

SAFEGUARD SCIENTIFICS INC

Form 10-Q

November 04, 2010

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**FORM 10-Q**  
**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**  
**For the Quarter Ended September 30, 2010**  
**Commission File Number 1-5620**  
**Safeguard Scientifics, Inc.**  
**(Exact name of registrant as specified in its charter)**

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

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

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

**19087**  
*(Zip Code)*

**(610) 293-0600**

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

Yes  No

**Number of shares outstanding as of November 3, 2010**  
**Common Stock 20,592,959**

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

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1 Financial Statements:</u>	
<u>Consolidated Balance Sheets (unaudited) September 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 30, 2010 and 2009</u>	4
<u>Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 30, 2010 and 2009</u>	5
<u>Consolidated Statement of Changes in Equity (unaudited) Nine Months Ended September 30, 2010</u>	6
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7-27
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28-47
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	47
<u>Item 4 Controls and Procedures</u>	48
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1A Risk Factors</u>	49
<u>Item 6 Exhibits</u>	50
<u>Signatures</u>	51
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

**Table of Contents**

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

	September 30, 2010	December 31, 2009
	(In thousands except per share data) (Unaudited)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 28,806	\$ 67,347
Cash held in escrow	6,434	6,910
Marketable securities	26,394	39,066
Restricted cash equivalents	4,893	
Prepaid expenses and other current assets	667	566
Total current assets	67,194	113,889
Property and equipment, net	282	310
Ownership interests in and advances to partner companies (\$103,532 and \$80,483 at fair value at September 30, 2010 and December 31, 2009, respectively)	181,597	167,387
Available-for-sale securities	20,870	
Long-term restricted cash equivalents	11,881	
Other	777	513
Total Assets	\$ 282,601	\$ 282,099
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Convertible senior debentures current	\$ 31,289	\$
Accounts payable	204	156
Accrued compensation and benefits	3,077	3,425
Accrued expenses and other current liabilities	2,684	4,325
Total current liabilities	37,254	7,906
Other long-term liabilities	5,183	5,461
Convertible senior debentures non-current	44,486	78,225
Commitments and contingencies		
Equity:		
Preferred stock, \$0.10 par value; 1,000 shares authorized		
Common stock, \$0.10 par value; 83,333 shares authorized; 20,593 and 20,420 shares issued and outstanding in 2010 and 2009, respectively	2,059	2,042
Additional paid-in capital	805,550	790,868
Accumulated deficit	(620,170)	(601,916)
Accumulated other comprehensive income	8,239	
Treasury stock, at cost		(487)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Total equity	195,678	190,507
Total Liabilities and Equity	\$ 282,601	\$ 282,099

See Notes to Consolidated Financial Statements.

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands except per share data)</b>			
	<b>(Unaudited)</b>			
Revenue	\$	\$	\$	\$ 34,839
Operating Expenses:				
Cost of sales				13,811
Selling, general and administrative	4,256	4,237	13,999	32,309
Total operating expenses	4,256	4,237	13,999	46,120
Operating loss	(4,256)	(4,237)	(13,999)	(11,281)
Other income (loss), net	8,144	(1,908)	11,255	156,420
Interest income	180	111	516	379
Interest expense	(1,674)	(728)	(4,061)	(2,471)
Equity loss	(1,801)	(4,827)	(11,965)	(17,786)
Net income (loss) from continuing operations before income taxes	593	(11,589)	(18,254)	125,261
Income tax benefit				14
Net income (loss) from continuing operations	593	(11,589)	(18,254)	125,275
Income from discontinued operations, net of tax				1,500
Net income (loss)	593	(11,589)	(18,254)	126,775
Net income attributable to noncontrolling interest				(1,163)
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ 593	\$ (11,589)	\$ (18,254)	\$ 125,612
Basic Income (Loss) Per Share:				
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$ 0.03	\$ (0.57)	\$ (0.89)	\$ 6.14
Net income from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders				0.05
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$ 0.03	\$ (0.57)	\$ (0.89)	\$ 6.19

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Diluted Income (Loss) Per Share:

Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$	0.03	\$	(0.57)	\$	(0.89)	\$	5.66
Net income from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders								0.04
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$	0.03	\$	(0.57)	\$	(0.89)	\$	5.70
Average shares used in computing income (loss) per share:								
Basic		20,583		20,326		20,502		20,298
Diluted		21,403		20,326		20,502		22,380
Amounts attributable to Safeguard Scientifics, Inc. common shareholders:								
Net income (loss) from continuing operations	\$	593	\$	(11,589)	\$	(18,254)	\$	124,717
Net income from discontinued operations								895
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$	593	\$	(11,589)	\$	(18,254)	\$	125,612

See Notes to Consolidated Financial Statements.

Table of Contents

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b> <b>(Unaudited)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net cash used in operating activities	\$ (12,276)	\$ (15,537)
<b>Cash Flows from Investing Activities:</b>		
Investment in restricted cash equivalents for interest on convertible senior debentures	(18,864)	
Proceeds from sales of and distributions from companies and funds	2,760	61,272
Advances to partner companies	(6,116)	(1,100)
Repayment of advances to partner companies	1,300	5,679
Acquisitions of ownership interests in partner companies and funds	(18,584)	(21,094)
Increase in marketable securities	(33,294)	(54,382)
Decrease in marketable securities	45,966	30,212
Increase in restricted cash, net		(1,956)
Capital expenditures	(57)	(2,144)
Deconsolidation of subsidiary cash		(2,667)
Proceeds from sale of discontinued operations, net	477	1,500
Net cash provided by (used in) investing activities	(26,412)	15,320
<b>Cash Flows from Financing Activities:</b>		
Costs on exchange of convertible senior debentures	(866)	
Repurchase of convertible senior debentures		(1,194)
Borrowings on revolving credit facilities		23,726
Repayments on revolving credit facilities		(33,237)
Repayments on term debt		(107)
Issuance of Company common stock, net	1,013	41
Issuance of subsidiary equity, net		28,082
Repurchase of common stock		(44)
Net cash provided by financing activities	147	17,267
Net Increase (Decrease) in Cash and Cash Equivalents	(38,541)	17,050
Cash and Cash Equivalents at beginning of period	67,347	75,051



Cash and Cash Equivalents at end of period	\$	28,806	\$	92,101
--	----	--------	----	--------

See Notes to Consolidated Financial Statements.

Table of Contents

**SAFEGUARD SCIENTIFICS, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Total	Accumulated Other Comprehensive		Common Stock		Additional	Treasury Stock	
		Accumulated Deficit	Income (Loss)	Shares	Amount	Paid-In Capital	Shares	Amount
				(In thousands)				
				(unaudited)				
<b>Balance</b>								
<b>December 31, 2009</b>	\$ 190,507	\$ (601,916)	\$	20,420	\$ 2,042	\$ 790,868	44	\$ (487)
Net loss	(18,254)	(18,254)						
Stock options exercised, net	1,013			92	9	830	(18)	174
Issuance of restricted stock, net	103			57	6	97	3	
Stock-based compensation expense	2,591					2,591		
Equity component of convertible senior debentures issued, net of issuance costs	10,848					10,848		
Stock awards	631			24	2	316	(29)	313
Other comprehensive income	8,239		8,239					
<b>Balance</b>								
<b>September 30, 2010</b>	\$ 195,678	\$ (620,170)	\$ 8,239	20,593	\$ 2,059	\$ 805,550		\$

See Notes to Consolidated Financial Statements.

**Table of Contents**

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

**1. GENERAL**

The accompanying unaudited interim Consolidated Financial Statements of Safeguard Scientifics, Inc. (the Company) were prepared in accordance with accounting principles generally accepted in the United States of America and the interim financial statement 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 2009 Annual Report on Form 10-K.

**2. BASIS OF PRESENTATION**

The Company's Consolidated Financial Statements included the accounts of Clariant Inc. (Clariant) in continuing operations through May 14, 2009, the date of its deconsolidation. The Company has elected to apply the fair value option to account for its retained interest in Clariant. Unrealized gains and losses on the mark-to-market of its holdings in Clariant and realized gains and losses on the sale of any of its holdings in Clariant are recognized in Other income (loss), net in the Consolidated Statement of Operations for all periods subsequent to the date that Clariant was deconsolidated. The Company believes that accounting for its holdings in Clariant at fair value rather than applying the equity method of accounting provides a better measure of the value of its holdings, given the reliable evidence provided by quoted prices in an active market for Clariant's publicly traded common stock. The Company has not elected the fair value option for its other partner company holdings, which are accounted for under the equity method or cost method, due to less readily determinable evidence of fair value for these privately held companies and due to the potential competitive disadvantage to the Company of such disclosure.

The Company's ownership interests in Tengion, Inc. (Tengion), and NuPathe, Inc. (NuPathe) are accounted for as available-for-sale securities following Tengion's and NuPathe's completion of initial public offerings in April 2010 and August 2010, respectively. Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of equity. Unrealized losses are charged against net income (loss) when a decline in the fair value is determined to be other than temporary.

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

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

**3. DISCONTINUED OPERATIONS**

***Clariant Technology Business***

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

***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 in cash deposited into escrow. In the first quarter of 2010, the Company received the final \$0.5 million in cash from the escrow account. This amount was recorded as income from discontinued operations in the fourth quarter of 2009.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. OWNERSHIP INTERESTS IN AND ADVANCES TO PARTNER COMPANIES**

The following summarizes the carrying value of the Company's ownership interests in and advances to partner companies and private equity funds.

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	<b>(In thousands) (Unaudited)</b>	
Fair Value	\$ 103,532	\$ 80,483
Equity Method:		
Partner companies	51,624	54,597
Private equity funds	2,233	2,224
	53,857	56,821
Cost Method:		
Partner companies	18,658	24,887
Private equity funds	3,182	3,096
	21,840	27,983
Advances to partner companies	2,368	2,100
	\$ 181,597	\$ 167,387
Available-for-sale securities	\$ 20,870	\$

The Company recognized a \$5.8 million unrealized gain in the three months ended September 30, 2010 which is reflected in Equity loss in the Consolidated Statements of Operations related to the decrease in its percentage ownership interest in NuPathe upon completion of NuPathe's initial public offering. As discussed in Note 2, following NuPathe's initial public offering, the Company accounts for its holdings in NuPathe as available-for-sale securities. The Company recognized an impairment charge of \$1.1 million in the three months ended September 30, 2010 which is reflected in Other income (loss), net, in the Consolidated Statements of Operations representing the unrealized loss on the mark-to-market of its ownership interest in Tengion which was previously recorded as a separate component of equity. The Company determined that the decline in the value of its public holdings in Tengion was other than temporary. The Company also recognized an impairment charge of \$2.1 million related to Tengion in the first quarter of 2010, which is reflected in Other income (loss), net, in the Consolidated Statements of Operations.

The Company recognized an impairment charge of \$1.1 million related to Garnet BioTherapeutics, Inc. (Garnet) in the three months ended September 30, 2010. The Company reduced its carrying value in Garnet to zero based on its current state of operations as well as the Company's decision to deploy no additional capital in Garnet.

In the three months ended September 30, 2010, the assets of Accelerate, Inc. (Accelerate, formerly Cellumen, Inc.) were sold to a third party for cash and future consideration based on sales. The Company recognized an impairment charge of \$0.3 million related to Accelerate in the second quarter of 2010, bringing its carrying value to zero.

On March 25, 2009, Clariant entered into a stock purchase agreement with Oak Investment Partners XII (Oak), pursuant to which Clariant agreed to sell up to an aggregate of 6.6 million shares of its Series A Convertible Preferred

Stock in two or more tranches for aggregate consideration of up to \$50.0 million. Each preferred share is initially convertible, at any time, into four shares of Clariant's common stock, subject to certain adjustments. The initial closing of the Oak private placement occurred on March 26, 2009, at which time Clariant issued 3.8 million preferred shares for aggregate consideration of \$29.1 million. After paying closing fees and legal expenses, Clariant used the proceeds to repay in full and terminate its revolving credit agreement with a bank and repay a portion of the outstanding balance of its credit facility with the Company.

On May 14, 2009, Clariant completed the second closing of the Oak private placement and issued 1.4 million preferred shares for aggregate consideration of \$10.9 million. Upon completion of the second closing, Clariant repaid in full and terminated its credit facility with the Company. Upon the second closing, the Company's ownership interest in Clariant's issued and outstanding voting securities, on an as-converted basis, decreased from 50.2% to 47.3% and the Company deconsolidated its holdings in Clariant because it ceased to have a controlling financial interest in Clariant as of such date. The Company recognized an unrealized gain on deconsolidation of \$106.0 million in Other income (loss), net in the Consolidated Statements of Operations in the nine months ended September 30, 2009. The entire unrealized gain on deconsolidation related to the remeasurement to fair value of the Company's retained interest in Clariant as of the deconsolidation date of May 14, 2009.



Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

In September 2010, the Company funded a \$0.1 million convertible bridge loan to Quinnova Pharmaceuticals, Inc. ( Quinnova ). The Company also funded a \$0.6 million convertible bridge loan to Quinnova in June 2010. The Company previously deployed \$5.0 million in Quinnova in October 2009 for a 25.7% ownership interest. The Company accounts for its interest in Quinnova under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Quinnova 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.



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

In August 2010, in conjunction with NuPathe's initial public offering, the Company deployed an additional \$3.5 million in NuPathe. In April 2010, the Company funded a \$2.7 million convertible bridge loan to NuPathe, which was converted to common shares in conjunction with the initial public offering. The Company previously deployed \$12.0 million in NuPathe from August 2006 through August 2009. NuPathe specializes in the development of therapeutics for the treatment of neurological and psychiatric disorders, including migraines and Parkinson's disease. Following NuPathe's initial public offering, the Company accounts for its holdings in NuPathe as available-for-sale securities and holds an 18.1% ownership interest.

In June 2010, the Company funded a \$0.6 million convertible bridge loan to Alverix, Inc. ( Alverix ). The Company also funded a \$0.6 million convertible bridge loan to Alverix in January 2010. The Company previously deployed an aggregate of \$4.5 million in Alverix and currently maintains a 49.6% ownership interest. Alverix produces novel, handheld and pocket-sized medical diagnostic instruments that enable central laboratory-quality results to be achieved in the physician offices, laboratory outreach locations, retail clinics and homes where test information is critical to patient care. The Company accounts for its holdings in Alverix under the equity method.

In April 2010, in conjunction with Tengion's initial public offering, the Company deployed an additional \$1.5 million in Tengion. The Company previously deployed \$7.5 million in Tengion in October 2008. Following Tengion's initial public offering, the Company accounts for its holdings in Tengion as available-for-sale securities and holds a 4.8% ownership interest.

In March 2010, the Company deployed an additional \$4.7 million in Swap.com ( Swap.com formerly Swaptree ) in connection with a larger round of financing, resulting in an increase in the Company's ownership interest from 29.3% to 46.6%. The Company had previously acquired an interest in Swap.com in July 2008 for \$3.4 million in cash. Swap.com is an internet-based business that enables users to trade books, CDs, DVDs and video games using its proprietary trade matching software. The Company accounts for its holdings in Swap.com under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Swap.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.

In March 2010, the Company funded a \$1.3 million short-term loan to Advantedge Healthcare Solutions, Inc. ( AHS ) which was repaid in May 2010. The Company previously deployed a total of \$13.5 million into AHS and maintains a 39.7% ownership interest. The Company accounts for its holdings in AHS under the equity method.

**6. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

The following table provides the assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009:

	Carrying Value	Fair Value Measurement at September 30, 2010		
		Level 1	Level 2	Level 3
(in thousands) (unaudited)				
Cash and cash equivalents	\$ 28,806	\$ 28,806	\$	\$
Cash held in escrow	\$ 6,434	\$ 6,434	\$	\$
Restricted cash equivalents	\$ 16,774	\$ 16,774	\$	\$
Ownership interest in Clariant	\$ 103,532	\$ 103,532	\$	\$
Available-for-sale securities	\$ 20,870	\$ 20,870	\$	\$
Marketable securities held-to-maturity:				
Commercial paper	\$ 7,989	\$ 7,989	\$	\$
U.S. Treasury Bills	3,019	3,019		
Government agency bonds	13,386	13,386		
Certificates of deposit	2,000	2,000		
	\$ 26,394	\$ 26,394	\$	\$
Fair Value Measurement at December 31, 2009				
	Carrying Value	Level 1	Level 2	Level 3
		(in thousands) (unaudited)		
Cash and cash equivalents	\$ 67,347	\$ 67,347	\$	\$
Cash held in escrow	\$ 6,910	\$ 6,910	\$	\$
Ownership interest in Clariant	\$ 80,483	\$ 80,483	\$	\$
Marketable securities held-to-maturity:				
Commercial paper	\$ 10,380	\$ 10,380	\$	\$
U.S. Treasury Bills	4,981	4,981		
Government agency bonds	8,384	8,384		
Certificates of deposit	15,321	15,321		
	\$ 39,066	\$ 39,066	\$	\$

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

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

As of September 30, 2010, the contractual maturities of the marketable securities were less than one year.

Held-to-maturity securities are carried at amortized cost, which, due to the short-term maturity of these instruments, approximates fair value using quoted prices in active markets for identical assets or liabilities defined as Level 1 inputs under the fair value hierarchy.

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

Following NuPath's initial public offering, the Company accounts for its holdings in NuPath as available-for-sale securities. Accordingly, the Company recorded an unrealized gain of \$8.2 million as a separate component of equity in the three months ended September 30, 2010 measured by reference to quoted prices for NuPath's common stock as traded on the NASDAQ Capital Market, which is considered a Level 1 input under the valuation hierarchy.

Following Tengion's initial public offering, the Company accounts for its holdings in Tengion as available-for-sale securities. The Company recognized an impairment charge of \$1.1 million in the three months ended September 30, 2010, representing the unrealized loss on the mark-to-market of its ownership interest in Tengion which was previously recorded as a separate component of equity. The Company also recognized an impairment charge of \$2.1 million related to Tengion in the first quarter of 2010, measured as the amount by which Tengion's carrying value exceeded its estimated fair value. In each case, the value of the Company's holdings in Tengion was measured by reference to quoted prices for Tengion's common stock as traded on the NASDAQ Capital Market, which is considered a Level 1 input under the valuation hierarchy.

The Company recognized an impairment charge of \$1.1 million related to Garnet in the three months ended September 30, 2010 measured as the amount by which Garnet's carrying value exceeded its estimated fair value. The fair market value of Garnet was determined to be zero at September 30, 2010 based on Level 3 inputs as defined above.

The Company recognized an impairment charge of \$0.3 million related to Accelerate, Inc. (Accelerate, formerly Cellumen, Inc.), a former equity method partner company, in the second quarter of 2010, measured as the amount by which Accelerate's carrying value exceeded its estimated fair value. The fair market value of Accelerate was determined to be zero based on Level 3 inputs as defined above.

As described in Note 8, in the first quarter of 2010, the Company recognized a loss on exchange of its convertible senior debentures. The fair value of the newly issued 10.125% convertible senior debentures was determined at the exchange date based on Level 3 inputs using a convertible bond valuation model.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) is the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources. Excluding net income (loss), the Company's sources of comprehensive income (loss) were from changes in fair value of available-for-sale securities and foreign currency translation adjustments associated with former consolidated partner companies.

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

	<b>Three Months ended September 30,</b>		<b>Nine Months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands) (unaudited)</b>			
Net income (loss)	\$ 593	\$ (11,589)	\$ (18,254)	\$ 126,775
Other comprehensive income (loss), before taxes:				
Unrealized net gain on available-for-sale securities	7,885		7,131	
Reclassification adjustment for other than temporary impairment of available-for-sale securities included in net income (loss)	1,108		1,108	
Foreign currency translation adjustments				(2)
Reclassification adjustment for deconsolidation of subsidiary				31
Total comprehensive income (loss)	9,586	(11,589)	(10,015)	126,804
Comprehensive income attributable to the noncontrolling interest				(1,163)
Comprehensive income (loss) attributable to the Company	\$ 9,586	\$ (11,589)	\$ (10,015)	\$ 125,641

As of September 30, 2010, the Company's adjusted cost basis in available-for-sale securities of NuPathe was \$10.8 million. As of September 30, 2010 the Company's holdings of available-for-sale securities in NuPathe had generated an unrealized gain of \$8.2 million which was reflected in Accumulated other comprehensive income, a separate component of equity on the Consolidated Balance Sheet. As discussed in Note 6, the Company recognized an impairment charge of \$1.1 million in the three months ended September 30, 2010, representing the unrealized loss on the mark-to-market of its ownership interest in Tengion which was previously recorded in Accumulated other comprehensive income. Following the impairment charge, the Company's adjusted cost basis in Tengion was \$1.8 million.

**8. CONVERTIBLE DEBENTURES AND CREDIT ARRANGEMENTS**

The carrying values of the Company's convertible senior debentures were as follows:

<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>(In thousands) (Unaudited)</b>	

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Convertible senior debentures due 2024	\$	31,289	\$	78,225
Convertible senior debentures due 2014		44,486		
		75,775		78,225
Less: current portion		(31,289)		
Convertible senior debentures non-current	\$	44,486	\$	78,225

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Convertible Senior Debentures due 2024***

In February 2004, the Company completed the sale of \$150 million of 2.625% convertible senior debentures with a stated maturity of March 15, 2024 (the 2024 Debentures). Interest on the 2024 Debentures is payable semi-annually on March 15 and September 15. At the debentures holders' option, the 2024 Debentures are convertible into the Company's common stock through March 14, 2024, subject to certain conditions. As adjusted, the conversion price of the debentures is \$43.3044 of principal amount per share, equivalent to a conversion rate of 23.0923 shares of Company common stock per \$1,000 principal amount of the 2024 Debentures. The closing price of the Company's common stock at September 30, 2010 was \$12.53. The 2024 Debentures holders have the right to require the Company to repurchase the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their face amount, plus accrued and unpaid interest. The 2024 Debentures holders also have the right to require repurchase of the 2024 Debentures upon a fundamental change, including sale of all or substantially all of the Company's common stock or assets, liquidation, dissolution or change in control or the delisting of the Company's common stock from the New York Stock Exchange if the Company were unable to obtain a listing for its common stock on another national or regional securities exchange. Subject to certain conditions, the Company may redeem all or some of the 2024 Debentures. Through September 30, 2010, the Company has repurchased a total of \$71.8 million in face value of the 2024 Debentures.

At September 30, 2010, the fair value of the \$31.3 million outstanding 2024 Debentures was approximately \$30.7 million based on quoted market prices as of such date.

On March 10, 2010, the Company entered into agreements with institutional holders of an aggregate of \$46.9 million in face value of its 2024 Debentures to exchange the debentures held by such holders for \$46.9 million in face amount of newly issued 10.125% senior convertible debentures, due March 15, 2014 (the 2014 Debentures). The exchange became effective on March 26, 2010 and represents a non-cash financing activity during the nine months ended September 30, 2010. The remaining \$31.3 million outstanding face amount of the 2024 Debentures remains outstanding under the original terms and has been classified as a current liability on the Consolidated Balance Sheet as of September 30, 2010 because the first required repurchase date is within one year. The Company recognized a loss on exchange of \$8.5 million in the first quarter of 2010 determined as the excess of the fair value of the 2014 Debentures at the exchange date over the carrying value of the exchanged 2024 Debentures. This loss is reported in Other income (loss), net in the Consolidated Statements of Operations.

***Convertible Senior Debentures due 2014***

Interest on the 2014 Debentures is payable semi-annually on March 15 and September 15. In the first quarter of 2010, as required under the terms of the 2014 Debentures, the Company placed approximately \$19.0 million in a restricted escrow account to make all scheduled interest payments on the 2014 Debentures through their maturity. In the three months ended September 30, 2010, interest payments of \$2.2 million were made out of the restricted escrow account and are considered non-cash investing activities. Including accrued interest, a total of \$16.8 million was reflected in Restricted cash equivalents on the Consolidated Balance Sheet at September 30, 2010, of which \$4.9 million was classified as a current asset.

At the debentures holders' option, the 2014 Debentures are convertible into the Company's common stock at anytime after March 15, 2013; and, prior to March 15, 2013, under any of the following conditions:

- during any fiscal quarter commencing after June 30, 2010 if the closing sale price per share of Company common stock is greater than or equal to 120% of the conversion price for at least 20 trading days during the period of 30 trading days ending on the last day of the preceding fiscal quarter;

- during the five day period immediately following any 10 consecutive trading day period in which the trading price per \$1,000 principal amount of 2014 Debentures for each trading day of such period was less than 100% of the product of the closing sale price per share of Company common stock multiplied by the conversion rate on each such trading day;

If a fundamental change (as defined) occurs, including sale of all or substantially all of the Company's common stock or assets, liquidation, dissolution or a change in control.

The conversion price is \$16.50 of principal amount per share, equivalent to a conversion rate of 60.6061 shares of Company common stock per \$1,000 principal amount of the 2014 Debentures. The closing price of the Company's common stock at September 30, 2010 was \$12.53. The 2014 Debentures holders have the right to require repurchase of the 2014 Debentures upon a fundamental change, including sale of all or substantially all of the Company's common stock or assets, liquidation, dissolution or a change in control or the delisting of the Company's common stock from the New York Stock Exchange if the Company were unable to obtain a listing for its common stock on another national or regional securities exchange.

The Company may mandatorily convert all or some of the 2014 Debentures at any time after March 15, 2012 if the closing sale price per share of Company common stock exceeds 130% of the conversion price for at least 20 trading days in a period of 30 consecutive trading days. If the Company elects to mandatorily convert any of the 2014 Debentures, the Company will be required to pay any interest that would have accrued and become payable on the debentures through their maturity. Upon a conversion of the 2014 Debentures, the Company has the right to settle the conversion in stock, cash or a combination thereof.

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

Because the 2014 Debentures may be settled in cash or partially in cash upon conversion, the Company separately accounts for the liability and equity components of the 2014 Debentures. The carrying amount of the liability component was determined at the exchange date by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option was determined by deducting the fair value of the liability component from the carrying value of the 2014 Debentures as a whole at the exchange date. The carrying value of the 2014 Debentures as a whole at the exchange date was equal to their fair value of \$55.2 million determined using a convertible bond valuation model. At September 30, 2010, the fair value of the \$46.9 million outstanding 2014 Debentures was approximately \$54.4 million based on a convertible bond valuation model. At September 30, 2010, the carrying amount of the equity component was \$10.8 million, the principal amount of the liability component was \$46.9 million, the unamortized discount was \$2.4 million and the net carrying value of the liability component was \$44.5 million. The Company is amortizing the excess of the face value of the 2014 Debentures over their carrying value to interest expense over their term. The effective interest rate on the 2014 Debentures is 12.5%.

**Credit Arrangements**

In February 2009, the Company entered into a loan agreement which provides the Company with a revolving credit facility in the maximum aggregate amount of \$50 million in the form of borrowings, guarantees and issuances of letters of credit (subject to a \$20 million sublimit). Actual availability under the credit facility will be based on the amount of cash maintained at the bank as well as the value of the Company's public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, the Company is required to maintain all of its depository and operating accounts and not less than 75% of its investment and securities accounts at the bank. The credit facility matures on December 31, 2010. Under the credit facility, the Company provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters which was required in connection with the sale of CompuCom Systems in 2004. Availability under the Company's revolving credit facility at September 30, 2010 was \$43.7 million.

**9. STOCK-BASED COMPENSATION**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands) (unaudited)</b>			
Cost of sales	\$	\$	\$	\$ 49
Selling, general and administrative	775	752	2,591	3,043
	\$ 775	\$ 752	\$ 2,591	\$ 3,092

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. At September 30, 2010, the Company had outstanding options that vest based on three different types of vesting schedules:

1) market-based;



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

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

Market-based awards entitle participants to vest in a number of options determined by achievement by the Company of certain target market capitalization increases (measured by reference to stock price increases on a specified number of outstanding shares) over an eight-year period. The requisite service periods for the market-based awards are based on the Company's estimate of the dates on which the market conditions will be met as determined using a Monte Carlo simulation model. Compensation expense is recognized over the requisite service periods using the straight-line method but is accelerated if market capitalization targets are achieved earlier than estimated. During the nine months ended September 30, 2010 and 2009, respectively, the Company did not issue any market-based option awards to employees. During the nine months ended September 30, 2010 and 2009, respectively, 11 thousand and 0 options vested based on achievement of market capitalization targets. The Company recorded compensation expense related to market-based option awards of \$0.4 million and \$0.3 million for the three months ended September 30, 2010 and 2009, respectively and \$1.2 million and \$1.0 million for the nine months ended September 30, 2010 and 2009, respectively. Depending on the Company's stock performance, the maximum number of unvested shares at September 30, 2010 attainable under these grants was 1.2 million shares.

Performance-based awards entitle participants to vest in a number of awards determined by achievement by the Company of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies. Vesting may occur, if at all, once per year. The requisite service periods for the performance-based awards are based on the Company's estimate of when the performance conditions will be met. During the nine months ended September 30, 2010 and 2009 respectively, no performance-based awards vested. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Compensation expense is recognized over the requisite service periods using the straight-line method but is accelerated if capital return targets are achieved earlier than estimated. During the nine months ended September 30, 2010 and 2009, respectively, the Company did not issue any performance-based awards to employees. The Company recorded compensation expense related to performance-based option awards of \$0.0 million for both the three months ended September 30, 2010 and 2009, and \$0.1 million and \$0.0 million for the nine months ended September 30, 2010 and 2009, respectively. The maximum number of unvested shares at September 30, 2010 attainable under these grants was 493 thousand shares.

All other outstanding options are service-based awards that generally vest over four years after the date of grant and expire eight years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period for service-based awards is the period over which the award vests. During the nine months ended September 30, 2010 and 2009, respectively, the Company issued 45 thousand and 33 thousand service based option awards to employees. The Company recorded compensation expense related to service-based option awards of \$0.2 million and \$0.3 million for the three months ended September 30, 2010 and 2009, respectively and \$0.8 million and \$0.9 million for the nine months ended September 30, 2010 and 2009, respectively.

During the nine months ended September 30, 2009, the Company issued 197 thousand restricted shares to employees. The restricted shares were issued in connection with the 2008 management incentive plan payment earned by certain senior employees. The restricted shares issued vest 25% on the first anniversary of grant and the remaining 75% thereafter in 24 equal monthly installments over the next two years. During the nine months ended September 30, 2010, the Company issued 53 thousand unrestricted shares to employees in connection with the 2009 management incentive plan payments earned by certain employees.

The Company issued 29 thousand and 65 thousand deferred stock units during the nine months ended September 30, 2010 and 2009, respectively, to non-employee directors for fees earned during the preceding quarter. Deferred stock units issued to directors in lieu of directors fees are 100% vested at the grant date; matching deferred stock units equal to 25% of directors' fees deferred vest one year following the grant date or, if earlier, upon reaching age 65. Deferred stock units are payable in stock on a one-for-one basis. Payments related to the deferred stock units are generally distributable following termination of employment or service, death or permanent disability.

Total compensation expense for deferred stock units, performance-based stock units and restricted stock was approximately \$0.1 million for both the three months ended September 30, 2010 and 2009, and \$0.5 million and \$0.3 million for the nine months ended September 30, 2010 and 2009, respectively.

Stock-based compensation expense for Clariant prior to its deconsolidation was included in the Company's consolidated results of operations. During the period from January 1, 2009 through May 14, 2009, the Company recognized stock-based compensation of \$0.8 million, related to Clariant.

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

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

**10. INCOME TAXES**

The Company's consolidated income tax benefit (expense) was \$0.0 million for both the three and nine months ended September 30, 2010, \$0.0 million for the three months ended September 30, 2009 and \$14 thousand for the nine months ended September 30, 2009. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized in the nine months ended September 30, 2010 and the income tax expense that would have been recognized in the nine months ended September 30, 2009 were offset by changes in the valuation allowance.

During the nine months ended September 30, 2010, the Company had no material changes in uncertain tax positions.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. NET INCOME (LOSS) PER SHARE**

The calculations of net income (loss) per share attributable to the Company's common shareholders were:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands except per share data)</b>			
	<b>(unaudited)</b>			
<b>Basic:</b>				
Amounts attributable to Safeguard Scientifics, Inc. common shareholders:				
Net income (loss) from continuing operations	\$ 593	\$ (11,589)	\$ (18,254)	\$ 124,717
Net income from discontinued operations				895
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ 593	\$ (11,589)	\$ (18,254)	\$ 125,612
Net income (loss) per share from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$ 0.03	\$ (0.57)	\$ (0.89)	\$ 6.14
Net income per share from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders				0.05
Net income (loss) per share attributable to Safeguard Scientifics, Inc. common shareholders	\$ 0.03	\$ (0.57)	\$ (0.89)	\$ 6.19
Average common shares outstanding	20,583	20,326	20,502	20,298
<b>Diluted:</b>				
Amounts attributable to Safeguard Scientifics, Inc. common shareholders:				
Net income (loss) from continuing operations	\$ 593	\$ (11,589)	\$ (18,254)	\$ 124,717
Impact of partner company dilutive securities Interest on convertible senior debentures				1,987
Net income (loss) from continuing operations for diluted per share computation	593	(11,589)	(18,254)	126,704
Net income (loss) from discontinued operations				895

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Net income (loss) for diluted per share computation	\$	593	\$	(11,589)	\$	(18,254)	\$	127,599
Net income (loss) per share from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$	0.03	\$	(0.57)	\$	(0.89)	\$	5.66
Net income per share from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders								0.04
Net income (loss) per share attributable to Safeguard Scientifics, Inc. common shareholders	\$	0.03	\$	(0.57)	\$	(0.89)	\$	5.70
Number of shares used in basic per share computation		20,583		20,326		20,502		20,298
Effect of dilutive securities:								
Convertible senior debentures								1,984
Unvested restricted stock and DSUs		96						97
Employee stock options		724						1
Number of shares used in diluted per share computation		21,403		20,326		20,502		22,380

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

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

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

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

The following potential shares of common stock and their effects on income were excluded from the diluted net income (loss) per share calculation for the three months ended September 30, 2010 and 2009 because their effect would be anti-dilutive:

At September 30, 2010 and 2009 options to purchase 0.7 million and 3.2 million shares of common stock, respectively, at prices ranging from \$10.10 to \$21.36 and from \$10.41 to \$21.36 per share, respectively, were excluded from the calculations.

At September 30, 2010 and 2009, unvested restricted stock units, performance stock units and DSUs convertible into 0.1 million and 0.2 million shares of stock, respectively, were excluded from the calculations.

At September 30, 2010 and 2009, 0.7 million and 2.0 million shares related to the Company's 2024 Debentures (see Note 8) representing the effect of assumed conversion of the 2024 Debentures were excluded from the calculations.

At September 30, 2010, 2.8 million shares related to the Company's 2014 Debentures (see Note 8) representing the effect of assumed conversion of the 2014 Debentures were excluded from the calculations.

The following potential shares of common stock and their effects on income were excluded from the diluted net income (loss) per share calculation for the nine months ended September 30, 2010 and 2009 because their effect would be anti-dilutive:

At September 30, 2010 and 2009 options to purchase 3.2 million and 3.3 million shares of common stock, respectively, at prices ranging from \$10.10 to \$21.36 and from \$7.14 to \$39.42 per share, respectively, were excluded from the calculations.

At September 30, 2010, unvested restricted stock units, performance stock units and DSUs convertible into 0.1 million shares of stock, were excluded from the calculations.

At September 30, 2010, 0.7 million shares related to the Company's 2024 Debentures (see Note 8) representing the effect of assumed conversion of the 2024 Debentures were excluded from the calculations.

At September 30, 2010, 2.8 million shares related to the Company's 2014 Debentures (see Note 8) representing the effect of assumed conversion of the 2014 Debentures were excluded from the calculations.

**Table of Contents****SAFEGUARD SCIENTIFICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. PARENT COMPANY FINANCIAL INFORMATION**

As of September 30, 2010, the Company had no consolidated partner companies. Given that Clariant was deconsolidated on May 14, 2009, only the statement of operations for the nine months ended September 30, 2009 and cash flows for the nine months ended September 30, 2009 are presented below.

***Parent Company Statements of Operations***

	<b>Nine Months Ended September 30, 2009 (In thousands) (unaudited)</b>
Operating expenses	\$ (12,902)
Other income (loss), net	156,420
Interest income	375
Interest expense	(2,196)
Equity loss	(16,994)
Net income from continuing operations before income taxes	124,703
Income tax benefit	14
Equity income attributable to discontinued operations	895
Net income attributable to Safeguard Scientifics, Inc.	\$ 125,612



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

	<b>Nine Months Ended September 30, 2009 (In thousands) (unaudited)</b>
Net cash used in operating activities	\$ (11,049)
<b>Cash Flows from Investing Activities</b>	
Proceeds from sales of and distributions from companies and funds	61,272
Advances to partner companies	(6,900)
Repayment of advances to partner companies	21,179
Acquisitions of ownership interests in partner companies and funds	(21,094)
Increase in marketable securities	(54,382)
Decrease in marketable securities	30,212
Decrease in restricted cash	861
Capital expenditures	(14)
Net cash provided by investing activities	31,134
<b>Cash Flows from Financing Activities:</b>	
Repurchase of convertible senior debentures	(1,194)
Issuance of common stock, net	41
Repurchase of common stock	(44)
Net cash used in financing activities	(1,197)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>18,888</b>
Cash and Cash Equivalents at beginning of period	73,213
<b>Cash and Cash Equivalents at end of period</b>	<b>\$ 92,101</b>

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

**13. OPERATING SEGMENTS**

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

As of September 30, 2010, the Company held an active interest in 17 non-consolidated partner companies. The Company's reportable operating segments are Life Sciences and Technology.

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

The Company's active partner companies by segment were as follows as of September 30, 2010:

**Life Sciences**

<b>Partner Company</b>	<b>Safeguard Primary Ownership as of September 30, 2010</b>	<b>Accounting Method</b>
Advanced BioHealing, Inc.	28.1%	Equity
Alverix, Inc.	49.6%	Equity
Avid Radiopharmaceuticals, Inc.	13.0%	Cost
Clariant, Inc.	27.5%	Fair Value
Garnet BioTherapeutics, Inc.	31.1%	Equity
Good Start Genetics, Inc.	26.5%	Equity
Molecular Biometrics, Inc.	35.0%	Equity
NuPathe, Inc.	18.1%	Available-for-sale (1)
Quinnova Pharmaceuticals, Inc.	25.7%	Equity
Tengion, Inc.	4.8%	Available-for-sale (2)

(1) The Company's ownership interest in NuPathe is accounted for as available-for-sale securities following NuPathe's completion of an initial public offering in August 2010.

(2) The Company's ownership interest in Tengion is accounted for as available-for-sale securities following Tengion's completion of an initial public offering in April 2010.

**Technology**

<b>Partner Company</b>	<b>Safeguard Primary Ownership as of September 30, 2010</b>	<b>Accounting Method</b>
Advantage Healthcare Solutions, Inc.	39.7%	Equity
SafeCentral, Inc. (formerly Authentium, Inc.)	20.1%	Equity
Beyond.com Inc.	38.3%	Equity
Bridgevine, Inc.	23.4%	Equity
MediaMath, Inc.	17.3%	Cost
Portico Systems, Inc.	45.4%	Equity
Swap.com (formerly Swaptree, Inc.)	45.4%	Equity

Management evaluates its Life Sciences and Technology segments' performance based on net income (loss) which is based on the number of partner companies accounted for under the equity method, the Company's voting ownership percentage in these partner companies and the net results of operations of these partner companies, mark-to-market gains and losses for companies accounted for under the fair value method, any impairment charges and gains (losses) on the 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.

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

As of September 30, 2010 and December 31, 2009, the Company's assets were located in the United States.

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

Segment assets in Other Items included primarily cash, cash equivalents and marketable securities of \$55.2 million and \$106.4 million, restricted cash equivalents of \$16.8 and \$0.0 million and cash held in escrow of \$6.4 and \$6.9 million at September 30, 2010 and December 31, 2009, respectively.

	<b>Three Months Ended September 30, 2010</b>				
	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$	\$	\$	\$	\$
Operating loss				(4,256)	(4,256)
Net income (loss) from continuing operations	7,311	(960)	6,351	(5,758)	593
<b>Segment Assets:</b>					
September 30, 2010	155,469	41,583	197,052	85,549	282,601
December 31, 2009	117,529	41,876	159,405	122,694	282,099

	<b>Three Months Ended September 30, 2009</b>				
	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$	\$	\$	\$	\$
Operating loss				(4,237)	(4,237)
Net income (loss) from continuing operations	1,209	(8,057)	(6,848)	(4,741)	(11,589)

	<b>Nine Months Ended September 30, 2010</b>				
	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$	\$	\$	\$	\$
Operating loss				(13,999)	(13,999)
Net income (loss) from continuing operations	12,208	(4,981)	7,227	(25,481)	(18,254)

	<b>Nine Months Ended September 30, 2009</b>				
	<b>Life Sciences</b>	<b>Technology</b>	<b>Total Segments (In thousands) (unaudited)</b>	<b>Other Items</b>	<b>Total Continuing Operations</b>
Revenue	\$	\$	\$	\$	\$
Operating loss				(13,999)	(13,999)
Net income (loss) from continuing operations	12,208	(4,981)	7,227	(25,481)	(18,254)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Revenue	\$	34,834	\$		\$	34,834	\$	34,834	
Operating income (loss)		1,621				1,621	(12,902)	(11,281)	
Net income (loss) from continuing operations		151,586		(11,502)		140,084		(14,809)	125,275

**Table of Contents**

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

*Other Items*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>			
	<b>(unaudited)</b>			
Corporate operations	\$ (5,758)	\$ (4,741)	\$ (25,481)	\$ (14,823)
Income tax benefit				14
	\$ (5,758)	\$ (4,741)	\$ (25,481)	\$ (14,809)

**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

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

**14. COMMITMENTS AND CONTINGENCIES**

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

Not including the Laureate lease guaranty described below, the Company had outstanding guarantees of \$3.8 million at September 30, 2010.

The Company has committed capital of approximately \$1.2 million, including conditional commitments to provide non-consolidated partner companies with additional funding and commitments made to various private equity funds in prior years. These commitments will be funded over the next several years, including approximately \$1.1 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 ( "clawback" ). The maximum clawback the Company could be required to return due to our general partner interest is approximately \$2.2 million, of which \$0.9 million was reflected in Accrued expenses and other current liabilities and \$1.3 million was reflected in other long-term liabilities on the Consolidated Balance Sheet at September 30, 2010. The Company paid \$1.1 million of its estimated clawback liabilities in the nine months ended September 30, 2010.

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.

In connection with the Company's May 2008 sale of its equity and debt interests in Acsis, Inc., Alliance Consulting Group Associates, Inc., Laureate Pharma, Inc., ProModel Corporation and Neuronyx, Inc. (the "Bundle Sale" ), an aggregate of \$6.4 million of the gross proceeds of the sale were placed in escrow pending the expiration of a predetermined notification period, subject to possible extension in the event of a claim against the escrowed amounts. On April 25, 2009, the purchaser in the Bundle Sale notified the Company of claims being asserted against the entire escrowed amounts. The Company does not believe that such claims are valid and has instituted legal action to obtain the release of such amounts from escrow. The proceeds being held in escrow will remain there until the dispute over the claims has been settled or determined pursuant to legal process.

The Company remains guarantor of Laureate Pharma's Princeton, New Jersey facility lease. Such guarantee may extend through the lease expiration in 2016 under certain circumstances. However, the Company is entitled to indemnification in connection with the continuation of such guaranty. As of September 30, 2010, scheduled lease payments to be made by Laureate Pharma over the remaining lease term equaled \$7.4 million.

In October 2001, the Company entered into an agreement with its former Chairman and Chief Executive Officer, to provide for annual payments of \$650,000 per year and certain health care and other benefits for life. The related current liability of \$0.8 million was included in Accrued expenses and the long-term portion of \$3.3 million was included in Other long-term liabilities on the Consolidated Balance Sheet at September 30, 2010.

The Company has agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or an employee terminates his employment for "good reason." The maximum aggregate exposure under the agreements was approximately \$8 million at September 30, 2010.



**Table of Contents**

**SAFEGUARD SCIENTIFICS, INC.**

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

**15. SUBSEQUENT EVENTS**

On October 22, 2010, the Company announced that Clariant had agreed to be acquired by GE Healthcare, a unit of General Electric Company (NYSE: GE) ( GE ) via a public tender offer for all outstanding common and preferred shares of Clariant at a price of \$5.00 per common share and \$20.00 per preferred share, payable in cash, followed by a second step merger of Clariant with an indirect subsidiary of GE. The completion of the transactions is subject to certain conditions, and is expected to occur in late 2010 or early 2011.

In connection with the transactions, the Company concurrently entered into a Tender and Support Agreement (the Support Agreement ) in which it agreed to tender all shares of Clariant beneficially owned by the Company. In connection with the Support Agreement, in the event of termination of the transactions, the Company would be required to pay GE an amount equal to 25% of the excess of any proceeds per share that the Company receives from the sale of Clariant or a material portion of Clariant to a third party over \$5 per share, if an agreement for such sale is entered into or completed within six months of the termination of the agreement with GE under circumstances which result in Clariant being obligated to pay GE a breakup fee.

The Company expects to recognize a pre-tax gain on the transactions of approximately \$42 million in the fourth quarter of 2010. Any taxable gain on the transactions will be fully offset by a portion of the Company's available tax loss carryforwards. At September 30, 2010 the Company owned approximately 30.2 million shares of Clariant common stock, plus warrants to acquire additional shares of Clariant stock as follows: 166 thousand shares at \$1.64 per share; 62 thousand shares at \$1.39 per share; and 500 thousand shares at \$1.38 per share. In conjunction with the transactions the Company agreed to pay retention bonuses to certain officers of Clariant in an aggregate amount of \$6.9 million upon a change in control, including the closing of the transactions described above. The Company expects to receive net proceeds of approximately \$145 million after taking into consideration the amounts payable under the retention bonus agreement.

Since the announcement of the proposed acquisition, several lawsuits have been filed by purported shareholders of Clariant, seeking class action status. These actions are all substantially similar in that they allege that breaches of various fiduciary duties were committed in connection with the intended transactions. The actions make allegations against, and name as defendants, Clariant and the members of Clariant's board of directors, including the Safeguard executives who serve on Clariant's board of directors. One of the actions directly names Safeguard as a defendant. Safeguard is of the view that the claims made against it are without merit and it will vigorously defend against the allegations.

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

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about Safeguard Scientifics, Inc. (Safeguard or we), the industries in which we operate and other matters, as well as management's beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as projects, expects, anticipates, intends, plans, believes, estimates, should, would, could, will, opportunity, potential or may, variations of such words or other words 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 by providing partner companies with capital and a range of strategic, operational and management resources. Safeguard may participate 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. Throughout this document, we use the term partner company to generally refer to those companies that we have an economic interest in and that we are actively involved in influencing the development of, usually through board representation in addition to our equity ownership stake. From time to time, in addition to our partner companies, we also hold economic interest in other enterprises that we are not actively involved in the management of.

We strive to create long-term value for our shareholders by helping partner companies increase their market penetration, grow revenue and improve cash flow. We focus on companies with capital requirements of up to \$25 million that operate in two sectors:

*Technology* including companies focused on healthcare information technology, financial services technology and internet/new media businesses that have recurring or transactional revenue models; and

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

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

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

*Consolidation Method.* We account for our partner companies in which we maintain a controlling financial interest, generally those in which we directly or indirectly own more than 50% of the outstanding voting securities, using the consolidation method of accounting. Upon consolidation of our partner companies, we reflect the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the parent company as a noncontrolling interest in

the Consolidated Balance Sheet. The noncontrolling interest is presented within equity, separately from the equity of the parent company. Losses attributable to the parent company and the noncontrolling interest may exceed their interest in the subsidiary's equity. As a result, the noncontrolling interest shall continue to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance as of each balance sheet date. Revenue, expenses, gains, losses, net income or loss are reported in the Consolidated Statements of Operations at the consolidated amounts, which include the amounts attributable to the parent company's common shareholders and the noncontrolling interest. As of September 30, 2010, we did not hold a controlling interest in any of our partner companies.

**Table of Contents**

*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, based on our non-controlling 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.

*Fair Value Method.* We account for our holdings in Clariant, one of our publicly traded partner companies, under the fair value option following its deconsolidation on May 14, 2009. Unrealized gains and losses on the mark-to-market of our holdings in Clariant and realized gains and losses on the sale of any of our holdings in Clariant are recognized in Income (loss) from continuing operations in the Consolidated Statements of Operations.

*Available-for-Sale Securities.* We account for our ownership interests in Tengion and NuPathe, two of our publicly traded partner companies, as available-for-sale securities. Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of equity. Unrealized losses are charged against net loss when a decline in the fair value is determined to be other than temporary.

**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:

Impairment of ownership interests in and advances to partner companies;

Income taxes;

Commitments and contingencies; and

Stock-based compensation.

***Impairment of Ownership Interests In and Advances to Partner 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 and available-for-sale securities for possible impairment based on achievement of business plan objectives and milestones, the financial condition and prospects of the company, market conditions, and other relevant factors. The business plan objectives and milestones we consider include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. We then determine whether there has been an other than temporary decline in the value of our ownership interest in the company. Impairment to be recognized is measured as the amount by which the carrying value of an asset exceeds its fair value.

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

The new carrying value of a cost or equity method partner company following an impairment is not increased if circumstances suggest the value of the partner company has subsequently recovered.

**Table of Contents**

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

***Income Taxes***

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

***Commitments and Contingencies***

From time to time, we are a defendant or plaintiff in various legal actions which arise in the normal course of business. Additionally, we have received distributions as both a general partner and a limited partner from certain private equity funds. In certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for a further distribution to such fund's limited partners (the "clawback"). We are also a guarantor of various third-party obligations and commitments and are subject to the possibility of various loss contingencies arising in the ordinary course of business (see Note 14). We are required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease our earnings in the period the changes are made.

***Stock-Based Compensation***

We measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements.

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



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

Our management evaluates the Life Sciences and Technology segments performance based on net income (loss) which is based on the number of partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies, mark-to-market gains and losses for companies accounted for under the fair value method, any impairment charges and gains (losses) on the sale of partner companies.

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Life Sciences	\$ 7,311	\$ 1,209	\$ 12,208	\$ 151,586
Technology	(960)	(8,057)	(4,981)	(11,502)
Total segments	6,351	(6,848)	7,227	140,084
Other items:				
Corporate operations	(5,758)	(4,741)	(25,481)	(14,823)
Income tax benefit				14
Total other items	(5,758)	(4,741)	(25,481)	(14,809)
Net income (loss) from continuing operations	593	(11,589)	(18,254)	125,275
Income from discontinued operations, net of tax				1,500
Net income (loss)	593	(11,589)	(18,254)	126,775
Net income attributable to noncontrolling interest				(1,163)
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$ 593	\$ (11,589)	\$ (18,254)	\$ 125,612



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

The following partner companies were included in Life Sciences during the nine months ended September 30, 2010 and 2009:

	<b>Safeguard Primary Ownership as of September 30,</b>		<b>Accounting Method</b>
	<b>2010</b>	<b>2009</b>	
Advanced BioHealing, Inc.	28.1%	28.3%	Equity
Alverix, Inc.	49.6%	50.0%	Equity
Avid Radiopharmaceuticals, Inc.	13.0%	13.6%	Cost
Clariant, Inc.	27.5%	28.3%	Fair Value
Garnet BioTherapeutics, Inc.	31.1%	31.1%	Equity
Good Start Genetics, Inc.	26.5%	N/A	Equity
Molecular Biometrics, Inc.	35.0%	38.1%	Equity
NuPathe, Inc.	18.1%	22.9%	Available-for-sale (1)
Quinnova Pharmaceuticals, Inc.	25.7%	N/A	Equity
Tengion, Inc.	4.8%	4.5%	Available-for-sale (2)

(1) Our ownership interest in NuPathe is accounted for as available-for-sale securities following NuPathe's completion of an initial public offering in August 2010. We previously accounted for NuPathe under the equity method.

(2) Our ownership interest in Tengion is accounted for as available-for-sale securities following Tengion's completion of an initial public offering in April 2010. We

previously  
accounted for  
Tengion under the  
cost method.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Revenue	\$	\$	\$	\$ 34,839
Operating Expenses:				
Cost of sales				13,811
Selling, general and administrative				19,407
Total operating expenses				33,218
Operating income				1,621
Other income (loss), net	8,139	3,811	19,166	162,328
Interest income				4
Interest expense				(275)
Equity loss	(828)	(2,602)	(6,958)	(12,092)
Net income from continuing operations before income taxes	\$ 7,311	\$ 1,209	\$ 12,208	\$ 151,586

Results of operations for the nine month period ended September 30, 2009 include Clariant on a consolidated basis through May 14, 2009. All of our Life Sciences segment's revenues, cost of sales, selling, general and administrative expenses, interest income and interest expense from continuing operations for the prior year periods were attributable to Clariant.

**Table of Contents***Three months ended September 30, 2010 versus the three months ended September 30, 2009*

**Other Income (Loss), Net.** Other income (loss), net for the three months ended September 30, 2010 reflects a \$9.2 million unrealized gain on the mark-to-market of our holdings in Clariant partially offset by a \$1.1 million impairment charge related to the other than temporary decline in value of our holdings in Tengion. Other income (loss), net for the three months ended September 30, 2009 included an unrealized gain of \$15.1 million on the mark-to-market of our holdings in Clariant, partially offset by a \$7.3 million realized loss on the sale of 18.4 million shares of common stock of Clariant and an impairment charge of \$3.9 million related to our holdings in Tengion. On October 22, 2010, Clariant agreed to be acquired by GE Healthcare, a unit of General Electric Company (NYSE: GE) ( GE ) via a public tender offer for all outstanding common and preferred shares of Clariant, followed by a merger of Clariant into an indirect subsidiary of GE. The completion of the transactions is subject to certain conditions, and is expected to occur in late 2010 or early 2011.

**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 decreased \$1.8 million in the three months ended September 30, 2010 compared to the prior year period. The decrease in equity loss was primarily due to a \$5.8 million gain on the decrease of our ownership interest in NuPathe partially offset by a \$1.1 million impairment charge related to our interest in Garnet as well as a mark to market adjustment associated with warrant liabilities at Advanced BioHealing in the amount of \$2.5 million in the three months ended September 30, 2010.

*Nine months ended September 30, 2010 versus the nine months ended September 30, 2009*

**Other Income (Loss), Net.** Other income (loss), net for the nine months ended September 30, 2010 reflects a \$22.4 million unrealized gain on the mark-to-market of our holdings in Clariant offset by impairment charges totaling \$3.3 million associated with our holdings in Tengion. Other income (loss), net for the nine months ended September 30, 2009 reflects an unrealized gain on the deconsolidation of Clariant of \$106.0 million. In addition, we recognized an unrealized gain of \$67.6 million on the mark-to-market of our holdings in Clariant through September 30, 2009 which was offset by a \$7.3 million realized loss on the sale of 18.4 million shares of common stock of Clariant and an impairment charge of \$3.9 million related to our holdings in Tengion. As described above, on October 22, 2010 Clariant agreed to be acquired by GE Healthcare, a unit of GE.

**Equity Loss.** Equity loss for Life Sciences decreased \$5.1 million in the nine months ended September 30, 2010 compared to the prior year period. The decrease in equity loss was primarily due to a \$5.8 million gain on the decrease of our ownership interest in NuPathe, an impairment charge of \$3.3 million recorded for Rubicor in the nine month period ended September 30, 2009 partially offset by a \$1.1 million impairment charge related to our interest in Garnet as well as a mark to market adjustment associated with warrant liabilities at Advanced BioHealing in the amount of \$2.8 million in the nine month period ended September 30, 2010.

**Technology**

The following partner companies were included in Technology during the nine months ended September 30, 2010 and 2009:

<b>Partner Company</b>	<b>Safeguard Primary Ownership as of September 30,</b>		<b>Accounting Method</b>
	<b>2010</b>	<b>2009</b>	
Advantagedge Healthcare Solutions, Inc.	39.7%	38.9%	Equity
SafeCentral, Inc. (formerly Authentium, Inc.)	20.1%	20.0%	Equity
Beyond.com Inc.	38.3%	37.1%	Equity

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-Q

Bridgevine, Inc.	23.4%	24.2%	Equity
MediaMath, Inc.	17.3%	17.9%	Cost
Portico Systems, Inc.	45.4%	45.6%	Equity
Swap.com (formerly Swaptree, Inc.)	45.4%	29.3%	Equity

**Table of Contents**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Other income (loss), net	\$	\$ (5,846)	\$	\$ (5,846)
Equity loss	(960)	(2,211)	(4,981)	(5,656)
Net loss from continuing operations before income taxes	\$	\$ (8,057)	\$	\$ (11,502)

*Three and nine months ended September 30, 2010 versus the three and nine months ended September 30, 2009*

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

*Equity Loss.* Equity loss fluctuates with the number of Technology partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity 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 decreased \$1.3 million and \$0.7 million in the three and nine months ended September 30, 2010, respectively, compared to the prior year period. The decrease in both periods was due to smaller losses incurred at certain partner companies.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)		(In thousands)	
General and administrative	\$ (3,453)	\$ (3,458)	\$ (11,323)	\$ (10,552)
Stock-based compensation	(775)	(752)	(2,592)	(2,249)
Depreciation	(28)	(27)	(84)	(101)
Interest income	180	111	516	375
Interest expense	(1,674)	(728)	(4,061)	(2,196)
Other income (loss), net	5	127	(7,911)	(62)
Equity loss	(13)	(14)	(26)	(38)
	\$ (5,758)	\$ (4,741)	\$ (25,481)	\$ (14,823)

*Three months ended September 30, 2010 versus the three months ended September 30, 2009*

*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 remained consistent when compared to the prior year period.

*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. Stock-based compensation remained consistent when compared to the prior year period.

*Interest Income.* Interest income includes all interest earned on available cash and marketable security balances. Interest income increased \$0.1 million in the three months ended September 30, 2010 compared to the prior year period due higher average invested cash balances.

*Interest Expense.* Interest expense is primarily related to our 2024 and 2014 Debentures. As discussed below under Liquidity and Capital Resources, we exchanged a portion of our 2024 Debentures effective March 26, 2010. The increase in interest expense of \$0.9 million compared to the prior year is related to the higher coupon rate of 10.125% payable on our 2014 Debentures as compared to a 2.625% coupon rate on the 2024 Debentures and accretion of the discount and amortization of debt issuance costs in the amount of \$0.2 million associated with our 2014 Debentures.

*Other income (loss), net.* Other income (loss), net decreased \$0.1 million for the three months ended September 30, 2010 compared to the prior year period primarily due to gains in the prior year period on the repurchase of \$1.3 million in face value of our 2024 Debentures.

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

*Nine months ended September 30, 2010 versus the nine months ended September 30, 2009*

*General and Administrative Costs.* General and administrative costs increased \$0.8 million for the nine month period ended September 30, 2010 compared to the prior year period. The increase is primarily attributable to a \$0.6 million increase in employee costs, a \$0.3 million increase in costs related to an ongoing agreement with our former Chairman and Chief Executive Officer and a \$0.1 million increase in professional fees partially offset by a \$0.3 million decrease in insurance costs.

*Stock-Based Compensation.* Stock-based compensation consists primarily of expense related to stock option grants and grants of restricted stock and deferred stock units to our employees. The \$0.3 million increase in compensation expense for the nine month period ended September 30, 2010 compared to the prior year period primarily relates to recent grants of deferred stock units to directors and additional expense recognized related to the modification of a former director's stock awards. Stock-based compensation expense related to corporate operations is included in selling, general and administrative in the Consolidated Statements of Operations.

*Interest Expense.* Interest expense is primarily related to our 2024 and 2014 Debentures. As discussed below under Liquidity and Capital Resources, we exchanged a portion of our 2024 Debentures effective March 26, 2010. The increase in interest expense of \$1.9 million compared to the prior year is related to the higher coupon rate of 10.125% payable on our 2014 Debentures as compared to a 2.625% coupon rate on the 2024 Debentures and accretion of the discount and amortization of debt issuance costs in the amount of \$0.4 million associated with our 2014 Debentures.

**Table of Contents**

*Other income (loss), net.* Other income (loss), net for the nine months ended September 30, 2010 included an \$8.5 million loss on exchange of \$46.9 million in face value of our convertible senior debentures, partially offset by a \$0.3 million gain on sales of legacy assets.

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

**Income Tax Benefit (Expense)**

Our consolidated income tax benefit (expense) was \$0.0 million for both the three and nine months ended September 30, 2010, \$0.0 million for the three months ended September 30, 2009 and \$14 thousand for the nine months ended September 30, 2009. 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 the nine months ended September 30, 2010 and the income tax expense that would have been recognized in the nine months ended September 30, 2009 was offset by a valuation allowance.

**Discontinued Operations**

In March 2007, Clariant sold its technology business and related intellectual property to Carl Zeiss MicroImaging, Inc. ( Zeiss ) for an aggregate purchase price of \$12.5 million. (the ACIS Sale ) The \$12.5 million consisted of \$11.0 million in cash and an additional \$1.5 million in contingent purchase price, subject to the satisfaction of certain post-closing conditions through March 2009. During March 2009, Clariant received correspondence from Zeiss which acknowledged the satisfaction of the post-closing conditions and the related \$1.5 million payment due. In April 2009, Clariant received \$1.5 million from Zeiss which was recorded in income from discontinued operations within the Consolidated Statement of Operations for the three months ended March 31, 2009.

**Liquidity and Capital Resources**

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.

On October 22, 2010, we announced that Clariant had agreed to be acquired by GE Healthcare, a unit of GE via a public tender offer for all outstanding common and preferred shares of Clariant, followed by a second step merger of Clariant with an indirect subsidiary of GE. The completion of the transactions is subject to certain conditions, and is expected to occur in late 2010 or early 2011. We expect to receive net sale proceeds of approximately \$145 million upon completion of the transactions.

As of September 30, 2010, we had \$28.8 million of cash and cash equivalents and \$26.4 million of marketable securities for a total of \$55.2 million. In addition, we had \$6.4 million of cash held in escrow, including accrued interest, related to our May 2008 sale of our equity and debt interests in Acsis, Inc., Alliance Consulting Group Associates, Inc., Laureate Pharma, Inc., ProModel Corporation and Neuronix, Inc. (the Bundle Sale ).

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

In February 2004, we completed the sale of \$150 million of 2.625% convertible senior debentures with a stated maturity of March 15, 2024 (the 2024 Debentures ). Interest on the 2024 Debentures is payable semi-annually. At the debentures holders option, the 2024 Debentures are convertible into our common stock through March 14, 2024, subject to certain conditions. The adjusted conversion rate of the debentures is \$43.3044 of principal amount per share. The closing price of our common stock at September 30, 2010 was \$12.53. The 2024 Debentures 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 face amount, plus accrued and unpaid interest. The 2024 Debentures holders also have the right to require repurchase of the 2024 Debentures upon certain events, including sale of all or



substantially all of our common stock or assets, liquidation, dissolution, a change in control or the delisting of our common stock from the New York Stock Exchange if we were unable to obtain a listing for our common stock on another national or regional securities exchange. Subject to certain conditions, we have the right to redeem all or some of the 2024 Debentures. Through September 30, 2010, we have repurchased a total of \$71.8 million in face value of the 2024 Debentures.

**Table of Contents**

On March 10, 2010, we entered into agreements with institutional holders of an aggregate of \$46.9 million in face value of our 2024 Debentures to exchange the debentures held by such holders for \$46.9 million in face amount of newly issued 10.125% senior convertible debentures, due 2014 (the 2014 Debentures). The exchange became effective on March 26, 2010. The remaining \$31.3 million outstanding face amount of the 2024 Debentures remains outstanding under the original terms and has been classified as a current liability on the Consolidated Balance Sheet as of September 30, 2010 because the first required repurchase date is within one year. We recorded a loss on exchange of \$8.5 million determined as the excess of the fair value of the 2014 Debentures at the exchange date over the carrying value of the exchanged 2024 Debentures. This loss is reported in Other income (loss), net in the Consolidated Statements of Operations for the nine months ended September 30, 2010.

At September 30, 2010, the fair value of the \$31.3 million outstanding 2024 Debentures was approximately \$30.7 million based on quoted market prices as of such date.

As discussed above, in March 2010, we issued \$46.9 million in face value of our 2014 Debentures in an exchange transaction. Interest on the 2014 Debentures is payable semi-annually. As required by the terms of the 2014 Debentures, at issuance we placed approximately \$19.0 million in a restricted escrow account to service interest associated with the 2014 Debentures through their maturity. At the debentures holders' option, the 2014 Debentures are convertible into our common stock prior to March 15, 2013 subject to certain conditions, and at anytime after March 15, 2013. The conversion rate of the 2014 Debentures is \$16.50 of principal amount per share. The closing price of our common stock at September 30, 2010 was \$12.53. The 2014 Debentures holders have the right to require repurchase of the 2014 Debentures upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution, a change in control or the delisting of our common stock from the New York Stock Exchange if we were unable to obtain a listing for our common stock on another national or regional securities exchange. Subject to certain conditions, we may mandatorily convert all or some of the 2014 Debentures at any time after March 15, 2012. If we elect to mandatorily convert any of the 2014 Debentures, we will be required to pay any interest that would have accrued and become payable on the debentures through their maturity. Upon a conversion of the 2014 Debentures, we have the right to settle the conversion in stock, cash or a combination thereof.

Because the 2014 Debentures may be settled in cash or partially in cash upon conversion, we have separately accounted for the liability and equity components of the 2014 Debentures. The carrying amount of the liability component was determined at the exchange date by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option was determined by deducting the fair value of the liability component from the carrying value of the 2014 Debentures as a whole. The carrying value of the 2014 Debentures as a whole was equal to their fair value at the exchange date. We are amortizing the excess of the face value of the 2014 Debentures over their carrying value to interest expense over their term. At September 30, 2010, the fair value of the \$46.9 million outstanding 2014 Debentures was approximately \$54.4 million based on a convertible bond valuation model.

In February 2009, we entered into a loan agreement which provides us with a revolving credit facility in the maximum aggregate amount of \$50 million in the form of borrowings, guarantees and issuances of letters of credit (subject to a \$20 million sublimit). Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as the value of our public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, we are required to maintain all of our depository and operating accounts and not less than 75% of our investment and securities accounts at the bank. The credit facility matures on December 31, 2010. Under the credit facility, we provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters which has been required in connection with our sale of CompuCom Systems in 2004. Availability under our revolving credit facility at September 30, 2010 was \$43.7 million.

We have committed capital of approximately \$1.2 million, including conditional commitments to provide partner companies with additional funding and commitments made to various private equity funds in prior years. These commitments will be funded over the next several years, including approximately \$1.1 million which is expected to be funded in the next 12 months.

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

In May 2001, we entered into a \$26.5 million loan agreement with our former Chairman and Chief Executive Officer. In December 2006, we restructured the obligation to reduce the amount outstanding to \$14.8 million, bearing interest at a rate of 5.0% per annum. Cash payments, when received, are recognized as Recovery related party in our Consolidated Statements of Operations. Since 2001 and through September 30, 2010, we have received a total of \$16.8 million in payments on the loan. The carrying value of the loan at September 30, 2010 was zero.

**Table of Contents**

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 ( clawback ). The maximum clawback we could be required to return related to our general partner interest is \$2.2 million, of which \$0.9 million was reflected in accrued expenses and other current liabilities and \$1.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheet at September 30, 2010. We paid \$1.1 million of our estimated clawback liabilities in the nine months ended September 30, 2010.

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

For the reasons we presented above, we believe our cash and cash equivalents at September 30, 2010, 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 debt repayments, commitments to our existing companies and funds, possible additional funding of existing partner companies and our general corporate requirements. Our acquisition of new partner company interests is always contingent upon our availability of cash to fund such deployments, and our timing of monetization events directly affects our availability of cash.

**Table of Contents*****Analysis of Consolidated Cash Flows***

Cash flow activity was as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Net cash used in operating activities	\$ (12,276)	\$ (15,537)
Net cash provided by (used in) investing activities	(26,412)	15,320
Net cash provided by financing activities	147	17,267
	\$ (38,541)	\$ 17,050

***Net Cash Used In Operating Activities***

Net cash used in operating activities decreased by \$3.3 million. The change was primarily related to cash used in operating activities of Clariant in the prior year period prior to its deconsolidation of \$4.5 million, partially offset by working capital changes.

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

Net cash used in investing activities increased by \$41.7 million. The increase is primarily related to a \$58.5 million decrease in proceeds from sales of and distributions from companies and funds, \$18.9 million of cash transferred to escrow to service interest payments on the 2014 Debentures, a \$5.0 million increase in advances to partner companies, a \$4.4 million decrease in repayment of advances to partner companies, a \$1.0 million decrease in proceeds from the sale of discontinued operations partially offset by a \$36.8 million net decrease in cash paid to acquire marketable securities, a \$2.5 million decrease in cash paid to acquire ownership interests in partner companies and funds, a \$2.0 million decrease in restricted cash, a \$2.1 million decrease in capital expenditures and a \$2.7 million decrease in cash related to the deconsolidation of subsidiary cash in the prior year period.

***Net Cash Provided by Financing Activities***

Net cash provided by financing activities decreased by \$17.1 million. The decrease is primarily related to a \$28.1 million decrease in proceeds received from the issuance of subsidiary common stock, partially offset by a \$9.5 million reduction in payments on revolving credit facilities, a \$1.2 million reduction in the repurchase of convertible senior debentures and a \$1.0 million increase related to the issuance of Company common stock associated with stock option exercises.

**Table of Contents****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, 2010 by period due or expiration of the commitment.

	Total	Payments Due by Period			
		Remainder of 2010	2011 and 2012	2013 and 2014	Due after 2014
(In millions)					
Contractual Cash Obligations:					
Convertible senior debentures(a)	\$ 78.2	\$	\$ 31.3	\$ 46.9	\$
Operating leases	2.6	0.2	1.2	1.2	
Funding commitments(b)	1.2	1.0	0.2		
Potential clawback liabilities(c)	2.2	0.9	1.3		
Other long-term obligations(d)	4.2	0.8	1.6	1.5	0.3
Total Contractual Cash Obligations	\$ 88.4	\$ 2.9	\$ 35.6	\$ 49.6	\$ 0.3

	Total	Amount of Commitment Expiration by Period			
		Remainder of 2010	2011 and 2012	2013 and 2014	After 2014
(In millions)					
Other Commitments:					
Letters of credit(e)	\$ 6.3	\$	\$	\$	\$ 6.3

(a) In February 2004, we completed the issuance of \$150.0 million of the 2024 Debentures with a stated maturity of March 15, 2024. Through September 30, 2010, we have repurchased \$71.8 million in face value of the 2024 Debentures. The 2024 Debentures holders have the right to require the Company to

repurchase the 2024 Debentures on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective face amount, plus accrued and unpaid interest.

On March 10, 2010, we entered into agreements with institutional holders of an aggregate of \$46.9 million in face value of our 2024 Debentures to exchange the 2024 Debentures held by such holders for \$46.9 million in face amount of our 2014 Debentures. The exchange became effective on March 26, 2010.

Although contractually due in 2024, the remaining \$31.3 million outstanding face amount of the 2024 Debentures has been classified as due in 2011 to reflect the first required repurchase date and conform with the presentation of the 2024 Debentures as a current liability

on the  
Consolidated  
Balance Sheet at  
September 30,  
2010.

- (b) These amounts include \$0.8 million in conditional commitments to provide non-consolidated partner companies with additional funding. Also included are 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.
- (c) We have received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for a further distribution to such fund s



limited partners ( clawback ). The maximum clawback we could be required to return is approximately \$2.2 million, of which \$0.9 million was reflected in Accrued expenses and other current liabilities and \$1.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets.

- (d) Reflects the estimated amount payable to our former Chairman and CEO under an ongoing agreement.
- (e) A \$6.3 million letter of credit is provided to the landlord of CompuCom s Dallas headquarters lease as required in connection with our sale of CompuCom in 2004.

**Table of Contents**

We have agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or if the employee terminates his employment for good reason. The maximum aggregate cash exposure under the agreements was approximately \$8 million at September 30, 2010.

We remain guarantor of Laureate Pharma's Princeton, New Jersey facility lease. Such guarantee may extend through the lease expiration in 2016 under certain circumstances. However, we are entitled to indemnification in connection with the continuation of such guaranty. As of September 30, 2010, scheduled lease payments to be made by Laureate Pharma over the remaining lease term equaled \$7.4 million.

As of September 30, 2010, we had federal net operating loss carryforwards and federal capital loss carryforwards of approximately \$198.2 million and \$157.1 million, respectively. The net operating loss carryforwards expire in various amounts from 2010 to 2027. The capital loss carryforwards expire in various amounts from 2010 to 2012.

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.

**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.

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

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

The risks relating to our partner companies include:

- most of our partner companies have a history of operating losses or a limited operating history;

- the intensifying competition affecting the products and services our partner companies offer could adversely affect their businesses, financial condition, results of operations and prospects for growth;

- the inability to adapt to the rapidly changing marketplaces;

- the inability to manage growth;

- the need for additional capital to fund their operations, which we may not be able to fund or which may not be available from third parties on acceptable terms, if at all;

- the inability to protect their proprietary rights and/or infringing on the proprietary rights of others;

- that certain of our partner companies could face legal liabilities from claims made against them based upon their operations, products or work;

- the impact of economic downturns on their operations, results and growth prospects;

- the inability to attract and retain qualified personnel; and

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



**Table of Contents**

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

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

As part of our strategy, we continually assess the value to our shareholders of our interests in our partner companies.

We also regularly evaluate alternative uses for our capital resources. As a result, depending on market conditions, growth prospects and other key factors, we may at any time:

change the partner companies on which we focus;

sell some or all of our interests in any of our partner companies; or

otherwise change the nature of our interests in our partner companies.

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

Our consolidated financial results also may vary significantly based upon which partner companies are included in our Consolidated Financial Statements. For example: For the period from January 1, 2009 through May 14, 2009 we consolidated the results of operations of Clariant in continuing operations. On May 14, 2009, we deconsolidated Clariant and subsequently account for our holdings in Clariant under the fair value option.

***Our business model does not rely, or plan, upon the receipt of operating cash flows from our partner companies.***

***Our partner companies currently provide us with no cash flow from their operations. We rely on cash on hand, liquidity events and our ability to generate cash from capital raising activities to finance our operations.***

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

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

Fluctuations in the market prices of the common stock of our publicly traded holdings may affect our net income (loss) and 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. We have elected to apply the fair value option to account for our retained interest in Clariant following its deconsolidation on May 14, 2009. As a result, gains and losses on the mark-to-market of our holdings in Clariant are recognized in income (loss) from continuing operations for each accounting period for which we continue to maintain an interest in Clariant. We account for our holdings in NuPathe and Tengion as available-for-sale securities following their initial public offerings in August and April 2010, respectively. As a result, gains and losses on the mark-to-market of our holdings in NuPathe and Tengion are recognized in equity for each accounting period for which we continue to maintain an interest in these companies. Unrealized losses on available-for-sale securities are charged against net income (loss) when a decline in fair value is determined to be other than temporary. At September 30, 2010, the market values of our holdings in Clariant (Nasdaq: CLRT), NuPathe (Nasdaq: PATH) and Tengion (Nasdaq: TNGN) were approximately \$103.5 million, \$19.0 million and \$1.8 million, respectively, and could vary significantly from period to period. By way of example, the market values of our holdings in Clariant, NuPathe and Tengion were \$152.9 million, \$14.5 million and \$1.7 million, respectively, at November 3, 2010.

**Table of Contents**

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

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

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

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

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

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

the management of a partner company having economic or business interests or objectives that are different than ours; and

the partner companies not taking our advice with respect to the financial or operating difficulties they may encounter.

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

partner companies.

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

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

**Table of Contents**

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 sizable interest in a partner company that we no longer consider strategic, we may not be able to acquire an interest in a company unless we are able to obtain a sizable 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 ownership interest. The actions we may need to take to address these issues while maintaining compliance with the 40% Test could adversely affect our ability to create and realize value at our partner companies.

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

Events over the past two years in the United States and international capital markets, debt markets and economies generally have and may negatively impact the Company's ability to pursue certain 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 partner companies on terms acceptable to the Company and in time frames consistent with our expectations.

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

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

**Risks Related to our Partner Companies*****Most of our partner companies have a history of operating losses or limited operating history and may never be profitable.***

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

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

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

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

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



**Table of Contents**

The technology and life sciences marketplaces are characterized by:

rapidly changing technology;

evolving industry standards;

frequently introducing new products and services;

shifting distribution channels;

evolving government regulation;

frequently changing intellectual property landscapes; and

changing customer demands.

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

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

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

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 partner companies with sufficient capital resources to enable them to reach a cash-flow positive position. Recent economic disruptions and downturns have also negatively affected the ability of some of our partner companies to fund their operations from other stockholders and capital sources. We also may fail to accurately project the capital needs of partner companies. If 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.

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

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

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

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

Partner companies assert various forms of intellectual property protection. Intellectual property may constitute an important part of partner company assets and competitive strengths. Federal law, most typically, copyright, patent, trademark and trade secret laws, generally protects intellectual property rights. Although we expect that partner companies will take reasonable efforts to protect the rights to their intellectual property, third parties may develop similar technology independently. Moreover, 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 partner company efforts to prevent misappropriation of their technology will prove inadequate.

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 the companies to costly litigation and divert 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.***

Because manufacture and sale of certain partner company products entail an inherent risk of product liability, certain 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 partner company 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. Partner company contracts typically include provisions designed to limit their exposure to legal claims relating to their services and the applications they develop. However, these provisions 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 depend upon their ability to attract and retain senior management and key personnel, including trained technical and marketing personnel. Our partner companies also will need to continue to hire additional personnel as they expand. At present, none of our partner companies have employees represented by labor unions. Although our partner companies have not been the subject of a work stoppage, any future work stoppage could have a material adverse effect on their respective operations. A shortage in the availability of the requisite qualified personnel or work stoppage would limit the ability of our partner companies to grow, to increase sales of their existing products and services, and to launch new products and services.

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

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

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

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

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

We are exposed to equity price risks on the marketable portion of our ownership interests in our partner companies. At September 30, 2010, these interests include our equity positions in Clariant, NuPathe and Tengion, our publicly traded partner companies, which have experienced significant volatility in their stock prices. Historically, we have not attempted to reduce or eliminate our market exposure related to these interests. Based on closing market prices at September 30, 2010, the aggregate fair market value of our holdings in Clariant, NuPathe and Tengion were approximately \$124.4 million. A 20% decrease in each of Clariant's, NuPathe's and Tengion's stock prices would result in an approximate \$24.9 million decrease in the fair value of our public company holdings.

In February 2004, we completed the issuance of \$150.0 million of our 2024 Debentures with a stated maturity of March 15, 2024. Through March 31, 2010, we repurchased \$71.8 million in face value of the 2024 Debentures. Interest payments are due 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. On March 10, 2010, we entered into agreements with institutional holders of an aggregate of \$46.9 million in face value of our 2024 Debentures to exchange the debentures held by such holders for \$46.9 million in face amount of our 2014 Debentures. The exchange became effective on March 26, 2010. Although contractually due in 2024, the remaining \$31.3 million outstanding face amount of the 2024 Debentures has been classified as due in 2011 to reflect the first required repurchase date and conform with the presentation of the 2024 Debentures as a current liability on the Consolidated Balance Sheet at September 30, 2010.

<b>Liabilities</b>	<b>Remainder of 2010</b>	<b>2011</b>	<b>2012</b>	<b>After 2012</b>	<b>Fair Value at September 30, 2010</b>
2024 Debentures due by year (in millions)	\$	\$ 31.3	\$	\$	\$ 30.7
Fixed interest rate	2.625%	2.625%	2.625%	2.625%	N/A
Interest expense (in millions)	\$ 0.2	\$ 0.8	\$ 0.8	\$ 9.2	N/A
2014 Debentures due by year (in millions)	\$	\$	\$	\$ 46.9	\$ 54.4
Fixed interest rate	10.125%	10.125%	10.125%	10.125%	N/A
Interest expense (in millions)	\$ 1.2	\$ 4.8	\$ 4.8	\$ 5.7	N/A

**Table of Contents**

**Item 4. Controls and Procedures**

**(a) Evaluation of Disclosure 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 our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively 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.

**(b) Change in Internal Control over Financial Reporting**

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

**Table of Contents**

**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, 2009.

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

Fluctuations in the market prices of the common stock of our publicly traded holdings may affect our net income (loss) and 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. We have elected to apply the fair value option to account for our retained interest in Clariant following its deconsolidation on May 14, 2009. As a result, gains and losses on the mark-to-market of our holdings in Clariant are recognized in income (loss) from continuing operations for each accounting period for which we continue to maintain an interest in Clariant. We account for our holdings in NuPathe and Tengion as available-for-sale securities following their initial public offerings in August 2010 and April 2010, respectively. As a result, gains and losses on the mark-to-market of our holdings in NuPathe and Tengion are recognized in equity for each accounting period for which we continue to maintain an interest in these companies. Unrealized losses on available-for-sale securities are charged against net income (loss) when a decline in fair value is determined to be other than temporary. At September 30, 2010, the market values of our holdings in Clariant (Nasdaq: CLRT), NuPathe (Nasdaq: PATH) and Tengion (Nasdaq: TNGN) were approximately \$103.5 million, \$19.0 million and \$1.8 million, respectively, and could vary significantly from period to period. By way of example, the market values of our holdings in Clariant, NuPathe and Tengion were \$152.9 million, \$14.5 and \$1.7 million, respectively, at November 3, 2010.

**Table of Contents****Item 6. Exhibits**

## (a) Exhibits.

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

Exhibit Number	Description	Incorporated Filing Reference	
		Form Type & Filing Date	Original Exhibit Number
2.1	Agreement and Plan of Merger among General Electric Company, Crane Merger Sub, Inc. and Clariant, Inc., dated as of October 22, 2010	(1)	2.1
10.1	Tender and Support Agreement, dated as of October 22, 2010 by and among General Electric Company, Crane Merger Sub, Inc. and Safeguard Delaware, Inc.	(2)	10.1
31.1	Certification of Peter J. Boni pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
31.2	Certification of Stephen T. Zarrilli pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934		
32.1	Certification of Peter J. Boni pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2	Certification of Stephen T. Zarrilli pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		

Filed herewith

- (1) Incorporated by reference to Exhibit 2.1 to Clariant, Inc.'s Current Report on Form 8-K, filed October 22, 2010.
- (2) Incorporated by reference to Exhibit 10.1 to



Clariant, Inc. s  
Current Report  
on Form 8-K,  
filed  
October 22,  
2010.

**Table of Contents**

**SIGNATURES**

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

SAFEGUARD SCIENTIFICS, INC.

Date: November 4, 2010

/s/ PETER J. BONI

Peter J. Boni  
*President and Chief Executive Officer*

Date: November 4, 2010

/s/ STEPHEN T. ZARRILLI

Stephen T. Zarrilli  
*Senior Vice President and Chief  
Financial Officer*