DAQO NEW ENERGY CORP.
Form F-6 POS
December 11, 2012
As filed with the U.S. Securities and Exchange Commission on December 11, 2012

Registration No. 333-164310

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST -EFFECTIVE AMENDMENT NO. 1 TO FORM F-6
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
For Depositary Shares Evidenced by American Depositary Receipts

DAQO NEW ENERGY CORP.
(Exact name of issuer of deposited securities as specified in its charter)

N/A
(Translation of issuer's name into English)

The Cayman Islands
(Jurisdiction of incorporation or organization of issuer)

JPMORGAN CHASE BANK, N.A.
(Exact name of depositary as specified in its charter)

1 Chase Manhattan Plaza, Floor 58, New York, NY, 10005-1401
Telephone (800) 990-1135
(Address, including zip code, and telephone number, including area code, of depositary's principal executive offices)

Law Debenture Corporate Services Inc.
400 Madison Avenue, 4th Floor
New York, New York 10017
(212) 750-6474
(Address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Scott A. Ziegler, Esq.
Ziegler, Ziegler & Associates LLP
570 Lexington Avenue, 44th Floor
New York, New York 10022
(212) 319-7600

It is proposed that this filing become effective under Rule 466

o immediately upon filing
x on December 21, 2012 at 8:30 a.m. (EST)

If a separate registration statement has been filed to register the deposited shares, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be registered	Proposed maximum aggregate price per unit (1)	Proposed maximum aggregate offering price (2)	Amount of registration fee
American Depositary Shares evidenced by American Depositary Receipts, each American Depositary Share representing 25 ordinary shares of Daqo New Energy Corp.	N/A	N/A	N/A	N/A

(1) Each unit represents one American Depositary Share.
(2) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rule 457(k), such estimate is computed on the basis of the maximum aggregate fees or charges to be imposed in connection with the issuance of American Depositary Receipts evidencing American Depositary Shares.

PART I
INFORMATION REQUIRED IN PROSPECTUS

The Prospectus consists of the proposed form of American Depositary Receipt ("ADR" or "American Depositary Receipt") included as Exhibit A to the form of Amendment to Deposit Agreement filed as Exhibit (a)(2) to this Post-Effective Amendment to Registration Statement, which is incorporated herein by reference.

CROSS REFERENCE SHEET

Item 1. DESCRIPTION OF SECURITIES TO BE REGISTERED

Item Number and Caption			Location in Form of American Depositary Receipt Filed Herewith as Prospectus
(1)	Name and address of Depositary		Introductory paragraph and bottom of face of American Depositary Receipt
(2)	Title of American Depositary Receipts and identity of deposited securities		Face of American Depositary Receipt, top center
	Terms of Deposit:		
	(i)	Amount of deposited securities represented by one unit of American Depositary Shares	Face of American Depositary Receipt, upper right corner
	(ii)	Procedure for voting, if any, the deposited securities	Paragraph (12)
	(iii)	Collection and distribution of dividends	Paragraphs (4), (5), (7) and (10)
	(iv)	Transmission of notices, reports and proxy soliciting material	Paragraphs (3), (8) and (12)
	(v)	Sale or exercise of rights	Paragraphs (4), (5) and (10)
	(vi)	Deposit or sale of securities resulting from dividends, splits or plans of reorganization	Paragraphs (4), (5), (10) and (13)
	(vii)	Amendment, extension or termination of the Deposit Agreement	Paragraphs (16) and (17)
	(viii)	Rights of holders of ADRs to inspect the transfer books of the Depositary and the list of Holders of ADRs	Paragraph (3)

	(ix)	Restrictions upon the right to deposit or withdraw the underlying securities	Paragraphs (1), (2), (4), and (5)
	(x)	Limitation upon the liability of the Depositary	Paragraph (14)
(3)	Fees and Charges		Paragraph (7)

Item 2. AVAILABLE INFORMATION

Item Number and Caption		Location in Form of American Depositary Receipt Filed Herewith as Prospectus
(b)	Statement that Daqo New Energy Corp. is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and, accordingly files certain reports with the Securities and Exchange Commission, and that such reports can be inspected by holders of American Depositary Receipts and copied at public reference facilities maintained by the Securities and Exchange Commission in Washington, D.C.	Paragraph (8)

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 3. EXHIBITS

(a)(1) Form of Deposit Agreement. Form of Deposit Agreement dated as of , 2010 among Daqo New Energy Corp., JPMorgan Chase Bank, N.A., as depositary (the "Depositary"), and all holders from time to time of ADRs issued thereunder (the "Deposit Agreement") . Previously filed as Exhibit (a) to Registration Statement No. 333-164310 and incorporated herein by reference.

(a)(2) Form of Amendment No. 1 to Deposit Agreement. Form of Amendment No. 1 to Deposit Agreement dated as of December , 2012, including the Form of American Depositary Receipt, is filed herewith as Exhibit (a)(2).

(b) Any other agreement to which the Depositary is a party relating to the issuance of the American Depositary Shares registered hereunder or the custody of the deposited securities represented thereby. Not Applicable.

(c) Every material contract relating to the deposited securities between the Depositary and the issuer of the deposited securities in effect at any time within the last three years. Not Applicable.

(d) Opinion of Ziegler, Ziegler & Associates LLP, counsel to the Depositary, as to the legality of the securities being registered. Previously filed.

(e) Certification under Rule 466. Filed herewith as Exhibit (e).

Item 4. UNDERTAKINGS

(a) The Depositary hereby undertakes to make available at the principal office of the Depositary in the United States, for inspection by holders of the American Depositary Receipts, any reports and communications received from the issuer of the deposited securities which are both (1) received by the Depositary as the holder of the deposited securities, and (2) made generally available to the holders of the underlying securities by the issuer.

(b) If the amounts of fees charged are not disclosed in the prospectus, the Depositary undertakes to prepare a separate document stating the amount of any fee charged and describing the service for which it is charged and to deliver promptly a copy of such fee schedule without charge to anyone upon request. The Depositary undertakes to notify each registered holder of an American Depositary Receipt thirty days before any change in the fee schedule.

SIGNATURE

Pursuant to the requirements of the Securities Act of 1933, as amended, JPMorgan Chase Bank, N.A. on behalf of the legal entity created by the Deposit Agreement, certifies that it has reasonable grounds to believe that all the requirements for filing on Form F-6 are met and has duly caused this Post -effective Amendment to Registration Statement on Form F-6 to be signed on its behalf by the undersigned, thereunto duly authorized, in The City of New York, State of New York, on December 11, 2012.

Legal entity created by the form of Deposit Agreement for the issuance of ADRs evidencing American Depositary Shares

By: JPMORGAN CHASE BANK, N.A., as Depositary

By: /s/ Gregory A. Levendis
Name: Gregory A. Levendis
Title: Vice President

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Daqo New Energy Corp. certifies that it has reasonable grounds to believe that all the requirements for filing on Form F-6 are met and has duly caused this Post -Effective Amendment to Registration Statement on Form F-6 to be signed on its behalf by the undersigned, thereunto duly authorized, on December 11, 2012.

Daqo New Energy Corp.

By:	/s/ Gongda Yao
Name:	Gongda Yao
Title:	Chief Executive Officer

Under the requirements of the Securities Act of 1933, as amended, this Post -Effective Amendment to Registration Statement on Form F-6 has been signed by the following persons on December 11, 2012 , in the capacities indicated.

SIGNATURES

Signature	Title
/s/ Guangfu Xu Guangfu Xu	Chairman of the Board of Directors
/s/ Xiang Xu Xiang Xu	Director
/s/ Fei Ge Fei Ge	Director
/s/ Rongling Chen Rongling Chen	Director
/s/ Daqing Dave Qi Daqing Dave Qi	Director
/s/ Minsong Liang Minsong Liang	Director
/s/ Fumin Zhuo Fumin Zhuo	Director
/s/ Shuming Zhao Shuming Zhao	Director
/s/ Gongda Yao Gongda Yao	Director and Chief Executive Officer (principal executive officer)
/s/ Bing Su Bing Su	Chief Financial Officer (principal financial and accounting officer)

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF THE REGISTRANT

Under the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of Daqo New Energy Corp., has signed this Post -Effective Amendment to Registration Statement on Form F-6 and Power of Attorney in New York, New York, on December 11, 2012.

Authorized U.S. Representative

Law Debenture Corporate Services Inc.

By:	/s/ Kate Ledyard
	Kate Ledyard
Name:	Manager, Law Debenture
Title:	Corporate Services Inc.

INDEX TO EXHIBITS

Exhibit Number	
(a)(2)	Form of Amendment to Deposit Agreement.
(e)	Rule 466 Certification

(In thousands)	**(Unaudited)**	
Convertible senior debentures due 2024	$31,289	$78,225
Convertible senior debentures due 2014	44,215	
	75,504	78,225
Less: current portion	(31,289)	
Convertible senior debentures non-current	$44,215	$78,225

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. 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 March 31, 2010 was $13.00. 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 March 31, 2010, the Company has repurchased a total of $71.8 million in face value of the 2024 Debentures.

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

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 three months ended March 31, 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 March 31, 2010 because the first required repurchase date is within one year. The Company recognized a loss on exchange of $8.5 million in the three months ended March 31, 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.

At March 31, 2010, the market value of the $31.3 million outstanding 2024 Debentures was approximately $30.8 million based on quoted market prices as of such date.

Convertible Senior Debentures due 2014

Interest on the 2014 Debentures is payable semi-annually on March 15 and September 15. 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. A total of $19.0 million was included in Restricted cash equivalents on the Consolidated Balance Sheet at March 31, 2010, of which $4.8 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 March 31, 2010 was $13.00. 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.

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

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.

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 third party convertible bond valuation model. At March 31, 2010, the carrying amount of the equity component was $10.9 million, the principal amount of the liability component was $46.9 million, the unamortized discount was $2.7 million and the net carrying value of the liability component was $44.2 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 12.4%.

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 March 31, 2010 was $43.7 million.

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

9. STOCK-BASED COMPENSATION

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

	Three Months Ended March 31,			
	2010		2009	
	(In thousands) (unaudited)			
Cost of sales	$		$	33
Selling, general and administrative		738		1,132
	$	738	$	1,165

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.

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

The Company issued no stock option awards to employees during the three months ended March 31, 2010 and 2009, respectively.

At March 31, 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.

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 three months ended March 31, 2010, no options vested based on achievement of market capitalization targets. The Company recorded \$0.3 million and \$0.2 million of compensation expense related to its market-based awards during the three months ended March 31, 2010 and 2009, respectively. Depending on the Company s stock performance, the maximum number of unvested shares at March 31, 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. 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. The Company recorded \$0.1 million and \$0.0 million of compensation expense related to performance-based option awards during the three months ended March 31, 2010 and 2009, respectively. The maximum number of unvested shares at March 31, 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. The Company recorded \$0.2 million and \$0.3 million of compensation expense related to these service-based awards during the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2009, the Company issued 197,000 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 three months ended March 31, 2010, the Company issued 52,600 unrestricted shares to employees in connection with the 2009 management incentive plan payments earned by certain employees.

The Company issued 4,500 and 18,200 deferred stock units during the three months ended March 31, 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, and \$0.1 million for the three months ended March 31, 2010 and 2009, respectively.

Stock-based compensation expense for Clarient prior to its deconsolidation was included in the Company s consolidated results of operations. During the three months ended March 31, 2009, the Company recognized stock-based compensation of $0.6 million related to Clarient.

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

10. INCOME TAXES

The Company s consolidated income tax expense (benefit) was $0.0 million for both the three months ended March 31, 2010 and 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 2010 and 2009 was offset by a valuation allowance.

During the three months ended March 31, 2010, the Company had no material changes in uncertain tax positions.

11. NET LOSS PER SHARE

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

	Three Months Ended March 31,	
	2010	2009
	(In thousands except per share data) (unaudited)	
Basic and Diluted:		
Loss from continuing operations	$ (21,772)	$ (9,924)
Income from discontinued operations		895
Net loss attributable to Safeguard Scientifics, Inc.	$ (21,772)	$ (9,029)
Average common shares outstanding	20,392	20,274
Net loss per share from continuing operations	$ (1.07)	$ (0.49)
Net income per share from discontinued operations		0.04
Net loss per share	$ (1.07)	$ (0.45)

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

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

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

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

At March 31, 2010 and 2009 options to purchase 3.2 million and 3.3 million shares of common stock, respectively, at prices ranging from $3.93 to $21.36 per share, were excluded from the calculations.

At March 31, 2010 and 2009, unvested restricted stock units, performance stock units and DSUs convertible into 0.3 million and 0.2 million shares of stock, respectively, were excluded from the calculations.

At March 31, 2010 and 2009, a total of 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 March 31, 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.

12. PARENT COMPANY FINANCIAL INFORMATION

As of March 31, 2010, the Company had no consolidated partner companies. Given that Clarient was deconsolidated on May 14, 2009 only the statement of operations and cash flows for the three months ended March 31, 2009 are presented below.

Parent Company Statements of Operations

	Three Months Ended March 31, 2009 (In thousands) (unaudited)
Operating expenses	$ (4,362)
Other income (loss), net	(245)
Interest income	156
Interest expense	(735)
Equity loss	(4,738)
Net loss from continuing operations before income taxes	(9,924)
Income tax benefit	
Equity income (loss) attributable to discontinued operations	895
Net loss attributable to Safeguard Scientifics, Inc.	$ (9,029)

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

Parent Company Statements of Cash Flows

		Three Months Ended March 31, 2009 (In thousands) (unaudited)
Net cash used in operating activities	$	(4,177)
Cash Flows from Investing Activities		
Advances to partner companies		(6,050)
Repayment of advances to partner companies		15,500
Acquisitions of ownership interests in partner companies and funds, net of cash acquired		(3,268)
Increase in marketable securities		(5,783)
Decrease in marketable securities		14,050
Decrease in restricted cash		861
Net cash provided by (used in) investing activities		15,310
Net Increase (Decrease) in Cash and Cash Equivalents		11,133
Cash and Cash Equivalents at beginning of period		73,213
Cash and Cash Equivalents at end of period	$	84,346

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

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

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, Clarient. As of May 14, 2009, the Company deconsolidated Clarient and began accounting for its retained interest in Clarient 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 Clarient would no longer be reported as a separate segment since the Company does not separately evaluate Clarient s performance based upon Clarient s operating results. Clarient is now included in the Life Sciences segment. The Company has restated the segment information for March 31, 2009 to report Clarient as part of the Life Sciences segment.

As of March 31, 2010 the Company held an active interest in 17 non-consolidated partner companies. The Company s reportable operating segments are Life Sciences and Technology.

The Company s active partner companies by segment were as follows as of March 31, 2010:

Life Sciences

Partner Company	Safeguard Primary Ownership as of March 31, 2010	Accounting Method
Advanced BioHealing, Inc.	28.2%	Equity
Alverix, Inc.	49.6%	Equity
Avid Radiopharmaceuticals, Inc.	13.5%	Cost
Cellumen, Inc.	58.8%	Equity (1)
Clarient, Inc.	27.8%	Fair Value
Garnet BioTherapeutics, Inc.	31.1%	Equity
Molecular Biometrics, Inc.	35.1%	Equity
NuPathe, Inc.	22.9%	Equity
Quinnova Phamaceuticals, Inc.	25.7%	Equity
Tengion, Inc.	4.5%	Cost

(1) Due to the substantive participating rights of the minority shareholders in the significant operating decisions of Cellumen, the Company continues to account for its holdings in Cellumen under the equity method.

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

Technology

Partner Company	Safeguard Primary Ownership as of March 31, 2010	Accounting Method
Advantedge Healthcare Solutions, Inc.	39.7%	Equity
Authentium, Inc.	20.0%	Equity
Beyond.com Inc.	38.3%	Equity
Bridgevine, Inc.	23.4%	Equity
MediaMath, Inc.	17.5%	Cost
Portico Systems, Inc.	45.4%	Equity
Swaptree, Inc.	46.6%	Equity

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

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, 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 Clarient 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 March 31, 2010 and December 31, 2009 the Company s assets were located in the United States.

Segment assets in Other Items included primarily cash, cash equivalents and marketable securities of $77.8 million and $106.4 million, restricted cash equivalents of $19.0 and $0.0 million and cash held in escrow of $6.4 and $6.9 million at March 31, 2010 and December 31, 2009, respectively.

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

The following represents segment data from continuing operations:

	Three Months Ended March 31, 2010				
	Life Sciences	Technology	Total Segments (In thousands) (unaudited)	Other Items	Total Continuing Operations
Revenue	$	$	$	$	$
Operating loss				(4,833)	(4,833)
Net loss from continuing operations before income taxes	(6,405)	(1,682)	(8,087)	(13,685)	(21,772)
Segment Assets:					
March 31, 2010	111,858	46,244	158,102	110,504	268,606
December 31, 2009	117,529	41,876	159,405	122,694	282,099

	Three Months Ended March 31, 2009				
	Life Sciences	Technology	Total Segments (In thousands) (unaudited)	Other Items	Total Continuing Operations
Revenue	$ 23,192	$	$ 23,192	$	$ 23,192
Operating income (loss)	1,499		1,499	(4,362)	(2,863)
Net loss from continuing operations before income taxes	(2,115)	(2,079)	(4,194)	(5,196)	(9,390)

Other Items

	Three Months Ended March 31, (In thousands) (unaudited)	
	2010	2009
Corporate operations	$ (13,685)	$ (5,196)

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

15. COMMITMENTS AND CONTINGENCIES

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

Not including the Laureate lease guaranty described below, the Company had outstanding guarantees of $3.8 million at March 31, 2010.

The Company has committed capital of approximately $1.3 million, including conditional commitments to provide non-consolidated partner companies with additional funding and commitments made to various private equity funds in prior years. These commitments will be funded over the next several years, including approximately $1.2 million which is expected to be funded 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 $3.4 million, of which $2.0 million was reflected in Accrued expenses and other current liabilities and $1.4 million was reflected in other long-term liabilities on the Consolidated Balance Sheet at March 31, 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 March 31, 2010, scheduled lease payments to be made by Laureate Pharma over the remaining lease term equaled $7.5 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 $3.4 million was included in Other long-term liabilities on the Consolidated Balance Sheet at March 31, 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 March 31, 2010.

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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, s estimates, should, would, could, will, opportunity, potential or may, variations of such words or other w 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 four methods: consolidation, equity, cost and fair value. The accounting method applied is generally determined by the degree of our influence over the entity, primarily determined by our voting interest in the entity.

Consolidation Method. We account for our partner companies in which we maintain a controlling financial interest, generally those in which we directly or indirectly own more than 50% of the outstanding voting securities, using the consolidation method of accounting. Upon consolidation of our partner companies, we reflect the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the 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 March 31, 2010, we did not hold a controlling interest in any of our partner companies.

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

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

Cost Method. We account for partner companies which are not consolidated or accounted for under the equity method using the cost method of accounting. Under the cost method, our share of the income or losses of such partner companies is not included in our Consolidated Statements of Operations. However, the effect of the change in market value of cost method partner company holdings classified as trading securities is reflected in Other income (loss), net in the Consolidated Statements of Operations. At March 31, 2010, we did not maintain any cost method partner company holdings classified as trading securities.

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

Critical Accounting Policies and Estimates

Accounting policies, methods and estimates are an integral part of the Consolidated Financial Statements prepared by management and are based upon management s current judgments. These judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly important because of their significance to the 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 for possible impairment based on achievement of business plan objectives and milestones, the financial condition and prospects of the company, market conditions, and other relevant factors. The business plan objectives and milestones we consider include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. We then determine whether there has been an other than temporary decline in the value of our ownership interest in the company. Impairment to be recognized is measured as the amount by which the carrying value of an asset exceeds its fair value.

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

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

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

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

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 15). 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.

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Stock-Based Compensation

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

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

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, 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.

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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:

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Life Sciences	$ (6,405)	$ (2,115)
Technology	(1,682)	(2,079)
Total segments	(8,087)	(4,194)
Other items:		
Corporate operations	(13,685)	(5,196)
Income tax benefit		
Total other items	(13,685)	(5,196)
Net loss from continuing operations	(21,772)	(9,390)
Income from discontinued operations, net of tax		1,500
Net loss	(21,772)	(7,890)
Net (income) attributable to noncontrolling interest		(1,139)
Net loss attributable to Safeguard Scientifics, Inc.	$ (21,772)	$ (9,029)

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

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As previously stated, 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.

For purposes of the following listing of our Life Science and Technology partner companies, we omit from the listing companies which we have since sold our interest in or which we no longer consider to be active partner companies because we no longer actively influence the operations of such entities.

Life Sciences

The following active partner companies were included in Life Sciences during the three months ended March 31, 2010 and 2009:

	Safeguard Primary Ownership as of March 31,		
Partner Company	2010	2009	Accounting Method
Advanced BioHealing, Inc.	28.2%	28.3%	Equity
Alverix, Inc.	49.6%	50.0%	Equity
Avid Radiopharmaceuticals, Inc.	13.5%	13.5%	Cost
Cellumen, Inc.	58.8%	51.4%	Equity (1)
Clarient, Inc.	27.8%	50.2%	Fair Value (2)
Garnet BioTherapeutics, Inc.	31.1%	31.1%	Equity
Molecular Biometrics, Inc.	35.1%	37.8%	Equity
NuPathe, Inc.	22.9%	23.5%	Equity
Quinnova Phamaceuticals, Inc.	25.7%	NA	Equity
Tengion, Inc.	4.5%	4.5%	Cost

(1) Due to the substantive participating rights of the minority shareholders in the significant operating decisions of Cellumen, the Company continues to account for its holdings in Cellumen under the equity method.

(2) Prior to May 14, 2009, the Company accounted for Clarient under the consolidation

method.

Results for the Life Sciences segment were as follows:

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Revenue	$	$ 23,192
Operating Expenses:		
Cost of sales		8,966
Selling, general and administrative		12,727
Total operating expenses		21,693
Operating income		1,499
Other income (loss), net	(3,080)	
Interest income		1
Interest expense		(191)
Equity loss	(3,325)	(3,424)
Net loss from continuing operations before income taxes	$ (6,405)	$ (2,115)

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Results of operations for the three months ended March 31, 2009 include Clarient on a consolidated basis. 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 period was attributable to Clarient.

Other Income (Loss), Net. Other income (loss), net for the three months ended March 31, 2010 reflects an impairment charge of $2.1 million on our holdings in Tengion and a $0.9 million unrealized loss on the mark-to-market of our holdings in Clarient.

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 $0.1 million in the three months ended March 31, 2010 compared to the prior year period. The decrease in equity loss was primarily due to smaller losses incurred at certain partner companies.

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Technology

The following active partner companies were included in Technology during the three months ended March 31, 2010 and 2009:

	Safeguard Primary Ownership as of March 31,		
Partner Company	2010	2009	Accounting Method
Advantedge Healthcare Solutions, Inc.	39.7%	37.6%	Equity
Authentium, Inc.	20.0%	20.0%	Equity
Beyond.com Inc.	38.3%	37.1%	Equity
Bridgevine, Inc.	23.4%	24.4%	Equity
MediaMath, Inc.	17.5%	NA	Cost
Portico Systems, Inc.	45.4%	46.0%	Equity
Swaptree, Inc.	46.6%	29.3%	Equity

Results for the Technology segment were as follows:

	Three Months Ended March 31,	
	2010	**2009**
	(In thousands)	
Equity loss	$ (1,682)	$ (2,079)
Net loss from continuing operations before income taxes	$ (1,682)	$ (2,079)

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 $0.4 million in the three months ended March 31, 2010 compared to the prior year period. The decrease was due to smaller losses incurred at certain partner companies.

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Corporate Operations

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
General and administrative	$ (4,067)	$ (3,730)
Stock-based compensation	(738)	(595)
Depreciation	(28)	(37)
Interest income	97	156
Interest expense	(730)	(735)
Other income (loss), net	(8,217)	(245)
Equity loss	(2)	(10)
	$ (13,685)	$ (5,196)

Three months ended March 31, 2010 versus the three months ended March 31, 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 increased $0.3 million as compared to the prior year period. The increase is primarily attributable to a $0.2 million increase in employee costs and a $0.1 million increase in professional fees.

Stock-Based Compensation. Stock-based compensation consists primarily of expense related to stock option grants and grants of restricted stock and deferred stock units to our employees. The $0.1 million increase compared to the prior year period relates to recent grants of performance-based stock options and performance-based stock units. Stock-based compensation expense related to corporate operations is included in selling, general and administrative in the Consolidated Statements of Operations.

Interest Income. Interest income includes all interest earned on available cash and marketable security balances. Interest income decreased $0.1 million in the three months ended March 31, 2010 compared to the prior year period due to a decrease in interest rates and a decrease in average invested cash balances.

Interest Expense. Interest expense is primarily related to our 2.625% convertible senior debentures with a stated maturity of 2024. As discussed below under Liquidity and Capital Resources, we exchanged a portion of our convertible senior debentures effective March 26, 2010. The exchange transaction did not have a significant impact on interest expense for the three months ended March 31, 2010, but will increase interest expense in future periods due to the higher coupon rate of 10.125% payable on the newly issued convertible senior debentures.

Other income (loss), net. Other income (loss), net for the three months ended March 31, 2010 included an $8.5 million loss on exchange of $46.9 million in face value of our convertible senior debentures, partially offset by $0.3 million gains on sales of legacy assets. Other income (loss), net for the three months ended March 31, 2009 included an impairment charge related to a private equity fund of $0.3 million.

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

Income Tax Expense

Income tax expense (benefit) for the three months ended March 31, 2010 and 2009 was $0 for both periods. We have recorded a valuation allowance to reduce our net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized in each period was offset by a valuation allowance.

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Discontinued Operations

In March 2007, Clarient 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, Clarient received correspondence from Zeiss which acknowledged the satisfaction of the post-closing conditions and the related $1.5 million payment due. In April 2009, Clarient 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

Parent Company

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

As of March 31, 2010, at the parent company level, we had $38.2 million of cash and cash equivalents and $39.6 million of marketable securities for a total of $77.8 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 Neuronyx, 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 conversion rate of the debentures is $43.3044 of principal amount per share. The closing price of our common stock at March 31, 2010 was $13.00. 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 March 31, 2010, we have repurchased a total of $71.8 million in face value of the 2024 Debentures.

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 March 31, 2010 because the first required repurchase date is within one year. We recorded a loss on exchange of $8.5 million in the three months ended March 31, 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.

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At March 31, 2010, the market value of the $31.3 million outstanding 2024 Debentures was approximately $30.8 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 debentures is $16.50 of principal amount per share. The closing price of our common stock at March 31, 2010 was $13.00. 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 will amortize the excess of the face value of the 2014 Debentures over their carrying value to interest expense over their term.

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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 March 31, 2010 was $43.7 million.

We have committed capital of approximately $1.3 million, including conditional commitments to provide partner companies with additional funding and commitments made to various private equity funds in prior years. These commitments will be funded over the next several years, including approximately $1.2 million which is expected to be funded in the next 12 months.

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

In May 2001, we entered into a $26.5 million loan agreement with Warren V. Musser, our former Chairman and Chief Executive Officer. In December 2006, we restructured the obligation to reduce the amount outstanding to $14.8 million, bearing interest at a rate of 5.0% per annum. Cash payments, when received, are recognized as Recovery related party in our Consolidated Statements of Operations. Since 2001 and through March 31, 2010, we have received a total of $16.8 million in payments on the loan. The carrying value of the loan at March 31, 2010 was zero.

We have received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for further distribution to such fund s limited partners (clawback). The maximum clawback we could be required to return related to our general partner interest is $3.4 million, of which $2.0 million was reflected in accrued expenses and other current liabilities and $1.4 million was reflected in Other long-term liabilities on the Consolidated Balance Sheet at March 31, 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 March 31, 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.

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Analysis of Consolidated Company Cash Flows

Cash flow activity was as follows:

	Three Months Ended March 31,	
	2010	**2009**
	(In thousands)	
Net cash used in operating activities	$ (6,970)	$ (6,816)
Net cash provided by (used in) investing activities	(23,151)	1,013
Net cash provided by financing activities	951	19,801
	$ (29,170)	$ 13,998

Net Cash Used In Operating Activities

Cash used in operating activities increased $0.2 million. The change was primarily related to working capital changes.

Net Cash Provided by Investing Activities

Net cash provided by investing activities decreased by $24.2 million. The decrease is primarily related to $19.0 million of cash transferred to escrow to service interest payments on the 2014 Debentures, an $8.8 million net increase cash paid to acquire marketable securities, a $1.5 million increase in cash paid to acquire ownership interests in companies and funds, a $1.8 million increase in advances to partner companies, partially offset by a $2.0 million decrease in restricted cash, a $2.8 million increase in proceeds from sales of and distributions from companies and funds, a $0.5 million increase proceeds from the sale of discontinued operations, and a $1.8 million decrease in capital expenditures.

Net Cash Provided by Financing Activities

Net cash provided by financing activities decreased by $18.9 million. The decrease is primarily related a $28.1 million decrease in proceeds received from the issuance of subsidiary common stock, partially offset by an $8.2 million reduction in payments on revolving credit facilities and a $1.1 million increase related to the issuance of Company common stock associated with stock awards and bonuses paid in Company common stock.

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Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations and other commercial commitments related to continuing operations as of March 31, 2010 by period due or expiration of the commitment.

	Payments Due by Period (In millions)				
	Total	Remainder of 2010	2011 and 2012	2013 and 2014	Due after 2014
Contractual Cash Obligations:					
Convertible senior debentures(a)	$ 78.2	$	$ 31.3	$ 46.9	$
Operating leases	2.8	0.5	1.2	1.1	
Funding commitments(b)	1.3	1.2	0.1		
Potential clawback liabilities(c)	3.4	2.0	1.4		
Other long-term obligations(d)	4.2	0.8	1.5	1.5	0.4
Total Contractual Cash Obligations	$ 89.9	$ 4.5	$ 35.5	$ 49.5	$ 0.4

	Amount of Commitment Expiration by Period (In millions)				
	Total	Remainder of 2010	2011 and 2012	2013 and 2014	After 2014
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 March 31, 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 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 March 31, 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 $3.4 million, of which $2.0 million was reflected in Accrued expenses and other current liabilities and $1.4 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets.

(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.

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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 March 31, 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 March 31, 2010, scheduled lease payments to be made by Laureate Pharma over the remaining lease term equaled $7.5 million.

As of March 31, 2010, Safeguard had federal net operating loss carryforwards and federal capital loss carryforwards of approximately $202.7 million and $157.4 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.

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

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

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

Therefore, the nature of our holdings could vary significantly from period to period.
Our consolidated financial results also may vary significantly based upon which partner companies are included in our Consolidated Financial Statements. For example:

- For the period from January 1, 2009 through May 14, 2009 and the years ended December 31, 2008 and 2007, we consolidated the results of operations of Clarient in continuing operations. On May 14, 2009, we deconsolidated Clarient and subsequently account for our holdings in Clarient 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 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 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 Clarient following its deconsolidation on May 14, 2009. As a result, gains and losses on the mark-to-market of our holdings in Clarient are and will continue to be recognized in income (loss) from continuing operations for each accounting period for which we continue to maintain an interest in Clarient. The aggregate market value of our holdings in Clarient (Nasdaq: CLRT), our public company holding, at March 31, 2010 was approximately $79.5 million and could vary significantly from period to period. By way of example, the aggregate market value of our holdings in Clarient was $92.8 million at May 5, 2010.
Intense competition from other acquirors of interests in companies could result in lower gains or possibly losses on our partner companies.
We face intense competition from other capital providers as we acquire and develop interests in our partner companies. Some of our competitors have more experience identifying, acquiring and selling companies and have greater financial and management resources, brand name recognition or industry contacts than we have. Despite making most of our acquisitions at a stage when our partner companies are not publicly traded, we may still pay higher prices for those equity interests because of higher valuations of similar public companies and competition from other acquirers and capital providers, which could result in lower gains or possibly losses.
We may be unable to obtain maximum value for our holdings or 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 Clarient, our only publicly traded partner company, are small relative to our holdings. As a result, any significant open-market divestiture by us of our holdings in these partner companies, if possible at all, would likely have a material adverse effect on the market price of their common stock and on our proceeds from such a divestiture. Additionally, we may not be able to take our partner companies public as a means of monetizing our position or creating shareholder value.

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

Our success is dependent on our executive management.

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

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

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

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

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

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

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

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

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

The Investment Company Act of 1940 regulates companies which are engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities. Under the Investment Company Act, a company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of the value of its total assets (excluding government securities and cash items) on an unconsolidated basis, unless an exemption or safe harbor applies. We refer to this test as the 40% Test. Securities issued by companies other than consolidated partner companies are generally considered investment securities for purpose of the Investment Company Act; unless other circumstances exist which actively involve the company holding such interests in the management of the underlying company. We are a company that partners with growth-stage technology and life sciences companies to build value; we are not engaged primarily in the business of investing, reinvesting or trading in securities. We are in compliance with the 40% Test. Consequently, we do not believe that we are an investment company under the Investment Company Act.

We monitor our compliance with the 40% Test and seek to conduct our business activities to comply with this test. It is not feasible for us to be regulated as an investment company because the Investment Company Act rules are inconsistent with our strategy of actively helping our partner companies in their efforts to build value. In order to continue to comply with the 40% Test, we may need to take various actions which we would otherwise not pursue.

For example, we may need to retain a controlling interest in a partner company that we no longer consider strategic, we may not be able to acquire an interest in a company unless we are able to obtain a controlling ownership interest in the company, or we may be limited in the manner or timing in which we sell our interests in a partner company. Our ownership levels also may be affected if our partner companies are acquired by third parties or if our partner companies issue stock which dilutes our controlling ownership interest. The actions we may need to take to address these issues while maintaining compliance with the 40% Test could adversely affect our ability to create and realize value at our partner companies.

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 Clarient 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.

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.

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

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

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

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.

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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.

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.

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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 March 31, 2010, these interests include our equity position in Clarient, our only publicly-traded partner company, which has experienced significant volatility in its stock price. Historically, we have not attempted to reduce or eliminate our market exposure related to these interests. Based on closing market prices at March 31, 2010, the fair market value of our holdings in Clarient was approximately $79.5 million. A 20% decrease in Clarient s stock price would result in an approximate $15.9 million decrease in the fair value of our holdings in Clarient.

In February 2004, we completed the issuance of $150.0 million of our 2024 Debentures with a stated maturity of March 15, 2024. 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 March 31, 2010.

Liabilities	**Remainder of 2010**	**2011**	**2012**	**After 2012**	**Fair Value at March 31, 2010**
2024 Debentures due by year (in millions)	$	$ 31.3	$	$	$ 30.8
Fixed interest rate	2.625%	2.625%	2.625%	2.625%	N/A
Interest expense (in millions)	$ 0.6	$ 0.8	$ 0.8	$ 9.2	N/A
2014 Debentures due by year (in millions)	$	$	$	$ 46.9	$ 55.2
Fixed interest rate	10.125%	10.125%	10.125%	10.125%	N/A
Interest expense (in millions)	$ 3.6	$ 4.8	$ 4.8	$ 5.9	N/A

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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.

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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 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 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 Clarient following its deconsolidation on May 14, 2009. As a result, gains and losses on the mark-to-market of our holdings in Clarient are and will continue to be recognized in income (loss) from continuing operations for each accounting period for which we continue to maintain an interest in Clarient. The aggregate market value of our holdings in Clarient (Nasdaq: CLRT), our public company holding, at March 31, 2010 was approximately $79.5 million and could vary significantly from period to period. By way of example, the aggregate market value of our holdings in Clarient was $92.8 million at May 5, 2010.

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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.

		Incorporated Filing Reference	
Exhibit Number	Description	**Form Type & Filing Date**	**Original Exhibit Number**
4.1	Indenture, dated as of March 26, 2010, by and between Safeguard Scientifics, Inc. and U.S. Bank, National Association	Form 8-K 3/30/10	4.1
4.2	Global Note representing 10.125% Convertible Senior Debentures due March 15, 2014	Form 8-K 3/30/10	4.2
4.3	Escrow Agreement, dated as of March 26, 2010, by and among Safeguard Scientifics, Inc., U.S. Bank, National Association (as trustee) and U.S. Bank, National Association (in its capacity as escrow agent)	Form 8-K 3/30/10	4.3
10.1	Exchange Agreement, dated as of March 10, 2010, by and between Safeguard Scientifics, Inc. and First Manhattan Co.	Form 8-K 3/11/10	10.1
10.2	Exchange Agreement, dated as of March 10, 2010, by and between Safeguard Scientifics, Inc. and the holders of the Old Debentures set forth on the schedules thereto	Form 8-K 3/11/10	10.2
10.3	Exchange Agreement, dated as of March 10, 2010, by and between Safeguard Scientifics, Inc. and each of Prism Partners I, L.P., Prism Partners III Leverage, L.P. and Weintraub Capital Management, L.P., as attorney-in-fact for Prism Partners IV Leveraged Offshore Fund	Form 8-K 3/11/10	10.3
10.4	Exchange Agreement, dated as of March 10, 2010, by and between Safeguard Scientifics, Inc. and Zazove Associates LLC	Form 8-K 3/11/10	10.4
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

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SIGNATURES

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

	SAFEGUARD SCIENTIFICS, INC.
Date: May 10, 2010	/s/ PETER J. BONI Peter J. Boni *President and Chief Executive Officer*
Date: May 10, 2010	/s/ STEPHEN T. ZARRILLI Stephen T. Zarrilli *Senior Vice President and Chief Financial Officer*