,257
Accounts payable	4,520
Accrued expenses	10,774
Deferred revenue	6,100
Other current liabilities	481
 Total current liabilities	 50,132
Long-term debt	3,840
Minority interest	396
Deferred income taxes	1,026
Other long-term liabilities	654
 Total Liabilities	 \$ 56,048
 Carrying value	 \$ 76,239

4. MARKETABLE SECURITIES

Marketable securities included the following:

Current		Non-Current	
September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
(In thousands)			
(unaudited)		(unaudited)	

Held-to-maturity:

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Commercial paper	\$ 60,135	\$ 590	\$	
Certificates of deposit	300			
Government Agency Bonds	351			
Restricted U.S. Treasury securities	1,974	3,904		1,949
	\$ 62,760	\$ 4,494	\$	\$ 1,949

As of September 30, 2008, the contractual maturities of all securities were less than one year.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

5. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of non-controlling interests (minority interests) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to non-controlling interests will be included in consolidated net

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation are treated as equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS No. 160 is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 160 will result in the reclassification of minority interests from long term liabilities to shareholders' equity. Minority interest at September 30, 2008 was \$0.2 million.

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

6. COMPREHENSIVE LOSS

Comprehensive loss is the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources. Excluding net loss, the Company's sources of comprehensive 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.

The following summarizes the components of comprehensive loss:

	Three Months Ended September 30, 20082007		Nine Months Ended September 30, 20082007	
	(In thousands) (unaudited)			
Net loss from continuing operations	\$ (4,062)	\$ (15,622)	\$ (23,383)	\$ (34,574)
Other comprehensive income (loss):				
Foreign currency translation adjustments	2	(1)		(62)
Unrealized holding losses on available-for-sale securities				(487)
Other comprehensive income (loss) from continuing operations	2	(1)		(549)
Comprehensive loss from continuing operations	(4,060)	(15,623)	(23,383)	(35,123)
Net loss from discontinued operations	(1,136)	(8,738)	(9,236)	(15,777)
Other comprehensive income (loss) from discontinued operations		17	(54)	33

Comprehensive loss	\$ (5,196)	\$ (24,344)	\$ (32,673)	\$ (50,867)
--------------------	------------	-------------	-------------	-------------

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

7. LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Consolidated long-term debt consisted of the following:

Continuing Operations:

	September 30, 2008	December 31, 2007
	(In thousands)	
	(unaudited)	
Consolidated partner company credit line borrowings (guaranteed by the Company)	\$ 9,000	\$ 9,000
Consolidated partner company secured revolving credit facility (not guaranteed by the Company)	5,384	
Consolidated partner company credit line borrowings (not guaranteed by the Company)		4,997
	14,384	13,997
Capital lease obligations and other borrowings	568	2,416
	14,952	16,413
Less current maturities	(14,612)	(15,507)
Total long-term debt of continuing operations, less current portion	\$ 340	\$ 906

Discontinued Operations:

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

The Company maintains a revolving credit facility that provides for borrowings and issuances of letters of credit and guarantees, up to \$30.0 million. The credit facility expires on June 29, 2009. Borrowing availability under the facility is reduced by the amounts outstanding for the Company's borrowings and letters of credit and amounts

guaranteed under Clariant's credit facility maintained with that same lender. This credit facility bears interest at the prime rate (5.0% at September 30, 2008) for outstanding borrowings. The credit facility is subject to an unused commitment fee of 0.125% per annum, 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 Clariant under its guaranteed facility maintained with that same bank. At September 30, 2008, the required cash collateral, pursuant to the Company's credit facility agreement, was \$18.6 million, which amount was included within Cash and cash equivalents on the Consolidated Balance Sheet as of September 30, 2008. Cash collateral requirements of \$21.3 million were eliminated upon closing of the Bundle Transaction.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

Availability under the Company's revolving credit facility at September 30, 2008 was as follows:

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

(a) In connection with the sale of CompuCom Systems, Inc. (CompuCom) in 2004, 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.

Clarient maintains a \$12.0 million credit facility with the same lender as the Company. Outstanding borrowings under the credit facility at September 30, 2008 were \$9.0 million. The remaining availability under the credit facility was used to obtain a \$3.0 million standby letter of credit for the landlord of Clarient's leased facility in California. At Clarient's option, borrowings bear interest at variable rates based on the prime rate minus 0.5% or a rate equal to 30-day London Interbank Offered Rate (LIBOR) plus 2.45%, provided however, that upon the achievement of certain financial performance metrics, the rate will decrease by 0.25%. This facility contains financial and non-financial covenants and matures February 26, 2009.

On July 31, 2008, Clarient entered into a secured revolving credit agreement under which Clarient may borrow up to \$8.0 million which is secured by Clarient's accounts receivable and related assets. The amount which Clarient is entitled to borrow under the revolving credit facility at a particular time (\$5.4 million as of September 30, 2008) is based on the amount of Clarient's qualified accounts receivable and certain liquidity factors. Borrowings under the revolving credit facility, which may be repaid and re-borrowed, bear interest at a rate per annum equal to 30-day

LIBOR (subject to a minimum annual rate of 2.50% at all times) plus an applicable margin of 5.25%. If Clariant meets certain financial benchmarks for its 2008 fiscal year, the applicable margin may be reduced to 4.75% beginning in January 2009. Clariant pays an unused commitment fee of 0.75% per annum, and the facility is subject to a maximum prepayment fee of \$0.2 million. The revolving credit facility's current maturity date is January 31, 2009. The maturity date may be extended for two additional 12 month periods upon the satisfaction of certain conditions. The Company has entered into a subordination agreement with the lender relating to the revolving credit facility. The revolving credit facility contains certain financial covenants.

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

Guarantees of partner company facilities by the Company of \$31.5 million were eliminated upon the closing of the Bundle Transaction.

Debt as of September 30, 2008 bore interest at fixed rates between 11.5% and 13.1% and variable rates between the 30-day LIBOR (subject to a minimum annual rate of 2.50% at all times) plus an applicable margin of 5.25% and the prime rate plus 0.5%, with a weighted average rate of 6.5%.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

The Company's debt matures as follows:

	Total (In thousands)
Remainder of 2008	\$ 54
2009	14,619
2010	246
2011	33
2012 and thereafter	
 Total debt	 \$ 14,952

8. CONVERTIBLE SENIOR DEBENTURES

In February 2004, the Company completed the sale of \$150.0 million in face value 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 September 30, 2008 was \$1.25. 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 the third quarter 2008, the Company repurchased \$38.0 million of the face value of the 2024 debentures for \$30.0 million in cash, including accrued interest. In connection with the repurchase, 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 \$7.6 million which is included in Other income. During 2006, the Company repurchased \$21.0 million of face value of the 2024 Debentures for \$16.4 million in cash, including accrued interest. At September 30, 2008, the market value of the outstanding \$91.0 million in face value of 2024 Debentures was approximately \$63.0 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 \$2.0 million is included in Restricted marketable securities on the Consolidated Balance Sheet at September 30, 2008, which is classified as a current asset.

9. STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)) using the modified prospective method.

Classification of Stock-Based Compensation Expense

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

Three Months Ended September 30,	Nine Months Ended September 30,
-------------------------------------------------	--------------------------------------------

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

	2008	2007	2008 (In thousands) (unaudited)	2007
Cost of sales	\$ 14	\$ 8	\$ 35	\$ 26
Selling, general & administrative	839	1,180	2,470	4,074
	\$ 853	\$ 1,188	\$ 2,505	\$ 4,100

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

The Company

The fair value of the Company's stock-based awards to employees was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected term of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility measured using weekly price observations of the Company's common stock for a period equal to the stock option's expected term. The Company issued 2.0 million performance-based awards and 1.2 million service-based awards to employees during the three months ended September 30, 2008 and 1.5 million market-based awards, 2.0 million performance-based awards and 1.7 million service-based awards during the nine months ended September 30, 2008. The Company also issued 0.2 million deferred stock units to directors during the three and nine months ended September 30, 2008.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008 (unaudited)	2007
Service-Based Awards				
Dividend yield	0%	0%	0%	0%
Expected volatility	52%	58%	52%	61%
Average expected option term	5 years	5 years	5 years	5 years
Risk-free interest rate	3.0%	4.2%	3.1%	4.5%
Performance-Based Awards				
Dividend yield	0%		0%	
Expected volatility	50%		50%	
	4.4		4.4 years	
Average expected option term	years			
Risk-free interest rate	3.0%		3.0%	
Market-Based Awards				
Dividend yield		0%	0%	0%
Expected volatility		55%	59%	54%
Average expected option term		6 years	6 years	6 years
Risk-free interest rate		4.9%	3.4%	4.9%

Market-based 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. During the three and nine months ended September 30, 2008, 0 and 41 thousand options, respectively, vested based on achievement of market capitalization targets. The Company recorded \$0.2 million compensation expense related to these awards during the three and nine months ended September 30, 2008. Depending on the Company's stock performance, the maximum number of unvested shares at September 30, 2008 attainable under these grants was 7.9 million shares.

Performance-based awards entitle participants to vest in a number of options determined by achievement of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies over an eight-year period. Vesting occurs once per year on the anniversary date of

the grant. The requisite service periods for the performance-based awards are based on the Company's estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Compensation expense is recognized over the requisite service periods using the straight-line method, but is accelerated if capital return targets are achieved earlier than estimated. No compensation expense was recognized related to these awards during the three and nine months ended September 30, 2008 as awards were

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

granted at the end of the period. The aggregate grant date fair value of performance-based options issued during the three and nine months ended September 30, 2008 was \$1.1 million.

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 \$0.3 million and \$0.5 million of compensation expense related to these awards during the three months ended September 30, 2008 and 2007, respectively, and \$0.8 million and \$1.5 million during the nine months ended September 30, 2008 and 2007, respectively.

Majority-Owned Partner Companies

Stock options granted by majority-owned partner companies generally are service-based awards that vest over 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 fair value of the Company's majority-owned partner companies' stock-based awards to employees were estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected term of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility for Clariant, the Company's publicly-held consolidated partner company, was based on historical price volatility measured using weekly price observations of Clariant's common stock for a period equal to the stock option's expected term.

During the nine months ended September 30, 2008, Clariant granted 2.3 million options and 0.2 million restricted stock awards. The restricted stock awards vest over four years. The options generally have four-year vesting terms and a ten-year contractual term. The fair value of these options at the date of grant was based on the following assumptions: a risk-free rate of 2.5% - 3.4%, an expected stock option term of five years, a dividend yield of 0.0% and expected five year volatility of 77% - 80%. Clariant estimates forfeitures of stock options using historical exercise behavior of its employees. For purposes of this estimate, Clariant identified two groups of employees and estimated the forfeiture rates for these groups to be 5% and 8% for the first nine months of 2008. Clariant recorded \$0.2 million and \$0.4 million of stock-based compensation expense during the three months ended September 30, 2008 and 2007, respectively, and \$1.4 million and \$1.2 million during the nine months ended September 30, 2008 and 2007, respectively.

10. INCOME TAXES

The Company's consolidated income tax benefit was \$30 thousand for the three months ended September 30, 2008, and \$26 thousand and \$696 thousand for the nine months ended September 30, 2008 and 2007, respectively. The income tax benefit recognized in each period resulted from the reversal of reserves that related to uncertain tax positions for which the statute of limitations expired during the period in the applicable tax jurisdictions less the Company's share of net state tax expense recorded by its consolidated partner company. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized in 2008 and 2007 was offset by a valuation allowance. As of December 31, 2007, the Company had federal net operating loss carryforwards and federal capital loss carryforwards of \$208 million and \$162 million, respectively, as adjusted to exclude carryforwards apportioned to the consolidated Bundle Companies which are reported in discontinued operations.

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)). During the first nine months of 2008, the Company had no material changes in uncertain tax positions.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

11. NET LOSS PER SHARE

The calculations of net loss per share were:

	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2008	2007	2008	2007
	(In thousands except per share data)			
	(unaudited)			
Basic and diluted:				
Net loss from continuing operations	\$ (4,062)	\$ (15,622)	\$ (23,383)	\$ (34,574)
Net loss from discontinued operations	(1,136)	(8,738)	(9,236)	(15,777)
Net loss	\$ (5,198)	\$ (24,360)	\$ (32,619)	\$ (50,351)
 Average common shares outstanding	 122,605	 122,440	 122,902	 122,299
 Net loss from continuing operations	 \$ (0.03)	 \$ (0.13)	 \$ (0.19)	 \$ (0.28)
Net loss from discontinued operations	(0.01)	(0.07)	(0.08)	(0.13)
Net loss per share	\$ (0.04)	\$ (0.20)	\$ (0.27)	\$ (0.41)

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

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

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

- § At September 30, 2008 and 2007 options to purchase 22.2 million and 21.6 million shares of common stock, respectively, at prices ranging from \$1.03 to \$14.84 per share, were excluded from the calculations.
- § At September 30, 2008 and 2007, unvested restricted stock units and DSUs convertible into 0.1 million shares were excluded from the calculations.
- § At September 30, 2008 and 2007, a total of 12.6 million and 17.9 million shares related to the Company's 2024 Debentures (see Note 8) representing the weighted average effect of assumed conversion of the 2024 Debentures were excluded from the calculations.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

12. PARENT COMPANY FINANCIAL INFORMATION

Parent company financial information is provided to present the financial position and results of operations of the Company as if its consolidated partner company, Clariant, (see Note 2) was accounted for under the equity method of accounting for all periods presented during which the Company owned its interest in Clariant.

Parent Company Balance Sheets

	September 30, 2008	December 31, 2007
	(unaudited)	(In thousands)
Assets:		
Cash and cash equivalents	\$ 46,321	\$ 94,685
Cash held in escrow current	6,427	20,345
Marketable securities	60,786	590
Restricted marketable securities	1,974	3,904
Other current assets	739	691
Assets held for sale		77,704
 Total current assets	 116,247	 197,919
Ownership interests in and advances to companies	108,374	97,955
Long-term restricted marketable securities		1,949
Cash held in escrow long-term	500	2,341
Other	1,544	2,565
 Total Assets	 \$ 226,665	 \$ 302,729
 Liabilities and Shareholders' Equity:		
Current liabilities	\$ 7,268	\$ 15,494
Long-term liabilities	5,293	5,012
Convertible senior debentures	91,000	129,000
Shareholders' equity	123,104	153,223
 Total Liabilities and Shareholders' Equity	 \$ 226,665	 \$ 302,729

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

Parent Company Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands) (unaudited)			
Operating expenses	\$ (4,210)	\$ (5,870)	\$ (13,624)	\$ (17,609)
Other income (loss), net	7,685	(4,431)	10,308	(5,120)
Recovery related party		12	4	12
Interest income	906	1,763	2,613	6,023
Interest expense	(999)	(1,056)	(3,106)	(3,166)
Equity loss	(7,474)	(6,040)	(19,608)	(15,424)
Net loss from continuing operations before income taxes	(4,092)	(15,622)	(23,413)	(35,284)
Income tax benefit	30		30	710
Equity loss attributable to discontinued operations	(1,136)	(8,738)	(9,236)	(15,777)
Net loss	\$ (5,198)	\$ (24,360)	\$ (32,619)	\$ (50,351)

Parent Company Statements of Cash Flows

	Nine Months Ended September 30,	
	2008	2007
	(In thousands) (unaudited)	
Net cash used in operating activities	\$ (11,504)	\$ (13,214)
Cash Flows from Investing Activities:		
Proceeds from sales of and distributions from companies and funds	3,557	2,359
Advances to companies	(14,218)	(1,953)
Acquisitions of ownership interests in partner companies and funds, net of cash acquired	(19,315)	(54,054)
Repayments of note receivable related party	4	
Increase in marketable securities	(63,010)	(111,268)
Decrease in marketable securities	2,814	204,880
Capital expenditures	(28)	(7)
Proceeds from sale of discontinued operations	84,517	19,655
Net cash (used in) provided by investing activities	(5,679)	59,612

Cash Flows from Financing Activities:

Repurchase of convertible senior debentures	(30,000)	
Issuance of Company common stock, net	115	586
Repurchase of Company common stock	(1,296)	
Net cash (used in) provided by financing activities	(31,181)	586
Net (Decrease) Increase in Cash and Cash Equivalents	(48,364)	46,984
Cash and Cash Equivalents at beginning of period	94,685	59,933
Cash and Cash Equivalents at end of period	\$ 46,321	\$ 106,917

Parent Company cash and cash equivalents excludes marketable securities, which consist of longer-term securities, including commercial paper and certificates of deposit.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

13. OPERATING SEGMENTS

As of September 30, 2008 the Company held an interest in one majority-owned partner company, Clariant, and 15 minority-owned partner companies. During the first quarter of 2008, the Company re-evaluated its reportable operating segments in accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. As a result of the re-evaluation, the Company's reportable operating segments are now as follows: i) Clariant, its publicly-traded consolidated partner company, ii) Life Sciences and iii) Technology.

The Life Sciences segment includes the following partner companies as of September 30, 2008: Advanced BioHealing, Inc., Alverix, Inc., Avid Radiopharmaceuticals, Inc., Cellumen, Inc., NuPathe, Inc., Rubicor Medical, Inc. and a new yet-to-be announced partner company.

The Technology segment includes the following partner companies as of September 30, 2008: Advantedge Healthcare Solutions, Inc., Authentium, Inc., Beyond.com, Inc., Bridgevine, Inc., Kadoo, Inc., GENBAND Inc., Portico Systems, Inc. and Swaptree, Inc.

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

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

Management evaluates its Clariant segment performance based on revenue, operating income (loss) and income (loss) before income taxes, which reflects the portion of income (loss) allocated to minority shareholders. Management evaluates its Life Sciences and Technology segments' performance based on net loss which is based on the number of partner companies accounted for under the equity method, the Company's voting ownership percentage in these partner companies and the net results of operations of these partner companies and any impairment charges or gain (loss) on sale of partner companies.

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

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

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

As of September 30, 2008 and December 31, 2007, the Company's assets were primarily located in the United States.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

The following represents segment data from continuing operations:

Three Months Ended September 30, 2008
(In thousands)
(unaudited)

	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
Revenue	\$18,997	\$	\$	\$ 18,997	\$	\$ 18,997
Operating income (loss)	157			157	(4,210)	(4,053)
Net income (loss)	889	(6,326)	(1,968)	(7,405)	3,343	(4,062)
Segment Assets						
September 30, 2008	\$45,118	\$34,636	\$47,356	\$127,110	\$127,337	\$254,447
December 31, 2007	39,502	40,829	42,297	122,628	135,447	258,075

Three Months Ended September 30, 2007
(In thousands)
(unaudited)

	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
Revenue	\$11,936	\$	\$	\$ 11,936	\$	\$ 11,936
Operating loss	(2,574)			(2,574)	(5,870)	(8,444)
Net loss	(1,633)	(7,553)	(1,333)	(10,519)	(5,103)	(15,622)

Nine Months Ended September 30, 2008
(In thousands)
(unaudited)

	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
Revenue	\$51,799	\$	\$	\$ 51,799	\$	\$ 51,799
Operating loss	(1,756)			(1,756)	(13,624)	(15,380)
Net income (loss)	686	(14,275)	(5,882)	(19,471)	(3,912)	(23,383)

Nine Months Ended September 30, 2007
(In thousands)
(unaudited)

	Clarient	Life Sciences	Technology	Total Segments	Other Items	Total Continuing Operations
Revenue	\$30,638	\$	\$	\$ 30,638	\$	\$ 30,638
Operating loss	(8,640)			(8,640)	(17,609)	(26,249)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Net loss	(5,356)	(11,673)	(3,642)	(20,671)	(13,903)	(34,574)
			20			

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

Other Items

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
	(unaudited)			
Corporate operations	\$ 3,313	\$ (5,103)	\$ (3,938)	\$ (14,599)
Income tax benefit	30		26	696
	\$ 3,343	\$ (5,103)	\$ (3,912)	\$ (13,903)

14. BUSINESS COMBINATIONS***Acquisitions by the Company 2008***

In September 2008, the Company acquired 37% of a yet-to-be announced Life Sciences partner company for \$3.0 million in cash, including the conversion into equity interests of \$1.9 million previously advanced to the company. The Company accounts for its holdings in this partner company under the equity method. The difference between the Company's cost and its interest in the underlying net assets, based on the Company's preliminary allocation, was allocated in-process research and development, resulting in a \$2.3 million charge which is reflected in Equity loss in the Consolidated Statement of Operations for the three and nine months ended September 30, 2008.

In August 2008, the Company deployed \$1.5 million in Alverix, Inc. ("Alverix"), maintaining a 50.0% ownership interest. The Company had previously acquired its ownership interest in Alverix for \$2.4 million in cash in October 2007. Alverix 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 in and advances to partner companies on the Consolidated Balance Sheets.

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

In July 2008, the Company provided additional funding to Authentium in the form of \$0.8 million convertible notes. In conjunction with this funding, due to anti-dilution provisions contained in an earlier equity funding, the Company's voting interest in Authentium increased from 19.9% to 20.0%, the threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Authentium. See Note 16 regarding the change in accounting treatment for the Company's holdings in Authentium from the cost method to the equity method. The Company previously had acquired an interest in Authentium in June 2007 and April 2006 for \$3.0 million and \$5.5 million, respectively. Authentium is a provider of security software to internet service providers.

In July 2008, the Company acquired 29.3% of Swaptree, Inc. ("Swaptree") for \$3.4 million in cash. Swaptree is an internet-based service that leverages a proprietary trading technology to enable users to swap books, CDs, DVDs and video games. The Company accounts for its holdings in Swaptree under the equity method. The difference between

the Company's cost and its interest in the underlying net assets of Swaptree was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In July 2008, the Company deployed \$3.3 million of cash in NuPathe, Inc (NuPathe), resulting in an ownership interest of 23.4%. In April 2008, the Company deployed \$1.0 million in cash in NuPathe at which time the Company's

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

ownership interest was 27.8%. The Company previously deployed \$5.0 million in NuPathe in 2007 and 2006. NuPathe develops therapeutics in conjunction with novel delivery technologies. The Company accounts for its holdings in NuPathe under the equity method. As a result of the decrease in the Company's ownership position in the three months ended September 30, 2008, the Company recognized a \$0.7 million change in interest gain directly to additional paid-in capital. The difference between the Company's cost and its interest in the underlying net assets of NuPathe has been allocated to in-process research and development, resulting in charges of \$0.1 million and \$0.2 million in 2008 and 2007, respectively, which are reflected in Equity loss in the Consolidated Statement of Operations and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets. The Company expects to recognize a \$1.3 million charge in the fourth quarter of 2008, related to an in-process research and development charge recorded by NuPathe.

In May 2008, the Company increased its ownership interest in Advantedge Healthcare Solutions (AHS) from 35.1% to 37.9% for \$3.2 million in cash. AHS is a New Jersey-based 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 the underlying net assets of AHS was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In February 2008, the Company deployed \$2.8 million of cash in Portico Systems, Inc (Portico), maintaining a 46.8% ownership interest. The Company previously had acquired an interest in Portico in August 2006 for \$6.0 million in cash. Portico is 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 was allocated to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

Acquisitions by the Company 2007

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 partner companies on the Consolidated Balance Sheets.

In August 2007, the Company acquired 14.0% of Kadoo, Inc. (Kadoo) for \$2.2 million in cash. Kadoo provides users a single interface to manage Web applications such as email and contacts and also for social networking functions such as tagging and sharing; and provides storage for digital content such as photos, files and videos. The Company accounts for its holdings in Kadoo 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 which is reflected in Equity loss in the Consolidated Statement of Operations for the nine months ended September 30, 2007, and to intangible assets and goodwill as reflected in the carrying value in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In 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

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

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 partner companies on the Consolidated Balance Sheets.

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 partner companies on the Consolidated Balance Sheets.

15. COMMITMENTS AND CONTINGENCIES

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

The Company had the following outstanding guarantees at September 30, 2008:

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

The Company has committed capital of approximately \$7.7 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 \$7.5 million which is expected to be funded during the next 12 months.

Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner of certain private equity funds (the clawback). The maximum clawback the Company could be required to return due to its general partner interest is approximately \$3.6 million of which \$1.1 million was reflected in Accrued expenses and other current liabilities and \$2.5 million was reflected in Other long-term liabilities on the Consolidated Balance Sheet at September 30, 2008. The Company paid \$3.0 million of its estimated clawback liabilities in July 2008.

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

Notwithstanding the closing of the Bundle Transaction, the Company remains a guarantor of Laureate Pharma's Princeton, New Jersey office facility lease. Such guarantee may extend through its expiration in 2016 under certain circumstances. However, the Company is entitled to indemnification and certain payments in connection with the continuation of such guaranty. As of September 30, 2008, scheduled lease payments to be made by Laureate Pharma over the remaining lease term equal \$9.4 million.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

In anticipation of the sale of Pacific Title & Art Studio in the first quarter of 2007, the Company permitted the employment agreement of the Pacific Title & Art Studio CEO to expire without renewal, and thereby his employment ceased. Following the sale, the former CEO demanded payment of severance benefits under his employment agreement, as well as payment of his deferred stock units and other amounts substantially in excess of the maximum amounts the Company believed were arguably due. The former CEO and the Company thereafter engaged in 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, Plaintiff amended his complaint to add as a defendant the party which purchased Pacific Title & Art Studio from the Company and to add several further causes of action. In his amended complaint, the former CEO made claims for compensatory damages in excess of \$24.6 million, plus exemplary and punitive damages and interest. In April 2008, the Company made a payment to the former CEO, through Pacific Title & Art Studio, in the amount of approximately \$2.4 million, net of applicable withholdings, representing amounts the Company believes were owed to the plaintiff under his employment agreement and deferred stock units. In September 2008, the former CEO and the defendants settled this matter. The Company contributed \$0.25 million to the amounts paid to the Plaintiff to settle this matter in addition to amounts contributed by the Company's insurance carrier and the other defendants. This amount, plus legal fees related to the settlement of this matter, was included within Loss from discontinued operations for the three months ended September 30, 2008.

In October 2001, the Company entered into an agreement with Mr. Musser, its former Chairman and Chief Executive Officer, to provide for annual payments of \$0.7 million per year and certain health care and other benefits for life. The related current liability of \$0.8 million was included in Accrued expenses and the long-term portion of \$1.5 million was included in Other long-term liabilities on the Consolidated Balance Sheet at September 30, 2008.

The Company has agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or an employee terminates his employment for good reason. The maximum aggregate exposure under the agreements was approximately \$8.0 million at September 30, 2008.

16. CHANGE IN ACCOUNTING PRINCIPLE AND CORRECTION OF AN IMMATERIAL ERROR IN PRIOR PERIODS

During the three months ended September 30, 2008, the Company increased its ownership interest in Authentium, Inc. (Authentium) to the 20.0% threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Authentium. In accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock , the Company has adjusted the financial statements for prior periods contained in this Form 10-Q to retrospectively apply the equity method of accounting for its holdings in Authentium since the initial date of acquisition in April 2006. The effect of the change was to decrease Ownership interests in and advances to partner companies by \$1.5 million as of December 31, 2007 and to increase Equity loss by \$0.2 million, \$0.7 million and \$0.5 million for the three months ended September 30, 2007, the nine months ended September 30, 2007 and the six months ended June 30, 2008, respectively.

During the fourth quarter of 2007, an accounting error at Clariant was identified. The error related to Clariant's accounting for customer refunds which affected the Company's previously reported quarterly results in 2007 and 2006, totaling \$0.8 million. In accordance with Staff Accounting Bulletin No. 108, the Company's management 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. Management concluded that the error was immaterial to prior periods, but to remain consistent with revisions made to Clariant's September 30, 2008 Form 10-Q, the Company made such revisions to its Consolidated Financial Statements contained herein, as summarized below.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
SEPTEMBER 30, 2008
(unaudited)

The following tables summarize the effects of the adjustments on the Consolidated Financial Statements as of December 31, 2007 and for the three and nine months ended September 30, 2007 as contained in this Form 10-Q:

	December 31, 2007	
	Previously Reported (1)	As Revised
Balance Sheet:		
Ownership interests in and advances to partner companies	\$ 91,538	\$ 90,038
Total Assets	391,862	390,362
Accumulated deficit	(616,013)	(617,513)
Shareholders' Equity	154,639	153,139

	Three Months Ended September 30, 2007 (In thousands)		Nine Months Ended September 30, 2007 (In thousands)	
	Previously Reported (1)	As Revised	Previously Reported (1)	As Revised
Statement of Operations:				
Revenue	\$ 12,058	\$ 11,936	\$ 31,251	\$ 30,638
Operating loss	(8,322)	(8,444)	(25,636)	(26,249)
Equity loss	(4,169)	(4,407)	(9,348)	(10,054)
Minority interest	1,177	1,227	3,933	4,181
Net loss from continuing operations before income taxes	(15,312)	(15,622)	(34,199)	(35,270)
Net loss from continuing operations	(15,312)	(15,622)	(33,503)	(34,574)
Basic and diluted loss per share from continuing operations	\$ (0.13)	\$ (0.13)	\$ (0.28)	\$ (0.28)

(1) Restated for discontinued operations. See Note 3.

17. SUBSEQUENT EVENTS

On November 4, 2008, the Company received an official notice from the New York Stock Exchange regarding its non-compliance with the Exchange's continued listing standards. The Company received this notice because the average closing price of its common stock was less than \$1.00 for the thirty-day trading period ended November 3, 2008. The Company has a period of six months to increase its common stock price above \$1.00 and cure its non-compliance. At the Company's 2008 Annual Meeting of Shareholders, the shareholders approved a reverse split of the Company's common stock (within a range of split ratios) to be effected in the discretion of the Board of Directors. It is the Company's intention to utilize a reverse split to cure its non-compliance if its common stock continues to trade below \$1.00. The specific timing and ratio of any such reverse split will be determined based on a variety of considerations including, but not limited to, overall capital market conditions, the Company's prevailing common stock price and the effect of any such reverse split on the Company's public float. The Company's non-compliance does not affect its status with the Securities and Exchange Commission or any of its material agreements.

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

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

Business Overview

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

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

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

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

Principles of Accounting for Ownership Interests in Partner Companies

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

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

such previously recognized losses in excess of our proportionate share.

Equity Method. We account for partner companies whose results are not consolidated, but over whom we exercise significant influence, using the equity method of accounting. We also account for our interests in some private equity funds

under the equity method of accounting, depending on our respective general and limited partner interests. Under the equity method of accounting, our share of the income or loss of the company is reflected in Equity Loss in the Consolidated Statements of Operations. We report our share of the income or loss of the equity method partner companies on a one quarter lag.

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

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

Critical Accounting Policies and Estimates

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

- § Revenue recognition;
- § Impairment of long-lived assets;
- § Goodwill impairment;
- § Impairment of ownership interests in and advances to companies;
- § Income taxes;
- § Commitments and contingencies; and
- § Stock-based compensation.

Revenue Recognition

During the three and nine months ended September 30, 2008 and 2007, our revenue from continuing operations was attributable to Clariant.

Revenue for Clariant's diagnostic services is recognized at the time of completion of services. Diagnostic services are billed to various payors, including Medicare, commercial insurance companies and other directly-billed healthcare institutions such as hospitals and individuals. Clariant reports revenue from contracted payors, including certain insurance companies and certain healthcare institutions, based on the contracted rate, or in the case of Medicare, the published fee schedules, net of contractual allowances. Clariant reports revenue from non-contracted payors, including certain insurance companies and individuals, based on the amount it expects to collect for services provided.

Impairment of Long-Lived Assets

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

the carrying amount, we measure any impairment loss as the excess of the carrying amount of the asset over its fair value.

The carrying value of net property and equipment at September 30, 2008 was \$12.1 million.

Impairment of Goodwill

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

We test for impairment at a reporting unit level (which for us is the same as an operating segment as defined in SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information"). If we determine that the fair value of a reporting unit is less than its carrying value, we assess whether goodwill of the reporting unit is impaired. To determine fair value, we use a number of valuation methods including quoted market prices, discounted cash flows and public company and acquisition multiples for comparable companies. Depending on the complexity of the valuation and the significance of the carrying value of the goodwill to the Consolidated Financial Statements, we may engage an outside valuation firm to assist us in determining fair value. As an overall check on the reasonableness of the fair values attributed to our reporting units, we will consider comparing the aggregate fair values for all reporting units with our average total market capitalization for a reasonable period of time.

The carrying value of goodwill at September 30, 2008 was \$12.7 million.

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

Impairment of Ownership Interests In and Advances to Companies

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

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

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

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

In the first quarter of 2008 we recognized an impairment loss of \$3.6 million, which is included within Loss from discontinued operations in the Consolidated Statements of Operations for the nine months ended September 30, 2008. See Discontinued Operations below.

Income Taxes

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

Commitments and Contingencies

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

Stock-Based Compensation

On January 1, 2006, we 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. We adopted SFAS No. 123(R) using the modified prospective method. Accordingly, we have not restated prior period amounts. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

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

Results of Operations

During the three months ended September 30, 2008, we increased our ownership interest in Authentium to the 20.0% threshold at which we believe we exercise significant influence. Accordingly, we adopted the equity method of accounting for our holdings in Authentium. In accordance with APB 18, *The Equity Method of Accounting for Investments in Common Stock*, we have adjusted the financial statements for prior periods contained in this Form 10-Q to retrospectively apply the equity method of accounting for our holdings in Authentium since the initial date of acquisition in April 2006.

On May 6, 2008 the Company consummated the Bundle Transaction pursuant to which it sold all of its equity and debt interests in Acsis, Alliance Consulting, Laureate Pharma, ProModel and Neuronix.

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

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

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

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

Our operating results including net income (loss) before income taxes by segment were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
	(unaudited)		(unaudited)	
Clariant	\$ 889	\$ (1,633)	\$ 686	\$ (5,356)
Life Sciences	(6,326)	(7,553)	(14,275)	(11,673)
Technology	(1,968)	(1,333)	(5,882)	(3,642)
Total segments	(7,405)	(10,519)	(19,471)	(20,671)
Other items:				
Corporate operations	3,313	(5,103)	(3,938)	(14,599)
Income tax expense	30		26	696
Total other items	3,343	(5,103)	(3,912)	(13,903)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Net loss from continuing operations	(4,062)	(15,622)	(23,383)	(34,574)
Loss from discontinued operations, net of tax	(1,136)	(8,738)	(9,236)	(15,777)
Net loss	\$ (5,198)	\$ (24,360)	\$ (32,619)	\$ (50,351)

There is intense competition in the markets in which our partner companies operate, and we expect competition to intensify in the future. Additionally, the markets in which these companies operate are characterized by rapidly changing technology, evolving industry standards, frequent introduction of new products and services, shifting distribution channels, evolving government regulation, frequently changing intellectual property landscapes and changing customer demands. Their

future success depends on each company's ability to execute its business plan and to adapt to its respective rapidly changing markets.

Clarient

In connection with the audit of Clarient's financial statements as of December 31, 2007 and for the year then ended, Clarient's independent auditors determined that there was substantial doubt about Clarient's ability to continue as a going concern. In January and February 2009, respectively, Clarient's revolving credit facility and its bank credit facility will expire, 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. Clarient's management believes that its current cash resources, revenue from operations and commitments under its credit facilities will enable Clarient to maintain current operations through at least the next twelve months and fund anticipated capital expenditures and implementation of its strategy. See Liquidity and Capital Resources - Consolidated Partner Company below.

The financial information presented below does not include the results of operations of Clarient's ACIS technology group, which is included in discontinued operations for all periods presented. Clarient sold this business for cash proceeds of \$11.0 million, excluding contingent purchase price of \$1.5 million. In 2007, prior to its sale, the technology group generated revenue of \$0.8 million and net loss from operations of \$0.6 million.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands)			
Revenue	\$ 18,997	\$ 11,936	\$ 51,799	\$ 30,638
Operating expenses:				
Cost of sales	7,172	5,757	20,175	16,373
Selling, general and administrative	11,668	8,753	33,380	22,905
Total operating expenses	18,840	14,510	53,555	39,278
Operating income (loss)	157	(2,574)	(1,756)	(8,640)
Other loss, net				
Interest, net	(196)	(286)	(642)	(897)
Minority interest	928	1,227	3,084	4,181
Net income (loss) before income taxes	\$ 889	\$ (1,633)	\$ 686	\$ (5,356)

Clarient is a comprehensive cancer diagnostics company providing cellular assessment and cancer characterization to community pathologists, academic researchers, university hospitals and biopharmaceutical companies.

The decision to provide in-house laboratory services was made in 2004 to give Clarient an opportunity to capture a significant service-related revenue stream over the much broader and expanding cancer diagnostic testing marketplace. Clarient believes it is well positioned to participate in this growth due to its strength as a cancer diagnostics laboratory, deep domain expertise and access to intellectual property which can contribute to the development of additional tests, unique analytical capabilities and other service offerings.

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

As of September 30, 2008, we owned a 58.1% voting interest in Clarient.

Three months ended September 30, 2008 versus the three months ended September 30, 2007

Revenue. Revenue of \$19.0 million for the three months ended September 30, 2008 increased 59.1% or \$7.1 million from \$11.9 million for the prior year period. Clariant's increased revenue resulted from the effective execution of its commercial operations strategy which includes expanding the cancer diagnostic services that it provides to its existing customers, while also actively adding new customers. Clariant provided services to 73 new customers during the three months ended September 30, 2008, as compared to providing services to 53 new customers during the three months ended September 30, 2007.

During the first quarter of 2008 Clariant expanded the breadth of its diagnostic services to include cancer markers for tumors of the colon, prostate and lung. Clariant expects to steadily increase its menu of diagnostic services to include cancer markers for additional tumor types and to deepen its market penetration for the diagnostic services that it currently provides. A number of recently published clinical findings have promoted the use of certain biomarkers to predict patient response to a class of colorectal cancer drugs that are focused on blocking the epidermal growth factor receptor (EGFR) signaling pathway. Clariant's ability to perform tests such as K-ras (a newly emerging biomarker) to outline alterations in this major pathway is therefore becoming a more recognized tool in the medical community for predicting an individual's response to drug therapies for colorectal cancers. Clariant has also steadily increased the depth of its diagnostic services for certain cancer types that it has previously provided, including lymphoma/leukemia. Clariant's expanding capabilities in immunohistochemistry, flow cytometry, fluorescent in situ hybridization (FISH) and polymerase chain reaction (PCR), and its marketing of such capabilities, has enabled Clariant's revenue growth. Clariant anticipates that its favorable revenue trend will continue as it further executes its operational strategy of expanding the breadth and depth of its cancer diagnostic services, and the means by which its services are marketed and delivered to its customers.

Another contributor to revenue growth has been an overall increase in Medicare reimbursement rates which include cancer diagnostic services, effective January 1, 2008. In addition, many of the third-party contract rates are based upon Medicare rates, which consequently, also increased. In July 2008, the Medicare rate increase that initially took effect as of January 1, 2008 was extended 18 months, through December 31, 2009.

Cost of Sales. Cost of sales for the three months ended September 30, 2008 was \$7.2 million compared to \$5.8 million in the prior year period, an increase of 24.6%. The \$1.4 million increase was driven by an overall increase in revenue, and was primarily due to additional laboratory personnel costs of \$0.1 million, increased laboratory reagents and supplies expense of \$0.4 million, increased cost of tests performed by other laboratories of \$0.5 million and an increase in shipping expense of \$0.4 million.

Gross margin in the third quarter of 2008 was 62.2% compared to 51.8% in the prior year period. The increase in gross margin was primarily driven by an overall increase in revenue, including a more favorable mix of cancer diagnostic services that absorbed a greater proportion of fixed and semi-fixed costs as compared to the prior year period. In addition, employee productivity continues to improve and Clariant has also realized greater economies of scale in operations with its business growth as compared to the prior year period. Clariant anticipates that gross margins will modestly improve as its testing volume increases, and Clariant more effectively utilizes its operating capacity and more efficiently manages its operations. If the present Medicare reimbursement rates are decreased after December 31, 2009, gross margins could be adversely impacted.

Selling, General and Administrative. Selling, general and administrative expenses in the third quarter of 2008 were \$11.7 million, an increase of approximately \$2.9 million, or 33.3%, compared to \$8.8 million in the prior year period. As a percentage of revenue, these expenses decreased to 61.4% in the third quarter of 2008 compared to 73.3% in the prior year period, primarily due to the fixed and semi-fixed nature of certain selling, general and administrative expenses. The \$2.9 million increase in selling, general and administrative expenses in the third quarter of 2008 as compared to the prior year period was primarily due to an increase in bad debt expense of \$3.3 million. During the third quarter of 2008, Clariant increased its allowance for doubtful accounts due to the deterioration in the aging of a portion of its accounts receivable. Clariant anticipates that selling expenses will continue to grow in proportion to expected revenue growth. Clariant expects that billing expenses will be reduced as a result of bringing its billing system in-house and bad debt expense as a percentage of revenue will also decline due to improvement in the timeliness of its billings and improved information flow. In addition, Clariant expects that other general and administrative expenses will be reduced as a result of a targeted cost reduction program. As a result, Clariant expects that general and administrative expenses will decline in proportion to expected revenue growth.

Interest, Net. Interest expense, net, was \$0.2 million and \$0.3 million for the three months ended September 30, 2008 and 2007, respectively. Interest expense relates to borrowings under the credit arrangements with certain third party lenders. The decrease is due to the decrease in the level of outstanding third party borrowings *Nine Months ended September 30, 2008 versus the Nine Months ended September 30, 2007*

Revenue. Revenue of \$51.8 million for the nine months ended September 30, 2008 increased 69.1% or \$21.2 million from \$30.6 million for the prior year period. The increase resulted from the effective execution of Clariant's commercial operations strategy which includes expanding the cancer diagnostic services that are provided to existing customers, while also actively adding new customers. Clariant provided services to 172 new customers during the nine months ended September 30, 2008, as compared to providing services to 153 new customers during the nine months ended September 30, 2007.

Cost of Sales. Cost of sales for the nine months ended September 30, 2008 was \$20.2 million compared to \$16.4 million in the prior year period, an increase of 23.2%. The \$3.8 million increase was driven by an overall increase in revenue, and was primarily due to additional

laboratory personnel costs of \$0.4 million, increased laboratory reagents and supplies expense of \$0.8 million, increased cost of tests performed by other laboratories of \$1.6 million and an increase in shipping expense of \$1.0 million.

Gross margin in the first nine months of 2008 was 61.1% compared to 46.6% in the prior year period. The increase in gross margin was primarily driven by an overall increase in revenue, including a more favorable mix of cancer diagnostic services that absorbed a greater proportion of fixed and semi-fixed costs as compared to the prior year period. In addition, employee productivity continues to improve and Clariant has also realized greater economies of scale in operations with its business growth as compared to the prior year period.

Selling, General and Administrative. Selling, general and administrative expenses in the nine months ended September 30, 2008 were \$33.4 million, an increase of approximately \$10.5 million, or 45.7%, compared to \$22.9 million in the prior year period. As a percentage of revenue, these expenses decreased to 64.4% in the nine months ended September 30, 2008 compared to 74.8% in the prior year period. The \$10.5 million increase in selling, general and administrative expenses as compared to the prior year period was primarily due to an increase in bad debt expense of \$6.0 million, an increase in employee severance costs of \$0.2 million, an increase in sales and administrative payroll and training costs of \$2.4 million, an increase in professional fees of \$1.0 million, an increase in depreciation expense of \$0.4 million and an increase in facilities-related expenses of \$0.4 million.

Interest, Net. Interest expense, net, was \$0.6 million and \$0.9 million for the nine months ended September 30, 2008 and 2007, respectively. Interest expense relates to borrowings under credit arrangements with certain third party lenders. The decrease is due to the decrease in the level of outstanding third party borrowings.

Life Sciences

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

Partner Company	Safeguard Ownership	Accounting Method
Advanced BioHealing, Inc.	28.3%	Equity method
Avid Radiopharmaceuticals, Inc.	13.9%	Cost method
Alverix, Inc.	50.0%	Equity method
Cellumen, Inc.	40.6%	Equity method
NuPathe, Inc.	23.4%	Equity method
Rubicor Medical, Inc.	35.7%	Equity method
Yet-to-be-announced company	37.0%	Equity method

The following partner companies were included in Life Sciences during the three and nine months ended September 30, 2007:

Partner Company	Safeguard Ownership	Accounting Method
Advanced BioHealing, Inc.	28.3%	Equity method
Avid Radiopharmaceuticals, Inc.	14.2%	Cost method
Cellumen, Inc.	40.3%	Equity method
Neuronyx, Inc.	6.8%	Cost method
NuPathe, Inc.	21.3%	Equity method
Rubicor Medical, Inc.	35.7%	Equity method
Ventaira Pharmaceuticals, Inc.	11.6%	Cost method

**Three Months Ended
September 30,
2008 2007
(In thousands)**

**Nine Months Ended
September 30,
2008 2007
(In thousands)**

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

	(unaudited)		(unaudited)	
Other loss	\$	\$ (4,531)	\$	\$ (5,331)
Equity loss	\$ (6,326)	\$ (3,022)	\$ (14,275)	\$ (6,342)
Net loss before income taxes	\$ (6,326)	\$ (7,553)	\$ (14,275)	\$ (11,673)

Equity Loss. Equity loss fluctuates with the number of Life Sciences partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity partner company or we have outstanding commitments or guarantees. Certain amounts recorded to reflect our share of the income or losses of our partner companies accounted for under the equity method are based on estimates and on unaudited results of operations of those partner companies and may require adjustments in the future when audits of these entities are made final. We report our share of the results of our equity method partner companies on a one quarter lag basis. Equity loss for Life Sciences increased \$3.3 million and \$7.9 million in the three and nine months ended September 30, 2008, respectively, compared to the prior year periods. Included in equity loss for the three and nine months ended September 30, 2008, was expense of \$2.3 million associated with acquired in-process research and development related to our acquisition of a 37% interest in a yet-to-be-announced Life Sciences partner company. The increase in equity loss was also due to an increase in the number of equity method partner companies, each of which generated losses, and larger losses incurred at certain partner companies. Other loss for the three and nine months ended September 30, 2007 reflects an impairment charge for Ventaira Pharmaceuticals, Inc. We expect to recognize a \$1.3 million charge in the fourth quarter of 2008, related to an in-process research and development charge recorded by NuPathe.

Technology

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

Partner Company	Safeguard Ownership	Accounting Method
Advantagedge Healthcare Solutions, Inc.	37.7%	Equity method
Authentium, Inc.	20.0%	Equity method
Beyond.com, Inc.	37.1%	(1)
Bridgevine, Inc.	20.8%	Equity method
Kadoo, Inc.	14.0%	Equity method
GENBAND Inc.	2.3%	Cost method
Portico Systems, Inc.	46.8%	Cost method
Swaptree, Inc.	29.3%	Equity method

The following partner companies were included in Technology during the three and nine months ended September 30, 2007:

Partner Company	Safeguard Ownership	Accounting Method
Advantagedge Healthcare Solutions, Inc.	35.2%	Equity method
Authentium, Inc.	19.9%	Equity method
Beyond.com, Inc.	37.1%	(1)
NexTone, Inc. (now GENBAND)	16.6%	Equity method
Portico Systems, Inc.	46.9%	Cost method
ProModel Corporation	49.7%	Equity method

(1) During the three months ended September 30, 2008, we increased our

ownership
interest in
Authentium to
the 20.0%
threshold at
which we
believe we
exercise
significant
influence.
Accordingly, we
adopted the
equity method
of accounting
for our holdings
in Authentium.
In accordance
with APB 18,
The Equity
Method of
Accounting for
Investments in
Common Stock ,
we have
adjusted the
financial
statements for
prior periods
contained in this
Form 10-Q to
retrospectively
apply the equity
method of
accounting for
our holdings in
Authentium
since the initial
date of
acquisition in
April 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands) (unaudited)		(In thousands) (unaudited)	
Equity loss	\$ (1,968)	\$ (1,333)	\$ (5,882)	\$ (3,642)
Net loss before income taxes	\$ (1,968)	\$ (1,333)	\$ (5,882)	\$ (3,642)

Equity Loss. Equity loss fluctuates with the number of Technology partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity partner company or we have outstanding commitments or guarantees. Certain amounts recorded to reflect our share of the income or losses of our partner companies accounted for under the equity method are based on estimates and on unaudited results of operations of those partner companies and may require adjustments in the future when audits of these entities are made final. We report our share of the results of our equity method partner companies on a one quarter lag. Equity loss for Technology increased \$0.6 million and \$2.2 million in the three and nine months ended September 30, 2008, respectively, compared to the prior year periods. The increase was due to an increase in the number of equity method partner companies each of which generated losses, and larger losses incurred at certain partner companies.

Corporate Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(In thousands) (unaudited)		(In thousands) (unaudited)	
General and administrative costs, net	\$ (3,562)	\$ (5,013)	\$ (12,414)	\$ (14,555)
Stock-based compensation	(612)	(811)	(1,081)	(2,905)
Depreciation	(36)	(46)	(129)	(149)
Interest income	906	1,763	2,613	6,023
Interest expense	(999)	(1,056)	(3,106)	(3,166)
Other income	7,685	112	10,312	223
Equity (loss)	(69)	(52)	(133)	(70)
	\$ 3,313	\$ (5,103)	\$ (3,938)	\$ (14,599)

Three months ended September 30, 2008 versus the three months ended September 30, 2007

General and Administrative Costs. Our general and administrative expenses consist primarily of employee compensation, insurance, outside services such as legal, accounting and travel-related costs. General and administrative costs decreased \$1.5 million as compared to the prior year period. The decrease is primarily attributable to a \$0.5 million decrease in employee costs and a severance charge of \$0.6 million in the third quarter of 2007.

Stock-Based Compensation. Stock-based compensation consists primarily of expense related to stock option grants and grants of restricted stock and deferred stock units to our employees. The \$0.2 million decrease relates to higher expense in the prior year period due to the acceleration of stock-based compensation expense related to the market-based stock options. Stock-based compensation expense related to corporate operations is included in selling, general and administrative in the Consolidated Statements of Operations.

Interest Income. Interest income includes all interest earned on available cash and marketable security balances. Interest income decreased \$0.9 million in the third quarter of 2008 compared to the prior year period due to a decrease in interest rate returns and a decrease in average invested cash balances.

Interest Expense. Interest expense is primarily related to our 2.625% convertible senior debentures with a stated maturity of 2024. Interest expense remained consistent in the three and nine months ended September 30, 2008 as compared to the prior year periods.

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

Equity (loss). Equity (loss) was from our equity (loss) for private equity holdings accounted for under the equity method.

Nine months ended September 30, 2008 versus the nine months ended September 30, 2007

General and Administrative Costs. Our general and administrative expenses consist primarily of employee compensation, insurance, outside services such as legal, accounting and travel-related costs. General and administrative costs decreased \$2.1 million as compared to the prior year period. The decrease is primarily attributable to a \$0.8 million decrease in employee costs, a \$0.8 million decrease in professional fees, and a severance charge of \$0.6 million in the third quarter of 2007.

Stock-Based Compensation. Stock-based compensation consists primarily of expense related to stock option grants and grants of restricted stock and deferred stock units to our employees. The \$1.8 million decrease relates to stock option forfeitures during the period and higher expense in the prior year period due to the acceleration of stock-based compensation expense related to the market-based stock options. Stock based compensation expense related to corporate operations is included in selling, general and administrative in the Consolidated Statements of Operations.

Interest Income. Interest income includes all interest earned on available cash and marketable security balances. Interest income decreased \$3.4 million in the nine months ended September 30, 2008 compared to the prior year period due to a decrease in interest rate returns on lower average invested cash balances.

Interest Expense. Interest expense is primarily related to our 2.625% convertible senior debentures with a stated maturity of 2024. Interest expense remained consistent in the three and nine months ended September 30, 2008 as compared to the prior year periods.

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

Equity (loss). Equity (loss) was from our equity (loss) for private equity holdings accounted for under the equity method.

Income Tax Expense

Income tax benefit for the three and nine months ended September 30, 2008 was \$30 thousand and \$26 thousand, respectively. Consolidated income tax benefit was \$696 thousand for the nine months ended September 30, 2007. We have recorded a valuation allowance to reduce our net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized in each period was offset by a valuation allowance. The net tax benefit recognized in each period resulted from the reversal of reserves that related to uncertain tax positions for which the statute of limitations expired during the period in the applicable tax jurisdictions.

Discontinued Operations

Of the companies included in the Bundle Transaction, Acsis, Alliance Consulting and Laureate Pharma were majority-owned partner companies; Neuronyx and ProModel were minority-owned partner companies. The Bundle Transaction was consummated on May 6, 2008. We have presented the results of operations of Acsis, Alliance Consulting and Laureate Pharma as discontinued operations for all periods presented. The gross proceeds from the Bundle Transaction were \$74.5 million, of which \$6.4 million is to be held in escrow through April 2009, plus amounts advanced to certain of the Bundle Companies during the time between the signing of the Bundle Transaction agreement and its consummation. In the first quarter of 2008, we recognized an impairment loss of \$3.6 million to write down the aggregate carrying value of the Bundle Companies to the total proceeds, less estimated costs to complete the Bundle Transaction. In the second quarter of 2008, we recorded a charge of \$0.9 million in discontinued operations to accrue for severance payments due to the former CEO of Alliance Consulting in connection with the Bundle Transaction and we recorded a pre-tax gain on disposal of \$1.4 million.

In March 2007, we sold Pacific Title & Art Studio for net cash proceeds of approximately \$21.9 million, including \$2.3 million cash to be held in escrow. As a result of the sale, we recorded a pre-tax gain of \$2.7 million in the first quarter of 2007. During the three months and nine months ended September 30, 2008, the Company recorded a loss of \$1.1 million and \$1.6 million, respectively, which is included in discontinued operations. These amounts related to additional compensation paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007 sale and related legal fees. Pacific Title & Art Studio is reported in discontinued operations for all periods presented.

On March 8, 2007, Clariant sold its ACIS technology group for net cash proceeds of \$11.0 million (excluding \$1.5 million in contingent purchase price). As a result of the sale, Clariant recorded a pre-tax gain of \$3.6 million in the first quarter of 2007. The ACIS technology group is reported in discontinued operations for all periods presented.

The loss from discontinued operations, net of tax in the first nine months of 2008 of \$9.2 million was primarily attributable to the \$3.6 million impairment loss recorded in the first quarter of 2008 related to the Bundle Transaction, the 2008 operating results of Acsis, Alliance Consulting and Laureate Pharma through May 6, 2008 and expenses for additional compensation paid to the former CEO of Pacific Title & Art Studio and related legal fees. The loss from discontinued operations in the first nine months of 2007 of \$15.8 million was primarily attributable to the loss from operations of Acsis, Alliance Consulting and Laureate Pharma, partially offset by the gain on sale of Pacific Title & Art Studio and the gain on sale of Clariant's ACIS technology group.

Liquidity and Capital Resources

Parent Company

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

As of September 30, 2008, at the parent company level, we had \$46.3 million of cash and cash equivalents and \$60.8 million of marketable securities for a total of \$107.1 million. In addition to the amounts above, we had \$2.0 million in escrow associated with our interest payments due on our 2024 Debentures through March 2009, \$6.9 million of cash held in escrow, including accrued interest, and Clariant, our consolidated partner company, had cash and cash equivalents of \$1.9 million.

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

In April 2008, we received net cash proceeds of \$20.5 million that were released from escrow related to our October 2006 sale of Mantas, Inc. and in September 2008, we received \$1.8 million cash proceeds that were released from escrow related to our March 2009 sale of Pacific Title & Art Studio.

In February 2004, we completed the sale of the 2024 Debentures. At September 30, 2008, we had \$91.0 million in face value of the 2024 Debentures outstanding. Interest on the 2024 Debentures is payable semi-annually. At the holders' option, the 2024 Debentures are convertible into our common stock before the close of business on March 14, 2024 subject to certain conditions. The conversion rate of the 2024 Debentures is \$7.2174 of principal amount per share. The closing price of our common stock on September 30, 2008 was \$1.25. The 2024 Debentures holders have the right to require repurchase of the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective face amount, plus accrued and unpaid interest. The 2024 Debentures holders also have the right to require repurchase of the 2024 Debentures upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution or a change in control. Subject to certain conditions, we have the right to redeem all or some of the 2024 Debentures commencing March 20, 2009. During the third quarter 2008, the Company repurchased \$38.0 million in face value of the 2024 debentures for \$30.0 million in cash, including accrued interest. In connection with the repurchase, 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 \$7.6 million which was included in other income. During 2006, we repurchased

\$21.0 million in face value of the 2024 Debentures for \$16.4 million in cash, including accrued interest.

37

On May 2, 2008, our Board of Directors authorized us, from time to time and depending on market conditions, to repurchase shares of our outstanding common stock, with up to an aggregate value of \$10.0 million, exclusive of fees and commissions. These repurchases, as well as any repurchases of 2024 Debentures, have and will be made in open market or privately negotiated transactions in compliance with the U.S. Securities and Exchange Commission and other applicable legal requirements. The manner, timing and amount of any purchases have and will be determined by us based upon an evaluation of market conditions, stock price and other factors. Our Board of Directors' authorizations regarding common stock and 2024 Debenture repurchases do not obligate us to acquire any particular amount of common stock or 2024 Debentures and may be modified or suspended at any time at our discretion. During the three and nine months ended September 30, 2008, we repurchased approximately 813 thousand and 975 thousand shares of common stock at a cost of \$1.1 million and \$1.3 million, respectively.

We maintain a revolving credit facility that provides for borrowings and issuances of letters of credit and guarantees up to \$30.0 million. This revolving credit facility expires on June 29, 2009. Borrowing availability under the facility is reduced by the amounts outstanding for our borrowings and letters of credit and amounts guaranteed under Clariant's facility maintained with that same lender. This credit facility bears interest at the prime rate (5.0% at September 30, 2008) for outstanding borrowings. The credit facility is subject to an unused commitment fee of 0.125% per annum, which is subject to reduction based on deposits maintained at the bank. The credit facility requires us to maintain an unrestricted cash collateral account at that same bank, equal to our borrowings and letters of credit and amounts borrowed by Clariant under the guaranteed portion of its facility maintained with that same bank. At September 30, 2008, the required cash collateral, pursuant to the credit facility agreement was \$18.6 million, which amount is included within Cash and cash equivalents on our Consolidated Balance Sheet as of September 30, 2008.

Availability under our revolving credit facility at September 30, 2008 was as follows:

	Total (In thousands) (unaudited)
Size of facility	\$ 30,000
Guaranty of Clariant's facility at same bank (a)	(12,300)
Outstanding letter of credit (b)	(6,336)
Amount available at September 30, 2008	\$ 11,364

(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 Clariant's facility maintained at the same bank.

- (b) In connection with the sale of CompuCom in 2004, we 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.

We have committed capital of approximately \$7.7 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 \$7.5 million which is expected to be funded in the next 12 months. We do not intend to commit to new investments in additional private equity funds and may seek to further reduce our current ownership interests in, and our existing commitments to, the funds in which we hold interests.

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

In May 2001, we entered into a \$26.5 loan agreement with Warren V. Musser, our former Chairman and Chief Executive Officer. In December 2006, we restructured the obligation to reduce the amount outstanding to \$14.8 million, bearing interest rate of 5.0% per annum. Cash payments, when received, are recognized as Recovery-related party in our Consolidated Statements of Operations. Since 2001 and through September 30, 2008 we received a total of \$16.3 million in cash payments on the loan, of which \$3 thousand was received during the first nine months of 2008. The carrying value of the loan at September 30, 2008 was zero.

We have received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for further distribution to such fund's limited partners (the "clawback"). The maximum clawback we could be required to return for our general partner interest is \$3.6 million, of which \$1.1 million was reflected in accrued expenses and other current liabilities and \$2.5 million was reflected in Other long-term liabilities on the Consolidated Balance Sheet at September 30, 2008.

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

For the reasons we presented above, we believe our cash and cash equivalents at September 30, 2008, availability under our revolving credit facility and other internal sources of cash flow will be sufficient to fund our cash requirements for at least the next 12 months, including commitments to our existing companies and funds, possible additional funding of existing partner companies and our general corporate requirements. Our acquisition of new partner company interests is always contingent upon our availability of cash to fund such deployments, and our timing of monetization events directly affects our availability of cash.

Consolidated Partner Company

Clariant, our consolidated partner company, incurred losses in 2007 and the first nine months of 2008 and may need additional capital to fund their operations. From time-to-time, Clariant may require additional debt or equity financing or credit support from us to fund planned expansion activities. If we decide not to, or cannot provide sufficient capital resources to allow them to reach a positive cash flow position, and they are unable to raise capital from outside resources, they may need to scale back their operations. As described below, we have renewed, expanded and extended a revolving line of credit to Clariant. Alliance Consulting, Acsis and Laureate Pharma were among the Bundle Companies sold on May 6, 2008 as part of the Bundle Transaction. We will not have any continuing involvement with the funding requirements of these companies.

Clariant maintains a credit facility with its bank that provides for borrowings of up to \$12.0 million. This facility contains financial and non-financial covenants and matures February 26, 2009.

On July 31, 2008, Clariant entered into a separate \$8.0 million secured revolving credit facility. Actual availability under the facility is limited by Clariant's qualified accounts receivable and certain liquidity factors. Clariant reduced indebtedness to us under the Mezzanine Facility (defined below) with a portion of the proceeds borrowed under the revolving credit facility.

In March 2007, we provided a subordinated revolving credit line (the "Mezzanine Facility") to Clariant. Under the Mezzanine Facility, we committed to provide Clariant access to up to \$12.0 million in working capital funding, which was reduced to \$6.0 million as a result of the ACIS Sale. The Mezzanine Facility originally had a term expiring on December 8, 2008. On March 14, 2008, the Mezzanine Facility was extended through April 15, 2009 and increased from \$6.0 million to \$21.0 million. In connection with the extension and increase of the Mezzanine Facility, we received from Clariant five-year warrants to purchase shares of Clariant common stock with an exercise price of \$0.01 per share. We received 1.6 million of these warrants at the time of the extension of the Mezzanine Facility and we received an additional 1.7 million warrants through September 2, 2008 based on the amount of borrowings remaining outstanding under the Mezzanine Facility at certain interim dates. The Mezzanine Facility is subject to reduction to \$6.0 million under certain circumstances involving the completion of replacement financing by Clariant. At September 30, 2008, \$10.4 million was outstanding under the Mezzanine Facility.

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

terminate its equipment line of credit with the same lender.

In connection with the audit of Clariant's financial statements as of December 31, 2007 and for the year then ended, Clariant's independent auditors determined that there was substantial doubt about Clariant's ability to continue as a going

concern. In February 2009, Clariant's bank credit facility in the amount of \$12.0 million will expire, at which time Clariant 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. Clariant management believes that its current cash resources, revenue from operations and commitments under its credit facilities will enable Clariant to maintain current operations and fund anticipated capital expenditures and implementation of its strategy.

Analysis of Parent Company Cash Flows

Cash flow activity for the Parent Company was as follows:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Net cash used in operating activities	\$ (11,504)	\$ (13,214)
Net cash (used in) provided by investing activities	(5,679)	59,612
Net cash (used in) provided by financing activities	(31,181)	586
	\$ (48,364)	\$ 46,984

Cash Used In Operating Activities

Cash used in operating activities decreased \$1.7 million. The change was primarily related to working capital changes.

Net Cash (Used in) Provided by Investing Activities

Net cash used in investing activities increased by \$65.3 million. The increase was primarily related to an increase in cash used to purchase marketable securities of \$153.8, an increase in cash used for advances to companies of \$12.3 million offset by a \$64.9 increase in the proceeds from the sale of discontinued operations and a decrease of \$37.7 million in cash used in acquisitions of ownership interests in partner companies and funds.

Proceeds from sale of discontinued operations for the nine month period ended September 30, 2008 includes net cash proceeds of \$65.7 million from the sale of Acsis, Alliance Consulting and Laureate as part of the Bundle Sale, excluding amounts held in escrow, \$20.5 million net proceeds released from escrow related to our October 2006 sale of Mantas, Inc. and \$1.8 million proceeds released from escrow related to the March 2007 sale of Pacific Title & Art Studio, partially offset by \$3.7 million paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007 sale including related legal fees. Included in the net cash used in investing activities in the nine months ended September 30, 2008 was \$3.0 million we paid related to our estimated clawback liabilities.

Net Cash (Used In) Provided By Financing Activities

Net cash used in financing activities increased \$31.8 million primarily due to the \$30.0 million repurchase of the convertible senior debentures and \$1.3 million purchases of treasury stock.

Consolidated Working Capital from Continuing Operations

Consolidated working capital from continuing operations, excluding assets held for sale was \$106.4 million at September 30, 2008, an increase of \$10.7 million compared to December 31, 2007. The increase was primarily due to proceeds from the Bundle Sale (see Note 3).

Analysis of Consolidated Company Cash Flows

Cash flow activity was as follows:

	Nine Months Ended September 30,	
	2008	2007
	(In thousands)	
Net cash used in operating activities	\$ (17,696)	\$ (32,153)
Net cash (used in) provided by investing activities	(2,372)	62,113
Net cash (used in) provided by financing activities	(26,887)	16,169
	\$ (46,955)	\$ 46,129

Net Cash Used In Operating Activities

Net cash used in operating activities decreased \$14.5 million in the first nine months of 2008 compared to the prior year period. The decrease was primarily related to working capital changes and a decrease in cash used in operating activities of discontinued operations.

Net Cash Provided by Investing Activities

Net cash used in investing activities increased by \$64.5 million. The increase was primarily related to an increase in cash used to purchase marketable securities of \$153.8 million, an increase in cash used for advances to companies of \$3.8 million offset by a \$54.0 million increase in the proceeds from the sale of discontinued operations, a decrease of \$34.7 million in cash used in acquisitions of ownership interests in partner companies and funds and a \$3.4 million decrease in cash used in investing activities by discontinued operations.

Proceeds from sale of discontinued operations for the nine-month period ended September 30, 2008 includes net cash proceeds of \$65.7 million from the sale of Acsis, Alliance Consulting and Laureate as part of the Bundle Sale, excluding amounts held in escrow, and \$20.5 million net proceeds released from escrow related to our October 2006 sale of Mantas, Inc. and \$1.8 million proceeds released from escrow related to the March 2007 sale of Pacific Title & Art Studio, partially offset by \$3.7 million paid to the former CEO of Pacific Title & Art Studio in connection with the March 2007 sale.

Included in the net cash provided by investing activities in the nine months ended September 30, 2008 was \$3.0 million we paid related to our estimated clawback liabilities.

Net Cash (Used In) Provided by Financing Activities

Net cash used in financing activities increased \$43.1 million primarily due to the \$30.0 million repurchase of the convertible senior debentures, decrease in net borrowings on revolving credit facilities of \$4.7 million, a \$1.3 million purchase of treasury stock and a decrease of \$6.8 million in cash flows provided by financing activities of discontinued operations.

Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations and other commercial commitments related to continuing operations as of September 30, 2008 by period due or expiration of the commitment.

	Total	Payments Due by Period			Due after 2013
		Rest of 2008	2009 and 2010	2011 and 2012	
			(In millions)		
Contractual Cash Obligations					
Lines of credit (a)	\$ 14.4	\$	\$ 14.4	\$	\$
Capital leases	0.6	0.1	0.5		
Convertible senior debentures (b)	91.0				91.0
Operating leases	15.0	0.4	4.3	4.4	5.9
Funding commitments (c)	7.7	0.4	7.3		
Potential clawback liabilities (d)	3.6	1.1	2.5		
Other long-term obligations (e)	2.3	0.2	1.3	0.8	
Total Contractual Cash Obligations	\$ 134.6	\$ 2.2	\$ 30.3	\$ 5.2	\$ 96.9

	Total	Amount of Commitment Expiration by Period			Due after 2012
		Rest of 2008	2009 and 2010	2011 and 2012	
		(in millions)			
Other Commitments					
Letters of credit (f)	\$ 9.3	\$	\$ 3.0	\$	\$ 6.3

(a) Clarient maintains a credit facility with a bank which we guarantee. Outstanding borrowings under the credit facility amounted to \$9.0 million at September 30, 2008. In addition, Clarient had \$5.4 million outstanding at September 30, 2008 under a senior secured

revolving credit agreement which is secured by Clariant's accounts receivable and related assets. Guarantees of \$31.5 million were eliminated upon the closing of the Bundle Transaction.

- (b) In February 2004, we completed the issuance of \$150.0 million in face value of the 2024 Debentures with a stated maturity of March 15, 2024. During the third quarter of 2008 and during 2006, we repurchased \$38.0 million and \$21.0 million, respectively, in face value of the 2024 Debentures. The 2024 Debenture holders have the right to require us to repurchase the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective face amount, plus accrued and unpaid interest.

(c)

These amounts include funding commitments to private equity funds which have been included in the respective years based on estimated timing of capital calls provided to us by the funds management.

Also included are \$6.5 million conditional commitments to provide non-consolidated partner companies with additional funding.

- (d) We have received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for a further distribution to such fund's limited partners (the clawback). The maximum clawback we could be required to return is approximately

\$3.6 million, of which \$1.1 million was reflected in accrued expenses and other current liabilities and \$2.5 million was reflected in other long-term liabilities on the Consolidated Balance Sheets.

- (e) Reflects the amount payable to our former Chairman and CEO under a contract.
- (f) Letters of credit include a \$6.3 million letter of credit provided to the landlord of CompuCom's Dallas headquarters lease in connection with the sale of CompuCom in 2004 and a \$3.0 million letter of credit issued by Clariant supporting its office lease.

We have employment agreements with certain executive officers that provide for severance payments to the executive officer in the event the officer is terminated without cause or in the event the officer terminates his employment for good reason. The maximum aggregate exposure under the agreements was approximately \$8.0 million at September 30, 2008.

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

Recent Accounting Pronouncements

See Note 5 to the Consolidated Financial Statements.

Factors That May Affect Future Results

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

Risks Related to our Business

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

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

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

These risks are discussed in greater detail under the caption **Risks Related to Our Partner Companies** below.

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

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

- § change the partner companies on which we focus;
- § sell some or all of our interests in any of our partner companies; or
- § otherwise change the nature of our interests in our partner companies.

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

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

- § For the three and nine months ended September 30, 2008, we consolidated the results of operations of Clariant in continuing operations. In our Form 10-K for the year ended December 31, 2007, we consolidated the results of operations of Acsis, Alliance Consulting, Clariant, and Laureate Pharma in continuing operations. The Bundle Transaction closed on May 6, 2008 and included the sale of three of our majority-owned partner companies Acsis, Alliance Consulting and Laureate Pharma.

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

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

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

Fluctuations in the market prices of the common stock of our publicly traded holdings are likely to affect the price of our common stock. The market prices of our publicly traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance. For example, the aggregate market value of our holdings in Clariant (Nasdaq: CLRT), our only publicly listed partner company, at September 30, 2008 was approximately \$74.5 million, and at December 31, 2007 was approximately \$86.8 million.

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

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

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

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

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

Our success is dependent on our executive management.

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

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

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

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

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

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

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

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

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

partner companies are generally considered investment securities for purpose of the Investment Company Act, unless other circumstances exist which actively involve

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

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

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

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

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

We determined that we had deficiencies in our internal control over financial reporting as of December 31, 2007 that constituted material weaknesses as defined by the Public Company Accounting Oversight Board's Audit Standard No. 5. These material weaknesses are identified in Item 9A, Controls and Procedures within our Annual Report on Form 10-K for the year ended December 31, 2007.

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

Risks Related to our Partner Companies

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

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

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

There is intense competition in the technology and life sciences marketplaces, and we expect competition to intensify in the future. Our business, financial condition, results of operations and prospects for growth will be materially adversely affected if our partner companies are not able to compete successfully. Many of the present and

potential competitors may

have greater financial, technical, marketing and other resources than those of our partner companies. This may place our partner companies at a disadvantage in responding to the offerings of their competitors, technological changes or changes in client requirements. Also, our partner companies may be at a competitive disadvantage because many of their competitors have greater name recognition, more extensive client bases and a broader range of product offerings. In addition, our partner companies may compete against one another.

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

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

The technology and life sciences marketplaces are characterized by:

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

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

Many of our partner companies may grow rapidly and may be unable to manage their growth.

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

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

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

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

not be available from third parties on acceptable terms, if at all.

We cannot be certain that our partner companies will be able to obtain additional financing on favorable terms, if at all. Because our resources and our ability to raise capital are limited, we may not be able to provide our partner companies with sufficient capital resources to enable them to reach a cash flow positive position. We also may fail to accurately project the capital needs of our partner companies for purposes of our cash flow planning. If our partner companies need to but are not

able to raise capital from us or other outside sources, then they may need to cease or scale back operations. In such event, our interest in any such partner company will become less valuable.

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

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

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

As reported in its Form 10-K for the year ended December 31, 2007, Clariant's independent auditors determined that there was substantial doubt about Clariant's ability to continue as a going concern. The going concern explanatory paragraph in Clariant's audit opinion could have a negative impact on:

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

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

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

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

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

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

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

The manufacture and sale of certain of our partner companies' products entails an inherent risk of product liability. Certain of our partner companies maintain product liability insurance. Although none of our partner companies to date have experienced any material losses, there can be no assurance that they will be able to maintain or acquire adequate product liability insurance in the future and any product liability claim could have a material adverse effect on our partner companies.

revenue and income. In addition, many of the engagements of our partner companies involve projects that are critical to the operation of their clients' businesses. If our partner companies fail to meet their contractual obligations, they could be subject to legal liability, which could adversely affect their business, operating results and financial condition. The provisions our partner companies typically include in their contracts, which are designed to limit their exposure to legal claims relating to their services and the applications they develop, may not protect our partner companies or may not be enforceable. Also, as consultants, some of our partner companies depend on their relationships with their clients and their reputation for high-quality services and integrity to retain and attract clients. As a result, claims made against our partner companies' work may damage their reputation, which in turn could impact their ability to compete for new work and negatively impact their revenue and profitability.

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to equity price risks on the marketable portion of our securities. These securities include equity positions in partner companies, many of which have experienced significant volatility in their stock prices. Historically, we have not attempted to reduce or eliminate our market exposure on securities. Based on closing market prices at September 30, 2008, the fair market value of Clarient, our only publicly traded partner company, was approximately \$74.5 million. A 20% decrease in Clarient's stock price would result in an approximate \$14.9 million decrease in the fair value of our holding in Clarient.

In February 2004, we completed the issuance of \$150.0 million in face value of our 2024 Debentures with a stated maturity of March 15, 2024. During the third quarter 2008, we repurchased \$38.0 million in face value of the 2024 debentures for \$30.0 million in cash. In 2006, we repurchased a total of \$21.0 million in face value of the 2024 Debentures. Interest payments of approximately \$1.2 million each are due on the now outstanding 2024 Debentures in March and September of each year. The holders of these 2024 Debentures have the right to require repurchase of the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their face amount plus accrued and unpaid interest. In October 2004, we used approximately \$16.7 million of the proceeds from the CompuCom sale to escrow interest payments due through March 15, 2009.

	Remainder of			After	Fair Market Value at September 30, 2008
Liabilities	2008	2009	2010	2010	
2024 Debentures due by year (in millions)				\$ 91.0	\$ 63.0
Fixed interest rate	2.625%	2.625%	2.625%	2.625%	2.625%
Interest expense (in millions)	\$ 0.6	\$ 2.4	\$ 2.4	\$ 31.5	N/A
		50			

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, because of material weaknesses in internal control over financial reporting discussed in Management's Report on Internal Control Over Financial Reporting included in our Annual Report on Form 10-K for the year ended December 31, 2007 that were not remediated as of September 30, 2008, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

We have begun efforts to design and implement improvements in our internal controls over financial reporting to address the material weaknesses discussed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2007. On June 1, 2008, Clariant went effective with its in-house billing and collection system. During the three months ended September 30, 2008, Clariant's third-party billing provider continued to process collections of outstanding accounts receivable dated prior to June 1, 2008. Effective October 31, 2008, Clariant's agreement with its third-party billing provider was terminated and Clariant will, going forward, process its own collections for outstanding pre-June 1, 2008 accounts receivable. As of September 30, 2008, we continue to evaluate the operating effectiveness of our internal controls over financial reporting, which include our remediation plan and testing of the aforementioned material weaknesses and evaluation of the new internal controls implemented over Clariant's in-house billing and collection system.

In light of these unremediated material weaknesses and the new internal controls over Clariant's in-house billing and collection system, we performed additional post-closing procedures and analyses in order to prepare the Consolidated Financial Statements included in this report. As a result of these procedures, we believe that our Consolidated Financial Statements included in this report present fairly, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

No other change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our business strategy involves the acquisition of interests in new businesses on an on-going basis, most of which are young, growing companies. Typically, these companies have not historically had all of the controls and procedures they would need to comply with the requirements of the Securities Exchange Act of 1934 and the rules promulgated thereunder. These companies also frequently develop new products and services. Following an acquisition, or the launch of a new product or service, we work with the company's management to implement all necessary controls and procedures.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Except as set forth below, there have been no material changes in our risk factors from the information set forth above under the heading "Factors That May Affect Future Results" and in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

Fluctuations in the market prices of the common stock of our publicly-traded holdings are likely to affect the price of our common stock. The market prices of our publicly-traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance. For example, the aggregate market value of our holdings in Clariant (Nasdaq: CLRT) at September 30, 2008 was approximately \$74.5 million, and at December 31, 2007 was approximately \$86.8 million.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

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

- § change the partner companies on which we focus;
- § sell some or all of our interests in any of our partner companies; or
- § otherwise change the nature of our interests in our partner companies.

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

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

- § For the three and nine months ended September 30, 2008, we consolidated the results of operations of Clariant in continuing operations. In our Annual Report on Form 10-K for the year ended December 31, 2007 we consolidated the results of operations of Acsis, Alliance Consulting, Clariant, and Laureate Pharma in continuing operations. The Bundle Transaction closed on May 6, 2008 and included the sale of three of our majority-owned partner companies—Acsis, Alliance Consulting and Laureate Pharma.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes repurchases of our common stock in the nine months ended September 30, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (in thousands)
June 1 30, 2008	161,600	\$ 1.36	161,600	\$ 9,780
July 1 31, 2008	399,500	\$ 1.22	399,500	\$ 9,293
August 1 31, 2008	241,700	\$ 1.38	241,700	\$ 8,959
September 1 30, 2008	172,100	\$ 1.37	172,100	\$ 8,724
Total	974,900	\$ 1.31	974,900	\$ 8,724

On May 7, 2008, we announced that our Board of Directors had authorized us, from time to time and depending on market conditions, to repurchase shares of our outstanding common stock, with up to an aggregate value of \$10.0 million, exclusive of fees and commissions. This authorization has no expiration date. Our Board of Directors authorization regarding common stock repurchases does not obligate us to acquire any particular amount of common stock and may be modified or suspended at any time at our discretion.

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

The shareholders of the Company voted on three items of business at the Annual Meeting of Shareholders held on July 23, 2008:

1. The election of eleven directors;
2. A proposal to amend the Company's Second Amended and Restated Articles of Incorporation to effect a reverse stock split of the Company's outstanding common stock at an exchange ratio of not less than 1-for-4 and not more than 1-for-8, and authorize the Company's Board of Directors, in its discretion, to implement the reverse stock split within this range at any time prior to the Company's 2009 annual meeting of shareholders; and
3. A proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008.

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

NOMINEE	VOTES FOR	VOTES WITHHELD
Peter J. Boni	99,043,819	7,400,221
Michael J. Cody	102,791,526	3,652,514
Julie A. Dobson	99,128,761	7,315,279
Robert E. Keith, Jr.	99,073,464	7,370,576
Andrew E. Lietz	102,764,749	3,679,291
George MacKenzie	102,441,858	4,002,182
George D. McClelland	102,462,821	3,981,219
Jack L. Messman	102,726,375	3,717,665
John W. Poduska, Sr.	102,690,450	3,753,590
John J. Roberts	102,441,901	4,002,139

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Robert J. Rosenthal

102,454,552

3,989,488

The proposal to amend the Company's Second Amended and Restated Articles of Incorporation to effect a reverse stock split of the Company's outstanding common stock at an exchange ratio of not less than 1-for-4 and not more than 1-for-8, and authorize the Company's Board of Directors, in its discretion, to implement the reverse stock split within this range at any time prior to the Company's 2009 annual meeting of shareholders, received the following votes:

97,173,369 VOTES FOR

8,895,537 VOTES AGAINST

375,134 ABSTENTIONS

15,091,520 NOT VOTED

The proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008 received the following votes:

104,837,250	VOTES FOR
1,028,201	VOTES AGAINST
578,589	ABSTENTIONS
15,091,520	NOT VOTED

54

Item 6. Exhibits

(a) Exhibits.

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

Exhibit Number	Description	Incorporated Filing Reference Original	
		Form Type & Filing Date	Exhibit Number
10.1 *	Compensation Summary Non-Employee Directors	Form 10-Q 8/11/08	10.6
10.2	First Amendment and Waiver of Amended and Restated Senior Subordinated Revolving Credit Agreement, dated July 31, 2008, by and between Clariant, Inc. and Safeguard Delaware, Inc.	(1)	10.3
10.3	Third Amendment and Waiver to Amended and Restated Loan Agreement, dated as of July 31, 2008, by and between Comerica Bank and Clariant, Inc.	(1)	10.2
10.4 *	1999 Equity Compensation Plan, as amended and restated on October 21, 2008		
10.5	2001 Associates Equity Compensation Plan, as amended and restated on October 21, 2008		
10.6 *	2004 Equity Compensation Plan, as amended and restated on October 21, 2008		
14.1	Code of Business Conduct and Ethics		
31.1	Certification of Peter J. Boni pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
31.2	Certification of Stephen T. Zarrilli pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
32.1	Certification of Peter J. Boni pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2	Certification of Stephen T. Zarrilli pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the		

Sarbanes-Oxley Act of 2002.

Filed herewith

- (1) Incorporated by reference to the Current Report on Form 8-K filed on August 4, 2008 by Clariant, Inc. (SEC File No. 000-22677).

- * Management contracts or compensatory plans, contracts or arrangements in which directors and/or executive officers of the Registrant may participate.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SAFEGUARD SCIENTIFICS, INC.

Date: November 6, 2008

PETER J. BONI

Peter J. Boni
President and Chief Executive Officer

Date: November 6, 2008

STEPHEN T. ZARRILLI

Stephen T. Zarrilli
Senior Vice President and Chief Financial Officer