SAFEGUARD SCIENTIFICS INC

FORM 10-Q
(Quarterly Report)

Filed 08/06/04 for the Period Ending 06/30/04

Address	435 DEVON PARK DR
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Telephone	6102930600
CIK	0000086115
Symbol	SFE
SIC Code	6799 - Investors, Not Elsewhere Classified
Industry	Misc. Financial Services
Sector	Financial
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For Quarter Ended June 30, 2004

Commission File Number 1-5620

SAFEGUARD SCIENTIFICS, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania **(State or other jurisdiction of incorporation or organization)**	**23-1609753** **(I.R.S. Employer Identification Number)**
800 The Safeguard Building, **435 Devon Park Drive Wayne, PA** **(Address of principal executive offices)**	**19087** **(Zip Code)**

(610) 293-0600
Registrant's telephone number, including area code

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

Yes ☑ No ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ☑ No ☐

Number of shares outstanding as of August 3, 2004
Common Stock 119,736,751

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2004	December 31, 2003
	(in thousands except per share data)	
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 292,328	$ 217,860
Restricted cash	604	1,069
Short-term investments	8,494	7,081
Accounts receivable, less allowances ($2,700 – 2004; $2,656 – 2003)	191,286	245,504
Inventories	20,760	35,849
Prepaid expenses and other current assets	11,492	11,293
Total current assets	524,964	518,656
Property and equipment, net	33,832	34,007
Ownership interests in and advances to companies	35,763	53,119
Available-for-sale securities	14,464	—
Intangible assets, net	11,714	14,689
Goodwill	153,881	195,652
Note receivable - related party	6,981	11,946
Deferred taxes	7,284	—
Other	12,888	8,262
Total Assets	$ 801,771	$ 836,331
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 14,093	$ 11,530
Accounts payable	98,036	108,843
Accrued expenses	75,006	105,557
Deferred revenue	12,059	14,529
Total current liabilities	199,194	240,459
Long-term debt	4,812	2,537
Deferred taxes	—	1,853
Minority interest	143,720	142,159
Other long-term liabilities	13,044	13,152
Convertible subordinated notes	54,763	200,000
Convertible senior debentures	150,000	—
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, $10.00 par value; 1,000 shares authorized	—	—
Common stock, $0.10 par value; 500,000 shares authorized; 119,737 and 119,450 shares issued and outstanding in 2004 and 2003	11,974	11,945
Additional paid-in capital	737,917	735,651
Accumulated deficit	(527,293)	(510,198)
Accumulated other comprehensive income (loss)	14,302	(39)
Treasury stock, at cost (53 shares-2003)	—	(191)
Unamortized deferred compensation	(662)	(997)
Total shareholders' equity	236,238	236,171
Total Liabilities and Shareholders' Equity	$ 801,771	$ 836,331

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands except per share data) (unaudited)			
Revenue				
Product sales	$262,787	$309,804	$485,815	$570,115
Service sales	118,898	108,519	234,516	218,008
Other	106	889	124	1,788
Total revenue	381,791	419,212	720,455	789,911
Operating Expenses				
Cost of sales-product	244,992	288,246	452,073	524,152
Cost of sales-service	78,328	70,662	154,433	143,888
Selling and service	34,051	33,269	68,207	67,565
General and administrative	29,944	28,694	55,065	59,320
Depreciation and amortization	6,538	8,255	13,381	16,133
Impairment	42,719	—	42,719	—
Total operating expenses	436,572	429,126	785,878	811,058
	(54,781)	(9,914)	(65,423)	(21,147)
Other income, net	29,598	12,881	40,077	17,072
Impairment – related party	—	—	—	(659)
Interest income	731	853	1,366	1,885
Interest and financing expense	(2,616)	(3,477)	(5,914)	(6,921)
Income (loss) before income taxes, minority interest and equity loss	(27,068)	343	(29,894)	(9,770)
Income tax benefit (expense)	4,683	(1,465)	3,915	(2,857)
Minority interest	13,851	107	15,185	97
Equity loss	(3,927)	(2,135)	(6,301)	(6,159)
Net Loss	$ (12,461)	$ (3,150)	$ (17,095)	$ (18,689)
Net Loss Per Share:				
Basic	$ (0.10)	$ (0.03)	$ (0.14)	$ (0.16)
Diluted	$ (0.10)	$ (0.03)	$ (0.14)	$ (0.17)
Weighted Average Shares Outstanding – Basic and Diluted	119,505	118,348	119,410	118,256

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2004	2003
	(in thousands) (unaudited)	
Net cash provided by (used in) operating activities	$ 14,685	$ (27,384)
Investing Activities		
Proceeds from sales of available-for-sale and trading securities	14,784	22,409
Proceeds from sales of and distributions from companies and funds	38,408	7,207
Advances to companies	(1,015)	(139)
Repayment of advances to companies and funds	—	753
Acquisitions of ownership interests in companies, funds and subsidiaries, net of cash acquired	(1,741)	(10,810)
Repayments of advances to related party	4,965	1,039
Increase in restricted cash and short-term investments	(8,597)	(8,982)
Decrease in restricted cash and short-term investments	7,648	12,601
Capital expenditures	(9,101)	(7,195)
Reduction in cash due to the deconsolidation of a consolidated company	(954)	—
Other, net	(3,867)	(568)
Net cash provided by investing activities	40,530	16,315
Financing Activities		
Proceeds from convertible senior debentures	150,000	—
Payments of offering costs on convertible senior debentures	(4,812)	—
Repurchase of convertible subordinated notes	(145,237)	—
Payments of costs to repurchase convertible subordinated notes	(913)	—
Borrowings on revolving credit facilities	35,689	51,033
Repayments on revolving credit facilities	(28,303)	(49,055)
Borrowings on term debt	518	80
Repayments on term debt	(1,877)	(1,204)
Issuance of Company common stock	1,270	34
Issuance of subsidiary common stock	14,465	816
Offering cost on issuances of subsidiary common stock	(1,547)	(31)
Net cash provided by financing activities	19,253	1,673
Net Increase (Decrease) in Cash and Cash Equivalents	74,468	(9,396)
Cash and Cash Equivalents at beginning of period	217,860	254,779
Cash and Cash Equivalents at end of period	$ 292,328	$245,383

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004

1. GENERAL

The accompanying unaudited interim Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America and the interim financial statements rules and regulations of the SEC. In the opinion of management, these statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Consolidated Financial Statements. The interim operating results are not necessarily indicative of the results for a full year or for any interim period. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The Consolidated Financial Statements included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's Consolidated Financial Statements and Notes thereto included in the Company's 2003 Annual Report on Form 10-K.

2. BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries in which it directly or indirectly owns more than 50% of the outstanding voting securities. The Company's wholly owned subsidiaries include Alliance Consulting Group Associates, Inc. ("Alliance Consulting"). Alliance operates on a 52 or 53 – week period ending on the Saturday closest to the end of the fiscal period. The Company and all other subsidiaries operate on a calendar year. Alliance's second quarter ended on July 3, 2004 and June 28, 2003, each a period of 13 weeks and year-to-date each a period of 26 weeks.

The Company's Consolidated Statements of Operations and Cash Flows also include the following majority-owned subsidiaries:

For the three months ended June 30,

2004	2003
ChromaVision Medical Systems	Agari Mediaware
CompuCom Systems [2]	ChromaVision Medical Systems
Mantas	CompuCom Systems
Pacific Title and Art Studio	Mantas
	Pacific Title and Art Studio
	Protura Wireless
	SOTAS (merged with Mantas in October 2003)
	Tangram Enterprise Solutions

For the six months ended June 30,

2004	2003
ChromaVision Medical Systems	Agari Mediaware
CompuCom Systems [2]	ChromaVision Medical Systems
Mantas	CompuCom Systems
Pacific Title and Art Studio	Mantas
Tangram Enterprise Solutions [1]	Pacific Title and Art Studio
	Protura Wireless
	SOTAS (merged with Mantas in October 2003)
	Tangram Enterprise Solutions

(1) Tangram was consolidated through February 20, 2004 at which time it was sold to Opsware, Inc. in a stock and debt for stock exchange. The Company recorded an $8.5 million gain on the transaction, which is included in Other income, net on the Consolidated Statements of Operations for the six months ended June 30, 2004.

(2) On May 28, 2004, the Company announced that CompuCom entered into a definitive agreement to be acquired by an affiliate of Platinum Equity, LLC in a cash transaction. See Note 18 for a description of the transaction.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

The Company's Consolidated Balance Sheets also include the following majority-owned subsidiaries:

June 30, 2004	December 31, 2003
ChromaVision Medical Systems	ChromaVision Medical Systems
CompuCom Systems [2]	CompuCom Systems
Mantas	Mantas
Pacific Title and Art Studio	Pacific Title and Art Studio
	Tangram Enterprise Solutions

(2) See Note 18

3. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company reviews goodwill for impairment annually or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets".

On May 28, 2004, the Company announced that its subsidiary, CompuCom Systems, Inc. entered into a definitive agreement pursuant to which an affiliate of Platinum Equity, LLC would acquire CompuCom for $4.60 per common share in cash. Platinum will also acquire the Company's holdings of CompuCom preferred shares at par of $15 million plus accumulated dividends (see Note 18). A possible impairment of the carrying value of goodwill was indicated as the Company's estimated net proceeds from the transaction are less than the Company's carrying value of CompuCom. Accordingly, the Company completed the two-step testing requirements of SFAS No. 142. In the first step, the Company compared the fair value of the CompuCom reporting unit to its carrying value. Fair value was determined based on the Company's estimated net proceeds from the transaction. This calculation resulted in an indication of impairment in the CompuCom reporting unit. The fair value of the CompuCom reporting unit was then allocated to the assets and liabilities of the CompuCom reporting unit. This fair value was then deducted from the fair value of the CompuCom reporting unit to determine the implied fair value of goodwill. The carrying value of the recorded goodwill related to CompuCom exceeded its implied fair value by $23.3 million.

An analysis of the proposed merger also indicated that the goodwill on CompuCom's separate company financial statements may also be impaired. Accordingly, CompuCom separately performed the two-step testing requirements of SFAS No. 142. As a result, CompuCom recorded a loss from impairment of goodwill of $33.4 million during the second quarter of 2004. CompuCom recorded an income tax benefit of $9.5 million related to this impairment charge. The Company's share of this charge was $19.4 million on a pre-tax basis or $14.0 million net of income taxes.

After recording the Company's share of CompuCom's impairment charge, the Company's carrying value of its goodwill still exceeded its implied fair value by $9.3 million and the Company recorded an additional impairment charge of $9.3 million.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

The net effect of the impairment charge on the Company's net loss is $23.3 million and is presented on the Consolidated Statements of Operations as follows (in millions):

Impairment on Consolidated Statements of Operations	($42.7)
Share of impairment allocated to minority shareholders of CompuCom (included in Minority Interest on the Consolidated Statements of Operations)	14.0
The Company's share of CompuCom's tax benefit related to the impairment charge (included in Income Taxes on the Consolidated Statements of Operations)	5.4
	($23.3)

The following is a summary of changes in the carrying amount of goodwill by segment:

	Strategic Companies	Non-Strategic Companies	CompuCom	Total Segments
		(in thousands) (unaudited)		
Balance at December 31, 2003	$89,348	$ 1,415	$104,889	$195,652
Additions	4,724	—	—	4,724
Purchase Price Adjustments	(2,361)	—	—	(2,361)
Deconsolidation	—	(1,415)	—	(1,415)
Impairment	—	—	(42,719)	(42,719)
Balance at June 30, 2004	$91,711	$ —	$ 62,170	$153,881

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

		June 30, 2004		
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Net
			(in thousands) (unaudited)	
Customer-related	6 - 11 years	$19,100	$13,470	$ 5,630
Contract-related	2 - 3 years	2,840	2,495	345
Technology-related	2 - 17 years	11,313	5,574	5,739
Total		$33,253	$21,539	$11,714

		December 31, 2003		
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Net
			(in thousands)	
Customer-related	6 - 11 years	$19,100	$12,023	$ 7,077
Contract-related	2 - 3 years	2,840	2,155	685
Technology-related	2 - 17 years	11,547	4,620	6,927
Total		$33,487	$18,798	$14,689

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

Amortization expense related to intangible assets was $1.6 million and $3.1 million for the three and six months ended June 30, 2004 and $1.4 million and $3.0 million for the three and six months ended June 30, 2003, respectively. The following table provides estimated future amortization expense related to intangible assets:

	Total
	(in thousands) (unaudited)
Remainder of 2004	$ 2,566
2005	3,779
2006	1,860
2007	885
2008 and thereafter	2,624
	$11,714

5. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46), which clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) (FIN 46R), which replaced FIN 46. FIN 46R defines the provisions under which a Variable Interest Entity should be consolidated. FIN 46R is effective for all entities that are subject to the provisions of FIN 46R no later than the end of the first reporting period that ended after March 15, 2004. The Company accounts for, under the equity method, certain private equity funds that account for their investments in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, “Audits of Investment Companies.” The effective date for FIN 46 has been delayed for these funds until the AICPA finalizes its proposed Statement of Position on clarifying the scope of the Audit Guide and accounting by the parent companies and equity method investors for investments in investment companies. If it is ultimately determined that FIN 46 applies to private equity funds, then the amount of equity income or loss the Company records on private equity funds accounted for under the equity method may change significantly.

In February 2004, the FASB issued Emerging Issues Task Force (EITF) Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” This EITF was issued to determine the meaning of other-than-temporary impairment and its application to investments in debt and equity securities within the scope of SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” EITF 03-1 also applies to investments in equity securities that are both outside SFAS 115’s scope and are not accounted for by the equity method, which are defined as “cost method investments.” The impairment accounting guidance is effective for reporting periods beginning after June 15, 2004 and the disclosure requirements for annual reporting periods ending after June 15, 2004. The Company does not believe that the adoption of the provisions of EITF 03-1 will have a material impact on the Company’s financial statements.

6. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources. Excluding net loss, the Company’s sources of comprehensive income (loss) are from net unrealized appreciation (depreciation) on its holdings classified as available-for-sale and foreign currency translation adjustments, which have been negligible to date. Reclassification adjustments result from the recognition in net loss of unrealized gains or losses that were included in comprehensive loss in prior periods.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)			
Net Loss	$(12,461)	$ (3,150)	$(17,095)	$(18,689)
Other Comprehensive Income (Loss), Before Taxes:				
Foreign Currency Translation Adjustments	(111)	—	(123)	—
Unrealized holding gains in available-for-sale securities	14,464	11,961	14,464	11,987
Reclassification adjustments	—	(4,093)	—	(4,193)
Related Tax (Expense) Benefit:				
Unrealized holding gains (losses) in available-for-sale securities	—	(52)	—	(61)
Reclassification adjustments	—	1,384	—	1,419
Other Comprehensive Income	14,353	9,200	14,341	9,152
Comprehensive Income (loss)	$ 1,892	$ 6,050	$ (2,754)	$ (9,537)

7. OWNERSHIP INTERESTS IN AND ADVANCES TO COMPANIES

The following summarizes the carrying value of the Company's ownership interests in and advances to companies accounted for under the equity method or cost method of accounting. The ownership interests are classified according to applicable accounting methods at June 30, 2004 and December 31, 2003.

	June 30, 2004	December 31, 2003
	(in thousands) (unaudited)	
Equity Method		
Public Companies	$ —	$ 9,354
Non-Public Companies	—	934
Private Equity Funds	22,711	27,279
	22,711	37,567
Cost Method		
Non-Public Companies	11,116	12,618
Private Equity Funds	1,936	2,934
	$35,763	$53,119

The market value of the Company's public companies accounted for under the equity method was $37 million at December 31, 2003. In April 2004, the Company sold its interest in Sanchez for $32.1 million in cash and 226,435 shares of Fidelity National Financial ("FNF") common stock valued at $8.3 million on the date of the merger in exchange for our Sanchez common stock, which we sold during the second quarter for net cash proceeds of $8.3 million.

8. DEBT

In May 2004, the Company renewed its revolving credit facility that provides for borrowings and issuances of letters of credit and guarantees of up to $25 million. Borrowing availability under the facility is reduced by the face amount of outstanding letters of credit and guarantees. This credit facility matures in May 2005 and bears interest at the prime rate (4.0% at June 30, 2004) for outstanding borrowings. The credit facility is subject to an unused commitment fee of 0.125% which is subject to reduction based on deposits maintained at the bank.

The facility requires cash collateral equal to one times any amounts outstanding under the facility. Prior to May 5, 2004, the facility required cash collateral at the bank equal to two times any amounts outstanding under the facility. In conjunction with the issuance of the 2024 Convertible Senior Debentures, the Company amended its revolving credit facility to grant the bank a right to a security interest in accounts held by the Company at the bank equal to any amounts outstanding under the facility. As of June 30, 2004, the Company had outstanding guarantees related to three strategic companies' credit facilities, which allowed for total borrowings of up to $18 million, ($12 million was outstanding as of June 30, 2004). As of June 30, 2004, there was $7 million available to the Company under the Company's credit facility.

At June 30, 2004, CompuCom has a $25 million working capital facility and a $50 million receivables securitization facility. Consistent with its financing requirements, CompuCom did not renew the working capital facility in July 2004. No amounts were outstanding under the working capital facility at June 30, 2004 and December 31, 2003. Terms of the facility limit the amounts available for capital expenditures and dividends.

The securitization facility's pricing is based on a designated short-term interest rate plus an agreed upon spread. The securitization allows CompuCom to sell, on an ongoing basis, its trade accounts receivable to a consolidated, wholly owned bankruptcy-remote special purpose subsidiary (SPS). The SPS has sold and, subject to certain conditions, may from time to time sell, an undivided ownership interest in the pool of purchased receivables to financial institutions. As collections reduce receivable balances sold, CompuCom may sell interests in new receivables to bring the amount available up to the maximum allowed. These sales are reflected as reductions of Accounts Receivable on the Consolidated Balance Sheets and are included in net cash provided by operating activities on the Consolidated Statements of Cash Flows.

The proceeds from the sale of receivables are used primarily to fund working capital requirements. CompuCom retains the portion of the sold receivables that are in excess of the amounts outstanding, referred to as retained interest. The carrying amount of CompuCom's retained interest, which approximates fair value because of the short-term nature of the receivables is reflected in Accounts receivables on the Consolidated Balance Sheets. The investors in the securitized receivables have no recourse to the Company's or CompuCom's assets as a result of debtor's defaults. CompuCom is retained as a servicer of the receivables; however, the cost of servicing is not material. The Company and CompuCom account for these transactions in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and meet the sales criteria stated in Paragraph 9 of SFAS 140. Amounts outstanding as sold receivables as of June 30, 2004 consisted of one $10 million certificate with an October 2005 maturity date. Both facilities are subject to CompuCom's compliance with selected financial covenants and ratios.

Four consolidated companies maintain separate credit facilities which provide for aggregate borrowings of $20 million as of June 30, 2004, of which $18 million is guaranteed by the Company under its credit facility. One of the revolving credit facilities totaling $10 million matures in September 2004, $2 million, which had an original maturity of July 2004 has been extended to September 2004, $5 million facility matures in March 2005 and the $3 million facility matures in February 2005. As of June 30, 2004 outstanding borrowings under these facilities were $12 million. These obligations bear interest at variable rates ranging between the prime rate and the prime rate plus 1.25% or LIBOR (ranging from 1.4% to 1.6% at June 30, 2004) plus 2.5%.

Debt as of June 30, 2004 also included mortgage obligations ($3.4 million), term loans ($2.8 million), and capital lease obligations ($0.7 million) of consolidated companies. These obligations bear interest at fixed rates ranging between 7.0% and 22.0% and variable rates indexed to the prime rate plus 1.5%.

Four consolidated companies maintained separate credit facilities which provided for aggregate borrowings of $19.0 million as of December 31, 2003, of which $13.0 million was guaranteed by the Company under its credit facility. As of December 31, 2003 outstanding borrowings under these facilities were $4.7 million. These obligations bore interest at variable rates ranging between the prime rate and the prime rate plus 1.25% or LIBOR plus 2.5%.

Debt as of December 31, 2003 also included mortgage obligations ($3.5 million), term loans ($4.9 million) and capital lease obligations ($1.0 million) of consolidated companies. These obligations bore interest at fixed rates between 8.0% and 20.3% and variable rates indexed to the prime rate plus 1.0% to 1.5%.

Aggregate maturities of long-term debt in future years are (in millions): $9.1 – 2004; $5.9 – 2005; $1.1 – 2006; $2.8 – 2007 and $0.0 thereafter.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

9. CONVERTIBLE SUBORDINATED NOTES AND CONVERTIBLE SENIOR DEBENTURES

In June 1999, the Company issued $200 million of 5% convertible subordinated notes due June 15, 2006 (2006 Notes). Interest is payable semi-annually. The 2006 Notes are redeemable in whole or in part at the option of the Company for a maximum of 101.67% (currently 100.83%) of face value depending on the date of redemption and subject to certain restrictions. The 2006 Notes are convertible into the Company's common stock subject to adjustment under certain conditions. Pursuant to the terms of the 2006 Notes, the conversion rate of the notes at June 30, 2004 was $24.1135 of principal amount per share. As of June 30, 2004, the Company has repurchased $58.7 million and $145.2 million for the three and six months ended June 30, 2004 respectively, of face value of the 2006 Notes for $59.2 million and $146.1 million, including transaction costs, for the three and six months ended June 30, 2004 respectively. The Company recorded $0.5 million and $1.4 million of expense for the three and six months ended June 30, 2004 respectively, which is included in Other Income, Net on the Consolidated Statements of Operations at June 30, 2004, in relation to the acceleration of deferred debt costs associated with the 2006 Notes. As of June 30, 2004, the outstanding balance of the 2006 Notes is $54.8 million. Pursuant to the terms of the 2024 Notes, the Company expects to redeem the balance of the 2006 Notes with a portion of the proceeds from the proposed sale of CompuCom. See Note 18 for further discussion.

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 Notes). The Company has used all of the net proceeds of this offering of approximately $146 million to retire a majority of the 2006 Notes by one or more privately negotiated transactions. Interest on the 2024 Notes is payable semi-annually. At the note holders' option, subsequent to June 30, 2004, the notes are convertible into our common stock before the close of business on March 14, 2024, subject to certain conditions. The note holders may require repurchase of the notes on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective amount plus accrued and unpaid interest. The note holders may also require repurchase of the notes upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution or a change in control. Subject to certain conditions, we may redeem all or some of the 2024 Notes commencing March 20, 2009. The conversion rate of the notes at June 30, 2004 was $7.2174 of principal amount per share.

Pursuant to the terms of the 2024 Notes, the Company has certain obligations to escrow five years of interest payments on the 2024 Notes as a result of the sale of CompuCom. See Note 18 for further discussion.

10. STOCK-BASED COMPENSATION

In June 2004, the Company's shareholders approved the 2004 Equity Compensation Plan under which six million shares have been reserved for issuance. Incentive or non-qualified stock options, restricted stock awards (including deferred stock units), stock appreciation rights, performance units and other stock-based awards may be granted to Company employees, directors and consultants under the 2004 Equity Compensation Plan, the 2001 Associates Equity Compensation Plan and the 1999 Equity Compensation Plan. Generally, outstanding options vest over four years after the date of grant and expire eight years after the date of grant. All options granted under the plans to date have been at prices which have been equal to the fair market value at the date of grant. At June 30, 2004, the Company reserved 18.5 million shares of common stock for possible future issuance under its equity compensation plans. Several subsidiaries maintain equity compensation plans.

Option activity is summarized below:

	Shares	Weighted Average Exercise Price
	(In thousands)	
Outstanding at December 31, 2003	10,319	$ 8.10
Options granted	185	2.26
Options exercised	(359)	3.54
Options canceled/forfeited	(604)	10.69
Outstanding at June 30, 2004	9,541	$ 8.00
Options exercisable at end of period	6,753	
Shares available for future grant	8,996	

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The following summarizes information about the Company's stock options outstanding at June 30, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (In thousands)	Weighted Average Remaining Contractual Life (In years)	Weighted Average Exercise Price	Exercisable (In thousands)	Weighted Average Exercise Price
$ 1.25 - $ 1.74	1,379	6.3	$ 1.38	578	$ 1.36
1.89 - 2.62	1,592	5.7	2.15	663	2.13
3.36 - 4.79	1,801	6.0	3.75	844	3.92
5.28 - 7.68	2,060	4.5	5.36	1,965	5.35
8.83 - 13.08	1,951	2.4	11.82	1,952	11.82
13.29 - 30.47	293	3.6	26.71	286	26.62
45.47 - 50.98	465	3.6	47.85	465	47.85
$ 1.25 - $50.98	9,541		$ 8.00	6,753	$10.22

The Company issued shares of restricted stock to employees in 2001 and 2002, which vest over periods ranging from two to four years. Compensation expense is recognized on a straight-line basis over the vesting period and is reduced to the extent that a participant forfeits shares of restricted stock received prior to vesting. The deferred compensation charge is unaffected by future changes in the price of the common stock.

Total compensation expense for restricted stock issuances was approximately $0.1 million and $0.3 million for the three and six months ended June 30, 2004 and $0.4 million and $1.1 million for the three and six months ended June 30, 2003, respectively. Unamortized compensation expense related to restricted stock issuances at June 30, 2004 is $0.6 million.

In addition to the restricted stock grants, the Company issued 0.9 million of deferred stock units to senior executives in December 2002 and 0.6 million in January 2004 . The value of these deferred stock units was $1.6 million and $3.0 million, respectively, based on the fair value of the stock as of the date of the grant. Deferred stock units are payable in stock on a one-for-one basis. Payments in respect of the deferred stock units are distributable not earlier than one year after the vesting. The deferred stock units granted in December 2002 and 0.3 million of the units granted in January 2004 vest 25% after one year, then in 36 equal monthly installments thereafter. The remaining 0.3 million of deferred stock units granted in January 2004 vest after five years, or earlier depending on the achievement of certain performance criteria, including the sale of CompuCom. In the second quarter of 2004, the Company adjusted the estimated remaining vesting period for these deferred stock units to reflect the likelihood that the CompuCom transaction would be completed in September 2004. As a result, the Company recorded $0.9 million of compensation expense related to these deferred stock units in the second quarter of 2004 and expects to record the remaining $0.5 million in the third quarter of 2004 upon the sale of CompuCom. Total compensation expense for deferred stock units was $1.2 million and $1.4 million for the three and six months ended June 30, 2004, respectively, and $0.1 million and $0.2 million for the three and six months ended June 30, 2003, respectively. Unamortized compensation expense related to deferred stock units at June 30, 2004 is $2.7 million.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company measures stock-based compensation cost in accordance with APB 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation expense is recorded for stock options issued to employees at fair market value. Stock options issued to non-employees are measured at fair value on the date of grant using the Black-Scholes model and are expensed over the vesting period.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure – an amendment to SFAS 123". The Company elected to continue to account for stock-based compensation in accordance with APB 25. Had compensation cost been recognized consistent with SFAS No. 148, the Company's consolidated net loss and loss per share would have been as follows:

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		Three Months Ended June 30,		Six Months Ended June 30,	
		2004	2003	2004	2003
		(in thousands, except per share data)			
Consolidated net loss	As Reported	$(12,461)	$(3,150)	$(17,095)	$(18,689)
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(1,472)	(3,137)	(3,057)	(5,518)
	Pro forma	$(13,933)	$(6,287)	$(20,152)	$(24,207)
Loss Per Share					
Basic	As Reported	$ (0.10)	$ (0.03)	$ (0.14)	$ (0.16)
	Pro forma	$ (0.12)	$ (0.05)	$ (0.17)	$ (0.20)
Diluted	As Reported	$ (0.10)	$ (0.03)	$ (0.14)	$ (0.17)
	Pro forma	$ (0.12)	$ (0.06)	$ (0.17)	$ (0.21)
Per share weighted average fair value of stock options issued on date of grant		$ 1.67	$ 1.35	$ 1.67	$ 1.05

The following ranges of assumptions were used by the Company, its subsidiaries and its companies accounted for under the equity method to determine the fair value of stock options granted during the three and six months ended June 30, 2004 and 2003 using the Black-Scholes option-pricing model for public companies and subsidiaries and the minimum value method for private equity method companies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Company				
Dividend yield	0%	0%	0%	0%
Expected volatility	95%	95%	95%	95%
Average expected option life	5 years	5 years	5 years	5 years
Risk-free interest rate	3.9%	2.5%	3.9%	2.5%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Subsidiaries and Equity Method Companies				
Dividend yield	0%	0%	0%	0%
Expected volatility	70% to 108%	0% to 212%	70% to 109%	0% to 212%
Average expected option life	4 to 5 years	4 to 8 years	4 to 5 years	4 to 8 years
Risk-free interest rate	3.6% to 3.9%	2.1% to 3.4%	2.5% to 3.9%	2.1% to 3.7 %

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11. INCOME TAXES

The Company’s consolidated income tax benefit recorded for the three and six months ended June 30, 2004 was $4.7 million and $3.9 million, respectively, net of a recorded valuation allowance of $13.0 million and $17.9 million, respectively. The Company recorded a valuation allowance against its deferred tax assets based on management’s determination that it is more likely than not that these assets will not be realized in future years, except for deferred tax assets related to CompuCom, which files separate federal and state income tax returns.

12. NET LOSS PER SHARE

The calculations of net loss per share were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands except per share data) (unaudited)			
Basic:				
Net loss	$ (12,461)	$ (3,150)	$ (17,095)	$ (18,689)
Average common shares outstanding	119,505	118,348	119,410	118,256
	$ (0.10)	$ (0.03)	$ (0.14)	$ (0.16)
Diluted:				
Net loss	$ (12,461)	$ (3,150)	$ (17,095)	$ (18,689)
Effect of public holdings	—	(556)	—	(1,135)
Adjusted net loss	$ (12,461)	$ (3,706)	$ (17,095)	$ (19,824)
Average common shares outstanding	119,505	118,348	119,410	118,256
Diluted	$ (0.10)	$ (0.03)	$ (0.14)	$ (0.17)

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

The computation of average common shares outstanding for the three and six months ended June 30, 2004, excludes 0.2 million shares of non-vested restricted stock. The computation of average common shares outstanding for the three and six months ended June 30, 2003 excludes 0.9 million and 1.1 million shares of non-vested restricted stock. These shares will be included in the computation when they vest.

Approximately 1.2 million and 1.9 million weighted average common stock equivalents related to stock options, restricted stock and deferred stock units were excluded from the denominator in the calculation of diluted loss per share for the three and six months ended June 30, 2004, respectively, and 0.5 million and 0.3 million for the three and six months ended June 30, 2003, respectively, as their inclusion would be anti-dilutive due to the net loss in the respective periods. Approximately 3.1 million and 5.2 million shares representing the weighted average effect of assumed conversion of the 2006 Notes were excluded from the denominator in the calculation of diluted loss per share for the three and six months ended June 30, 2004, respectively, because their effect was anti-dilutive due to the net loss in the respective periods. A total of 8.3 million shares representing the weighted average effect of assumed conversion of the 2006 Notes were excluded from the denominator in the calculation of diluted loss per share for the three and six months ended June 30, 2003 because their effect was anti-dilutive due to the net loss in the respective periods. Approximately 1.1 million and 0.8 million shares related to 2024 Notes were not included in the denominator in the calculation of diluted loss per share for the three and six months ended June 30, 2004, respectively, because such notes were not convertible during the period based on conditions required for conversion. Additionally, the result of including such shares would be anti-dilutive due to the net loss in the respective periods.

13. PARENT COMPANY FINANCIAL INFORMATION

Parent company financial information is provided to present the financial position and results of operations of the Company as if the less than wholly owned consolidated companies (see Note 2) were accounted for under the equity method of accounting for all periods presented during which the Company owned its interest in these companies. Parent company financial statements consolidate the financial statements of the Company's wholly-owned subsidiaries, including Alliance Consulting, whose carrying value was $61.5 million at June 30, 2004 and $64.0 million at December 31, 2003.

Parent Company Balance Sheets

	June 30, 2004	December 31, 2003
	(in thousands)	
	(unaudited)	
Assets		
Cash and cash equivalents	$152,374	$122,965
Restricted cash	554	1,019
Short-term investments	8,494	7,081
Other current assets	25,851	23,967
Total current assets	187,273	155,032
Ownership interests in and advances to companies	210,212	249,136
Available-for-sale securities	14,464	—
Note receivable - related party	6,981	11,946
Goodwill	53,307	53,307
Intangibles, net	2,829	3,090
Other	8,296	5,075
Total Assets	$483,362	$477,586
Liabilities and Shareholders' Equity		
Current maturities of long-term debt	$ 11,699	$ 8,491
Other current liabilities	18,607	20,113
Total current liabilities	30,306	28,604
Long-term debt	135	281
Other long-term liabilities	11,920	12,530
Convertible subordinated notes	54,763	200,000
Convertible senior debentures	150,000	—
Shareholders' equity	236,238	236,171
Total Liabilities and Shareholders' Equity	$483,362	$477,586

In connection with its ownership interests in certain companies, the Company has guarantees of $23 million at June 30, 2004, of which $11 million relates to guarantees of its wholly owned subsidiaries. A total of $9 million of debt associated with its guarantees have been recorded on the Parent Company Balance Sheets at June 30, 2004.

Debt for the six months ended June 30, 2004 includes primarily mortgage obligations ($3.4 million), bank credit facilities ($8.0 million), term loans ($0.2 million) and capital lease obligations ($0.2 million). These obligations bear interest at fixed rates between 9.0% to 20.3%, and variable rates of prime or LIBOR plus 2.5%.

Debt for the year ended December 31, 2003 included primarily mortgage obligations ($3.5 million), bank credit facilities ($4.7 million), term loans ($0.3 million) and capital lease obligations ($0.3 million). These obligations bore interest at fixed rates between 9.0% to 20.3%, and variable rates of the prime rate or LIBOR plus 2.5%.

Aggregate maturities of long-term debt during future years are (in millions): $8.3 – 2004 $0.4 – 2005; $0.3 – 2006; $2.8 – 2007 and $0.0 thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Parent Company Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$ 23,806	$21,405	$ 47,297	$ 45,406
Operating expenses:				
Cost of sales	16,167	14,709	32,079	31,083
Selling	3,879	3,191	7,262	6,756
General and administrative	9,977	9,806	18,127	21,710
Depreciation and amortization	1,092	1,510	2,286	2,776
	31,115	29,216	59,754	62,325
	(7,309)	(7,811)	(12,457)	(16,919)
Other income, net	29,598	12,881	40,077	17,072
Impairment – related party	—	—	—	(659)
Interest income	462	502	895	1,193
Interest and financing expense	(2,327)	(2,772)	(5,349)	(5,538)
Income (loss) before income taxes and equity loss	20,424	2,800	23,166	(4,851)
Income tax expense	—	—	—	(1)
Equity loss	(32,885)	(5,950)	(40,261)	(13,837)
Net loss	$(12,461)	$ (3,150)	$(17,095)	$(18,689)

The Company's share of income or losses of its less than wholly owned consolidated subsidiaries is reflected in Equity Loss.

The effect of the impairment charge on CompuCom is included in Equity loss in the Parent Company Statements of Operations.

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JUNE 30, 2004

Parent Company Statements of Cash Flows

	Six Months Ended June 30,	
	2004	2003
	(in thousands) (unaudited)	
Net cash used in operating activities	$ (15,193)	$ (17,597)
Investing Activities		
Proceeds from sales of trading securities	14,784	22,409
Proceeds from sales of and distributions from companies and funds	38,408	7,207
Advances to companies	(1,015)	(139)
Repayment of advances to companies	—	1,403
Acquisitions of ownership interests in companies, funds and subsidiaries, net of cash acquired	(14,241)	(18,115)
Capital expenditures	(766)	(332)
Repayments of advances to related party	4,965	1,039
Increase in restricted cash and short-term investments	(13,097)	(8,982)
Decrease in restricted cash and short-term investments	12,149	12,601
Other, net	45	—
Net cash provided by investing activities	41,232	17,091
Financing Activities		
Proceeds from convertible senior debentures	150,000	—
Payment of offering costs on convertible senior debentures	(4,812)	—
Repurchase of convertible subordinated notes	(145,237)	—
Payments of costs to repurchase convertible subordinated notes	(913)	—
Borrowings on revolving credit facilities	31,645	46,735
Repayments on revolving credit facilities	(28,303)	(49,018)
Repayments on long-term debt	(280)	(669)
Issuance of Company common stock, net	1,270	34
Net cash provided by (used in) financing activities	3,370	(2,918)
Net (Decrease) Increase in Cash and Cash Equivalents	29,409	(3,424)
Cash and Cash Equivalents at beginning of year	122,965	112,714
Cash and Cash Equivalents at end of period	$ 152,374	$109,290

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14. OPERATING SEGMENTS

Our reportable segments include i) Strategic Companies, which include those companies in which we maintain controlling interest and are strategically and operationally engaged with the goal of accelerating value creation; ii) Non-strategic Companies (formerly referred to as "Legacy" in the second quarter of 2003), in which we generally have less than a controlling interest or which do not directly fall within our strategic focus; and iii) CompuCom, which represents the results of our subsidiary, CompuCom. See Net Results of Operations in Item 2 for companies included in the above referenced segments. See also Note 18 regarding our proposed sale of CompuCom.

The following tables reflect our consolidated operating data by reportable segments. Each segment includes the results of the consolidated companies and records our share of income or losses for entities accounted for under the equity method. Segment results also include impairment charges, gains or losses related to the disposition of the companies and the mark to market of trading securities. All significant intersegment activity has been eliminated. Accordingly, segment results reported exclude the effect of transactions between us and our subsidiaries.

Other items, which include corporate expenses and income taxes, are reviewed by management independent of segment results.

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Three Months Ended June 30, 2004

	Strategic Companies	Non-Strategic Companies	CompuCom	Total Segments	Other Items	Consolidated Results
			(in thousands) (unaudited)			
Revenue						
Product sales	$ 1,838	$ —	$260,949	$262,787	$ —	$262,787
Service sales	29,748	8,186	80,964	118,898	—	118,898
Other	79	—	—	79	27	106
Total Revenue	31,665	8,186	341,913	381,764	27	381,791
Operating expenses						
Cost of sales — product	235	—	244,757	244,992	—	244,992
Cost of sales — service	19,302	4,033	54,993	78,328	—	78,328
Selling and service	12,861	694	20,496	34,051	—	34,051
General and administrative	8,233	1,167	15,488	24,888	5,056	29,944
Depreciation and amortization	2,385	686	3,407	6,478	60	6,538
Impairment	—	—	42,719	42,719	—	42,719
Total operating expenses	43,016	6,580	381,860	431,456	5,116	436,572
	(11,351)	1,606	(39,947)	(49,692)	(5,089)	(54,781)
Other income (loss), net	(347)	30,829	—	30,482	(884)	29,598
Interest income	60	5	209	274	457	731
Interest and financing expense	(168)	(16)	(116)	(300)	(2,316)	(2,616)
Net income (loss) before income taxes, minority interest, and equity loss	(11,806)	32,424	(39,854)	(19,236)	(7,832)	(27,068)
Income tax benefit	—	—	—	—	4,683	4,683
Minority interest	1,220	(249)	12,880	13,851	—	13,851
Equity loss	—	(3,861)	—	(3,861)	(66)	(3,927)
Net Income (Loss)	$ (10,586)	$28,314	$ (26,974)	$ (9,246)	$ (3,215)	$ (12,461)
Segment Assets						
June 30, 2004	$163,885	$67,650	$391,272	$622,807	$178,964	$801,771
December 31, 2003	$148,402	$76,855	$462,378	$687,635	$148,696	$836,331

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Three Months Ended June 30, 2003

	Strategic Companies	Non-Strategic Companies	CompuCom	Total Segments	Other Items	Consolidated Results
			(in thousands) (unaudited)			
Revenue						
Product sales	$ 524	$ 4,549	$304,731	$309,804	$ —	$309,804
Service sales	26,150	9,372	72,997	108,519	—	108,519
Other	46	757	—	803	86	889
Total Revenue	26,720	14,678	377,728	419,126	86	419,212
Operating expenses						
Cost of sales — product	204	3,103	284,939	288,246	—	288,246
Cost of sales — service	17,853	3,925	48,884	70,662	—	70,662
Selling and service	12,174	1,904	19,191	33,269	—	33,269
General and administrative	6,542	1,987	15,022	23,551	5,143	28,694
Depreciation and amortization	2,767	1,287	4,138	8,192	63	8,255
Total operating expenses	39,540	12,206	372,174	423,920	5,206	429,126
	(12,820)	2,472	5,554	(4,794)	(5,120)	(9,914)
Other income (loss), net	(55)	12,881	—	12,826	55	12,881
Impairment — related party	—	—	—	—	—	—
Interest income	16	2	334	352	501	853
Interest and financing expense	(135)	(34)	(420)	(589)	(2,888)	(3,477)
Net income (loss) before income taxes, minority interest, and equity income (loss)	(12,994)	15,321	5,468	7,795	(7,452)	343
Income tax expense	—	—	—	—	(1,465)	(1,465)
Minority interest	2,513	(315)	(2,091)	107	—	107
Equity income (loss)	—	(2,148)	—	(2,148)	13	(2,135)
Net Income (Loss)	$(10,481)	$12,858	$ 3,377	$ 5,754	$(8,904)	$ (3,150)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

Six Months Ended June 30, 2004

	Strategic Companies	Non-Strategic Companies	CompuCom	Total Segments	Other Items	Consolidated Results
			(in thousands) (unaudited)			
Revenue						
Product sales	$ 3,695	$ 384	$481,736	$485,815	$ —	$485,815
Service sales	58,928	15,755	159,833	234,516	—	234,516
Other	86	—	—	86	38	124
Total Revenue	62,709	16,139	641,569	720,417	38	720,455
Operating expenses						
Cost of sales — product	385	1	451,687	452,073	—	452,073
Cost of sales — service	38,084	8,305	108,044	154,433	—	154,433
Selling and service	24,400	2,916	40,891	68,207	—	68,207
General and administrative	14,128	2,484	28,922	45,534	9,531	55,065
Depreciation and amortization	4,867	1,571	6,821	13,259	122	13,381
Impairment	—	—	42,719	42,719	—	42,719
Total operating expenses	81,864	15,277	679,084	776,225	9,653	785,878
	(19,155)	862	(37,515)	(55,808)	(9,615)	(65,423)
Other income (loss), net	(347)	42,611	—	42,264	(2,187)	40,077
Interest income	73	11	392	476	890	1,366
Interest and financing expense	(298)	(46)	(236)	(580)	(5,334)	(5,914)
Net income (loss) before income taxes, minority interest, and equity loss	(19,727)	43,438	(37,359)	(13,648)	(16,246)	(29,894)
Income tax benefit	—	—	—	—	3,915	3,915
Minority interest	3,118	224	11,843	15,185	—	15,185
Equity loss	—	(6,176)	—	(6,176)	(125)	(6,301)
Net Income (Loss)	$(16,609)	$37,486	$ (25,516)	$ (4,639)	$(12,456)	$ (17,095)

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
JUNE 30, 2004

Six Months Ended June 30, 2003

	Strategic Companies	Non-Strategic Companies	CompuCom	Total Segments	Other Items	Consolidated Results
			(in thousands) (unaudited)			
Revenue						
Product sales	$ 2,376	$ 5,590	$562,149	$570,115	$ —	$570,115
Service sales	55,940	16,192	145,876	218,008	—	218,008
Other	99	1,515	—	1,614	174	1,788
Total Revenue	58,415	23,297	708,025	789,737	174	789,911
Operating expenses						
Cost of sales — product	442	3,472	520,238	524,152	—	524,152
Cost of sales — service	37,390	7,286	99,212	143,888	—	143,888
Selling and service	24,821	3,643	39,101	67,565	—	67,565
General and administrative	12,849	3,769	29,957	46,575	12,745	59,320
Depreciation and amortization	5,207	2,370	8,318	15,895	238	16,133
Total operating expenses	80,709	20,540	696,826	798,075	12,983	811,058
	(22,294)	2,757	11,199	(8,338)	(12,809)	(21,147)
Other income (loss), net	(55)	17,017	—	16,962	110	17,072
Impairment — related party	—	—	—	—	(659)	(659)
Interest income	39	3	652	694	1,191	1,885
Interest and financing expense	(306)	(76)	(823)	(1,205)	(5,716)	(6,921)
Net income (loss) before income taxes, minority interest, and equity loss	(22,616)	19,701	11,028	8,113	(17,883)	(9,770)
Income tax expense	—	—	—	—	(2,857)	(2,857)
Minority interest	4,434	(132)	(4,205)	97	—	97
Equity loss	—	(6,136)	—	(6,136)	(23)	(6,159)
Net Income (Loss)	$(18,182)	$13,433	$ 6,823	$ 2,074	$(20,763)	$ (18,689)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Other Items				
Corporate operations	$(7,898)	$(7,439)	$(16,371)	$(17,906)
Income tax benefit (expense)	4,683	(1,465)	3,915	(2,857)
	$(3,215)	$(8,904)	$(12,456)	$(20,763)

15. BUSINESS COMBINATIONS

Acquisitions by the Company

In February 2004, the Company acquired additional shares of ChromaVision Medical Systems for $5 million. As a result of this purchase of additional shares, the Company increased its ownership in ChromaVision to 62.5%.

In March 2004, ChromaVision Medical Systems entered into a securities purchase agreement with a limited number of accredited investors pursuant to which ChromaVision agreed to issue 10.5 million shares of common stock and warrants to purchase an additional 1.6 million shares of common stock for an aggregate purchase price of $21 million. Of the total placement of $21 million, the Company funded $7.5 million to ChromaVision, $3.0 million of the total funding was received by ChromaVision in the first quarter of 2004 and $4.5 million was initially held in escrow pending certain regulatory requirements. The escrowed funds were subsequently released to ChromaVision on April 27, 2004. As of March 31, 2004, the Company’s ownership in ChromaVision was 59.7%. As a result of the third party participants in ChromaVision’s $21 million placement, the Company’s ownership in

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ChromaVision was diluted to 56.7% at June 30, 2004.

The Company's allocation of the purchase price for ChromaVision was as follows (in millions):

Working Capital (including cash)	$ 7.8
Fixed Assets	0.1
Goodwill	4.5
Acquired In-Process Research and Development	0.1
Total Purchase Price	$12.5

In September 2003, the Company acquired additional shares of SOTAS from minority shareholders for $1.4 million. The Company also funded $5 million to satisfy SOTAS' outstanding balance on their line of credit. The Company then converted a total of $2.2 million of debt into common stock of SOTAS. As a result of these transactions, the Company increased its ownership in SOTAS by 24.6% to 99.8%.

In September 2003, the Company acquired additional shares of Mantas from a minority shareholder and provided funding to Mantas for a total of $0.8 million.

On October 1, 2003, the Company merged SOTAS and Mantas under the Mantas name. The Company accounted for the merger as a combination of entities under common control. The merger had no impact on the Company's Consolidated Financial Statements. Immediately after the merger, the Company acquired additional shares of Mantas for $13 million. As a result of these transactions, the Company increased its ownership in Mantas to 84%. The Company has completed its analysis of the purchase price allocation for the Mantas acquisition. In the fourth quarter of 2003 and the first quarter of 2004, the Company allocated $0.3 million and $0.6 million, respectively, of Mantas losses to minority interest. In the second quarter of 2004, in connection with the Company's review of the purchase price allocation, these previously allocated Mantas losses were recorded by the Company.

In February 2003, the Company acquired additional shares of ChromaVision Medical Systems for $5 million. As a result of this purchase of additional shares, the Company increased its ownership in ChromaVision by 6% to 62%.

Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined results of operations of the Company as if the acquisitions discussed above had occurred as of the beginning of the periods presented, after giving effect to certain adjustments, including amortization of intangibles with definite useful lives. The pro forma results of operations are not indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of the period presented and are not intended to be a projection of future results.

	Three Months Ended June 30,	Six Months Ended June 30,	
	2003	2004	2003
	(in thousands except per share data) (unaudited)		
Total revenues	$419,212	$720,455	$789,911
Net loss	$ (4,767)	$ (17,600)	$ (21,402)
Diluted loss per share	$ (0.05)	$ (0.15)	$ (0.19)

The effect of the 2004 acquisitions did not have a material impact on the pro forma financial information for the three months ended June 30, 2004.

SAFEGUARD SCIENTIFICS, INC.
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16. RELATED PARTY TRANSACTIONS

In October 2000, the Company guaranteed certain margin loans advanced by a third party to Warren V. Musser, then the Chief Executive Officer of the Company. The securities subject to the margin account included shares of the Company's common stock. The Company entered into this guarantee arrangement to maintain an orderly trading market for its equity securities, to maintain its compliance posture with the Investment Company Act of 1940, and to avoid diversion of the attention of a key executive from the performance of his responsibilities to the Company. In May 2001, the Company entered into a $26.5 million loan agreement with Mr. Musser, the former CEO. The proceeds of the loan were used to repay the margin loans guaranteed by Safeguard in October 2000. The purpose of the May 2001 loan agreement was to eliminate the guarantee obligations and to provide for direct and senior access to Mr. Musser's assets as collateral for the loan.

The loan bears interest at the default annual rate of 9% and became payable on a limited basis on January 1, 2003. Safeguard sent Mr. Musser a demand notice in January 2003 and, when no payment was received, a default notice. In conjunction with the original loan, Mr. Musser granted the Company security interests in securities and real estate as collateral. Based on the information available to us, the Company also concluded that Mr. Musser may not have sufficient personal assets to satisfy the outstanding balance due under the loan when the loan becomes full recourse against Mr. Musser on April 30, 2006. In the fourth quarter of 2002 and the first quarter of 2003, the Company impaired the loan by $11.4 million and $0.7 million, respectively, to the estimated value of the collateral that the Company held at that date. The Company will continue to evaluate the value of the collateral to the carrying value of the note on a quarterly basis. In April 2004, the Company received a total of $4.5 million in net cash proceeds from Mr. Musser as a result of the sale of certain collateral and applied these proceeds against the loan. See Note 18 regarding the proposed sale of CompuCom, which if consummated, the Company will receive an additional $2.0 million related to the CompuCom shares held by Mr. Musser.

17. COMMITMENTS AND CONTINGENCIES

Safeguard Scientifics Securities Litigation

On June 26, 2001, the Company and Warren V. Musser, the Company's former Chairman, were named as defendants in a putative class action filed in the United States District Court for the Eastern District of Pennsylvania ("the Court"). Plaintiffs allege that defendants failed to disclose that Mr. Musser had pledged some or all of his Safeguard stock as collateral to secure margin trading in his personal brokerage accounts. Plaintiffs allege that defendants' failure to disclose the pledge, along with their failure to disclose several margin calls, a loan to Mr. Musser, the guarantee of certain margin debt and the consequences thereof on Safeguard's stock price, violated the federal securities laws. Plaintiffs allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

On August 17, 2001, a second putative class action was filed against the Company and Mr. Musser asserting claims similar to those brought in the first proceeding. In addition, plaintiffs in the second case allege that the defendants failed to disclose possible or actual manipulative aftermarket trading in the securities of Safeguard's companies, the impact of competition on prospects for one or more of Safeguard's companies and the Company's lack of a superior business plan.

These two cases were consolidated for further proceedings under the name "In Re: Safeguard Scientifics Securities Litigation" and the Court approved the designation of a lead plaintiff and the retention of lead plaintiffs' counsel. The plaintiffs have filed a consolidated and amended complaint. On May 23, 2002, the defendants filed a motion to dismiss the consolidated and amended complaint for failure to state claim upon which relief may be granted. On October 24, 2002, the Court denied the defendants' motions to dismiss, holding that, based on the allegations of plaintiffs' consolidated and amended complaint, dismissal would be inappropriate at that juncture. On December 20, 2002, plaintiffs filed with the Court a motion for class certification. On August 27, 2003, the Court denied plaintiffs' motion for class certification. On September 12, 2003, plaintiffs filed with the United States Court of Appeals for the Third Circuit a petition for permission to appeal the order denying class certification. Safeguard filed its opposition to that petition on September 23, 2003. On November 5, 2003, the Third Circuit denied plaintiffs' petition and declined to hear the appeal. On November 18, 2003, plaintiffs' counsel moved to intervene new plaintiffs and proposed class representative in the consolidated action, which motion was denied by the Court on February 18, 2004. On July 12, 2004, a third putative class action complaint captioned Mandell v. Safeguard Scientifics, Inc., et al. was filed against Safeguard and Mr. Musser in the United States District Court for the Eastern District of Pennsylvania. The new complaint asserts similar claims to those asserted in the consolidated and amended class action complaint. The complaint also asserts individual claims on behalf of two individual plaintiffs who had attempted unsuccessfully to intervene in the consolidated action. Safeguard has not yet responded to the new complaint.

While the outcome of this litigation is uncertain, the Company believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

CompuCom Litigation

On May 28, 2004, Safeguard was named along with CompuCom Systems, Inc. and members of CompuCom's board of directors as a defendant in a putatitve class action lawsuit brought in the Court of Chancery of the State of Delaware on behalf of CompuCom's minority stockholders seeking to enjoin the proposed merger of CompuCom with Platinum Equity, LLC on the ground that the members of the board of directors of CompuCom and Safeguard have allegedly breached fiduciary duties to CompuCom and its minority stockholders. On June 1, 2004 and June 10, 2004, two separate additional putative class action lawsuits were filed in the Court of Chancery against the same defendants, each lawsuit asserting claims similar to those brought in the first proceeding. The lawsuits were subsequently consolidated. On July 27, 2004, the plaintiffs filed an amended class action complaint , asserting claims similar to those brought in the original complaints and adding claims relating to CompuCom's disclosure in its Schedule 14A filed with the Securities & Exchange Commission on July 15, 2004. On July 27, 2004, the plaintiffs also filed a motion for expedited proceedings and discovery in connection with the injunctive relief sought and requested that a preliminary injunction hearing be held before August 19, 2004, the date of the special meetings of the shareholders of the Company and the stockholders of CompuCom relating to the CompuCom merger. Defendants filed their opposition to the motion on July 28, 2004. On July 29, 2004, the Court denied the Plaintiffs' motion. The Company has not yet responded to the amended complaint.

While the outcome of this litigation is uncertain, the Company believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

Other

The Company and its subsidiaries 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 Company's consolidated financial position or results of operations.

In connection with its ownership interests in certain affiliates, the Company has guarantees of $23 million at June 30, 2004, of which $19 million relate to guarantees of our consolidated companies (and $18 million of which is guaranteed under the Company's revolving credit facility (see Note 8)). A total of $13 million of debt associated with its guarantees of consolidated companies has been recorded on the consolidated companies' Balance Sheets and is, therefore, reflected in the Company's Consolidated Balance Sheet at June 30, 2004. Additionally, we have committed capital of approximately $25 million, including commitments made in prior years to various companies and funds, to be funded over the next several years, including approximately $10 million which is expected to be funded during the next twelve months.

The Company has received distributions as both a general partner and a limited partner from certain private equity funds. Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner to the fund for further distribution to the fund's limited partners (the "clawback"). Assuming the funds in which we are a general partner are liquidated or dissolved on June 30, 2004 and assuming for these purposes the only distributions from the funds are equal to the carrying value of the funds on the June 30, 2004 financial statements, the maximum clawback we would be required to return for our general partner interest is approximately $6 million. Management estimates its liability to be approximately $4 million. This amount is reflected in "Other Long-Term Liabilities" on the Consolidated Balance Sheets.

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

In October 2001, the Company entered into an agreement with Mr. Musser, its former Chairman and Chief Executive Officer, to provide for annual payments of $650,000 per year and certain health care and other benefits for life. As a result of this agreement, the Company recorded expense of $5.5 million, which was included in General and Administrative Expense in the Consolidated Statements of Operations for the year ended December 31, 2001. The related current liability of $0.5 million is included in Accrued Expenses and the long-term portion of $4.4 million is included in Other Long-Term Liabilities on the Consolidated Balance Sheets at June 30, 2004.

The Company has entered into retention agreements with certain executive officers at June 30, 2004. These agreements provide for severance payments to the executive officer in the event the officer is terminated without cause or the officer terminates their employment for "good reason." The amount of severance payment is a multiple of the executive's salary and bonus. The applicable multiple ranges from 1.5 to 3.0 depending upon the officer's position, the officer's tenure, and whether or not a "change of control" has occurred. The agreement also provides for acceleration of vesting and extended exercise periods for certain equity grants to the officer and certain other rights. The maximum aggregate cash exposure under the agreements is $7 million at June 30, 2004.

18. PROPOSED SALE OF COMPUCOM

On May 28, 2004, the Company announced that its subsidiary, CompuCom Systems, Inc. entered into a definitive agreement pursuant to which an affiliate of Platinum Equity, LLC would acquire CompuCom for $4.60 per common share in cash. Platinum will acquire the Company's holdings of CompuCom preferred shares at par of $15 million plus accumulated dividends. The Company has agreed to vote its CompuCom shares in favor of the transaction, subject to the approval of the Company's shareholders. The Company expects to receive proceeds of approximately $127.7 million, net of transaction costs, from the sale of its interest in CompuCom.

The Company presently intends to use the cash proceeds from the proposed sale to increase our ownership interest in strategic subsidiaries, thereby funding their respective growth plans; to acquire new strategic subsidiaries; to escrow five years of interest payments (approximately $19.7 million) for our convertible senior debentures with a stated maturity of 2024, pursuant to the terms of such debentures; to retire the remaining $54.8 million of our 5% convertible subordinated notes, due 2006, pursuant to terms of the 2024 Notes; depending upon market conditions from time to time, to consider steps to modify our capital structure (which may include the repurchase of a portion of our outstanding equity securities or debt); and for our general corporate purposes (including payment of the Company's transaction expenses related to the proposed CompuCom merger).

The Company has agreed to provide to the landlord under CompuCom's Dallas headquarters lease, Corp Delaware L.P., a subsidiary of W.P. Carey & Co. LLC, a letter of credit in the amount equal to $6.3 million, after the effective date of the proposed CompuCom merger, in order to facilitate CompuCom obtaining the consent required under the lease agreement, dated March 31, 1999, between Delaware Corp LLC and CompuCom. The letter of credit will expire on March 31, 2019 and CompuCom will reimburse the Company for all fees and expenses incurred by the Company in order to obtain and maintain this letter of credit. This reimbursement may not exceed 1.5% of the aggregate principal amount of the Company's letter of credit per annum.

In connection with this transaction, a possible impairment of the carrying value of goodwill was indicated as the Company's estimated net proceeds from the transaction are less than the Company's carrying value of CompuCom. Accordingly, the Company completed the two-step testing requirements of SFAS No. 142. In the first step, the Company compared the fair value of the CompuCom reporting unit to its carrying value. Fair value was determined based on the Company's estimated net proceeds from the transaction. This calculation resulted in an indication of impairment in the CompuCom reporting unit. The fair value of the CompuCom reporting unit was then allocated to the assets and liabilities of the CompuCom reporting unit. This fair value was then deducted from the fair value of the CompuCom reporting unit to determine the implied fair value of goodwill. The carrying value of the goodwill exceeded its implied fair value by $23.3 million.

An analysis of the proposed merger also indicated that the goodwill on CompuCom's separate company financial statements may also be impaired. Accordingly, CompuCom separately performed the two-step testing requirements of SFAS No. 142. As a result, CompuCom recorded a loss from impairment of goodwill of $33.4 million during the second quarter of 2004. CompuCom also recorded an income tax benefit of $9.5 million related to the impairment charge. The Company's share of this charge was $19.4 million on a pre-tax basis, or $14.0 million, net of income taxes.

After recording the Company's share of CompuCom's impairment charge, the Company's carrying value of its goodwill still exceeded its implied fair value by $9.3 million and the Company recorded an additional impairment charge of $9.3 million.

The Company's total impairment charge is presented on the Consolidated Statements of Operations as follows (in millions):

Impairment on Consolidated Statements of Operations	$(42.7)
Share of impairment allocated to minority shareholders of CompuCom (included in Minority Interest on the Consolidated Statements of Operations)	14.0
The Company's share of CompuCom's tax benefit related to the impairment charge (included in Income Taxes on the Consolidated Statements of Operations)	5.4
	$(23.3)

The transaction is expected to close in the third quarter of 2004 at which point, the Company will present the results of operations of CompuCom as discontinued operations for all periods presented and will record a gain or loss on the disposal for the difference between the Company's carrying value in CompuCom, ($124.8 million at June 30, 2004) and the net proceeds received by the Company. The amount of the gain or loss on disposal will be affected by several factors including CompuCom's results of operations from July 1, 2004 to closing, the amount of the additional impairment charge if any, and any adjustments to current estimates of proceeds and transaction costs.

Pro Forma Financial Information

The following unaudited pro forma condensed consolidated financial information as of June 30, 2004 and December 31, 2003 and for the six months ended June 30, 2004 and year ended December 31, 2003, gives effect to consummation of the disposition of the Company's CompuCom shares in the proposed CompuCom merger. The unaudited pro forma condensed consolidated balance sheet assumes the disposition of the Company's shares in the CompuCom merger as if it had occurred as of June 30, 2004. The unaudited pro forma condensed consolidated statements of operations for the six months ended June 30, 2004 and year ended December 31, 2003 assume the disposition of the Company's shares in the CompuCom merger occurred on January 1, 2003.

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Unaudited Pro Forma Condensed Consolidated Balance Sheet
June 30, 2004

	As Reported June 30, 2004	Deconsolidate CompuCom (1)	Proposed Transaction	Pro Forma June 30, 2004
		(in thousands)		
Current Assets				
Cash and cash equivalents	$292,328	$(115,704)	$ 108,013(2)	$284,637
Restricted cash	604	—	—	604
Short-term investments	8,494	—	3,800(2)	12,294
Accounts receivable, net	191,286	(159,998)	—	31,288
Inventories	20,760	(20,571)	—	189
Prepaid expenses and other current assets	11,492	(3,579)	—	7,913
Asset held for sale	—	124,835	(124,835)(1)	—
Total current assets	524,964	(175,017)	(13,022)	336,925
Property and equipment, net	33,832	(18,249)	—	15,583
Ownership interests in and advances to companies	35,763	—	—	35,763
Available-for-sale securities	14,464	—	—	14,464
Intangible assets, net	11,714	(3,146)	—	8,568
Goodwill, net	153,881	(62,164)	—	91,717
Non-current deferred taxes	7,284	(7,284)	—	—
Note receivable - related party	6,981	—	—	6,981
Other	12,888	(571)	15,900(2)	28,217
Total assets	$801,771	$(266,431)	$ 2,878	$538,218
Current Liabilities				
Current maturities of long-term debt	$ 14,093	$ —	$ —	$ 14,093
Current convertible subordinated notes	—	—	54,763(4)	54,763
Other current liabilities	185,101	(146,511)	—	38,590
Total current liabilities	199,194	(146,511)	54,763	107,446
Long-term debt	4,812	—	—	4,812
Minority interest	143,720	(119,920)	—	23,800
Other long-term liabilities	13,044	—	—	13,044
Convertible subordinated notes	54,763	—	(54,763)(4)	—
Convertible senior debentures	150,000	—	—	150,000
Shareholders' equity	236,238	—	2,878(5)(6)	239,116
Total liabilities and shareholders' equity	$801,771	$(266,431)	$ 2,878	$538,218

Notes to Unaudited Pro Forma Condensed Consolidated Balance Sheets

(1) The pro forma condensed consolidated balance sheet gives effect to the proposed CompuCom merger assuming the CompuCom merger occurred on June 30, 2004.

(2) Proposed Transaction.
The proposed transaction assumes the following for the Company. (in thousands):

Gross Proceeds	$127,888
Transaction costs	(175)
2024 Debentures interest escrow - current	(3,800)
2024 Debentures interest escrow - non-current	(15,900)
Net adjustments to cash, as presented	108,013
2006 Notes retirement (see (4))	(54,763)

Net cash proceeds, after repayment of debt	$ 53,250

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The $127.9 million of gross cash proceeds to be received by the Company in connection with the CompuCom merger does not include any proceeds to be paid to the Company as a result of CompuCom shares pledged as collateral in connection with the loan made by the Company to Warren V. Musser (See Note 16).

(3) Use of Proceeds.
The pro forma condensed consolidated balance sheet assumes for the purpose of this presentation that the net sales proceeds of $53.3 million from the proposed sale of CompuCom will be deposited into a bank account and are presumed to be non-interest bearing cash for the pro forma statements of operations.

(4) Debt.
The pro forma condensed consolidated balance sheet reflects the reclassification of $54.8 million of 2006 Notes which are required to be repurchased within twelve months of the completion of the sale of CompuCom using proceeds from the proposed CompuCom merger to a current liability.

(5) Compensation Charge.
The pro forma condensed consolidated balance sheet assumes the acceleration of certain DSUs ($0.5 million) recorded in shareholders' equity and is not presented in the pro forma statements of operations.

(6) Gain on Sale.
The pro forma condensed consolidated balance sheet assumes that the Company will record a gain on sale of $2.9 million representing the difference between the estimated proceeds of $127.7 million over the carrying value as of June 30, 2004 of $124.8 million.

Unaudited Pro Forma Condensed Consolidated Statements of Operations
For The Six Months Ended June 30, 2004

	As Reported June 30, 2004	Deconsolidate CompuCom (1)	Adjustments and Eliminations (1)	Pro Forma June 30, 2004
	(in thousands except per share amounts)			
Revenue	$720,455	$(641,569)	$ —	$ 78,886
Operating expenses				
Cost of sales	606,506	(559,334)	—	47,172
Selling and service	68,207	(40,891)	—	27,316
General and administrative	55,065	(28,906)	—	26,159
Depreciation and amortization	13,381	(6,821)	—	6,560
Impairment	42,719	(42,719)	—	—
Total operating expenses	785,878	(678,671)	—	107,207
	(65,423)	37,102	—	(28,321)
Other income, net	40,077	—	—	40,077
Interest income	1,366	(392)	—	974
Interest and financing expense	(5,914)	236	—	(5,678)
Income (loss) before income taxes, minority interest, and equity loss	(29,894)	36,946	—	7,052
Income tax	3,915	(4,044)	—	(129)
Minority interest	15,185	(11,843)	—	3,342
Equity loss	(6,301)	—	—	(6,301)
Net income (loss) from continuing operations	$ (17,095)	$ 21,059	$ —	$ 3,964
Basic income (loss) per share	$ (0.14)			$ 0.03
Diluted income (loss) per share (2)	$ (0.14)			$ 0.03

SAFEGUARD SCIENTIFICS, INC.
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JUNE 30, 2004

Unaudited Pro Forma Condensed Consolidated Statements of Operations
For The Year Ended December 31, 2003

	As Reported December 31, 2003	Deconsolidate CompuCom [1]	Adjustments and Eliminations [1]	Pro Forma December 31, 2003
	(in thousands except per share amounts)			
Revenue	$1,622,558	$(1,455,120)	$ —	$167,438
Operating expenses				
Cost of sales	1,376,526	(1,280,822)	—	95,704
Selling and service	133,322	(78,353)	—	54,969
General and administrative	111,215	(58,718)	—	52,497
Depreciation and amortization	32,756	(15,458)	—	17,298
Impairment	15,968	—	—	15,968
Total operating expenses	1,669,787	(1,433,351)	—	236,436
	(47,229)	(21,769)	—	(68,998)
Other income, net	48,930	—	—	48,930
Impairment - related party	(659)	—	—	(659)
Interest income	3,311	(1,114)	—	2,197
Interest and financing expense	(13,568)	1,395	—	(12,173)
Loss before income taxes, minority interest, and equity loss	(9,215)	(21,488)	—	(30,703)
Income tax	(5,400)	5,191	—	(209)
Minority interest	(1,537)	8,291	—	6,754
Equity loss	(17,179)	—	—	(17,179)
Net loss from continuing operations	$ (33,331)	$ (8,006)	$ —	$ (41,337)
Basic loss per share	$ (0.28)			$ (0.35)
Diluted loss per share [2]	$ (0.30)			$ (0.35)

Notes to Unaudited Pro Forma Condensed Consolidated Statements of Operations

(1) The pro forma condensed consolidated statements of operations give effect to the proposed CompuCom merger assuming the CompuCom merger occurred on January 1, 2003. The consolidated financial statements reflect an impairment charge, which increased the Company's net loss by $23.3 million in the second quarter of 2004 to reduce the goodwill related to CompuCom to its estimated fair value. In addition, when the transaction is consummated, the Company will record $0.5 million of expense related to the acceleration of certain deferred stock units. The Company will also record a gain or loss on the sale of CompuCom based upon the difference between the carrying value and the net cash proceeds ultimately received. These amounts are not reflected in the unaudited pro forma condensed consolidated statements of operations above.

(2) If a consolidated or equity method public company has dilutive options or securities outstanding, diluted loss per share is computed first by deducting from net loss the income attributable to the potential exercise of the dilutive options or securities of the company. The impact is shown as an adjustment to net loss for purposes of calculating diluted loss per share. The pro forma diluted loss per share shown in the above tables excludes the effect of CompuCom's diluted options and securities.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The statements contained in this Quarterly Report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve certain risks, uncertainties and other factors that could cause actual results to be materially different than those contemplated by these statements. These risks and uncertainties include the factors described elsewhere in this report and in our filings with the SEC. We do not assume any obligation to update any forward-looking statements or other information contained in this Quarterly Report, except to the extent otherwise required by law.

Certain amounts for prior periods in the Consolidated Financial Statements, and in the discussion below, have been reclassified to conform with current period presentations.

General

Safeguard is a company that seeks to create long-term shareholder value by taking controlling interests primarily in information technology and healthcare life sciences companies and helping them develop through superior operations and management. We sponsor companies at the leading edge of technology cycles and work to accelerate the commercialization of their technology-based solutions, products and services. Our value creation strategy is designed to drive superior growth at our companies by providing leadership and counsel, capital support and financial expertise, strategic guidance and operating discipline, access to best practices and industry knowledge.

We offer a range of operational management services to each of our companies through a team of dedicated professionals. We engage in an ongoing planning and assessment process through our involvement and engagement in the development of our companies, and our executives provide mentoring, advice and guidance to develop the management of our companies.

In general, we continue to hold our ownership interest in companies as long as we believe that the company meets our strategic criteria and that we can leverage our resources to assist them in achieving superior financial performance and value growth. When a company no longer meets our strategic criteria, we consider divesting the company and redeploying the capital realized in other acquisition and development opportunities. We may achieve liquidity events through a number of means, including sales of an entire company or sales of our interests in a company, which may include, in the case of our public companies, sales in the open market or in privately negotiated sales, and public offerings of the company's securities.

Many of our companies that we account for under the equity method or consolidation method are technology-related companies with limited operating histories that have not generated significant revenues and have incurred substantial losses in prior periods. We expect these losses to continue in 2004. In addition, we expect to continue to acquire interests in more technology-related companies that may have operating losses when we acquire them. Additionally, we expect certain of our existing companies to continue to invest in their products and services and to recognize operating losses related to those activities. As a result, our operating losses attributable to our corporate operations, our equity method subsidiaries and our consolidated method subsidiaries could continue to be significant. It is reasonably possible that the impairment factors evaluated by management will change in subsequent periods, given that we operate in a volatile business environment. This could result in additional material impairment charges in future periods. Our financial results are also affected by acquisitions or dispositions of our subsidiaries. These transactions have resulted in significant volatility in our financial results which we expect will continue during 2004.

Proposed Sale of CompuCom

On May 28, 2004, we announced that our subsidiary, CompuCom Systems, Inc. entered into a definitive agreement pursuant to which an affiliate of Platinum Equity, LLC would acquire CompuCom for $4.60 per common share in cash. Platinum will acquire Safeguard's holdings of CompuCom preferred shares at par of $15 million plus accumulated dividends. We have agreed to vote our CompuCom shares in favor of the transaction, subject to the approval of our shareholders. Safeguard expects to receive proceeds of approximately $127.7 million, net of transaction costs, from the sale of its interest in CompuCom.

Safeguard presently intends to use the cash proceeds from the proposed sale to increase our ownership interest in strategic subsidiaries, thereby funding their respective growth plans; to acquire new strategic subsidiaries; to escrow five years of interest payments (approximately $19.7 million) for our convertible senior debentures with a stated maturity of 2024, pursuant to the terms of such debentures; to retire the remaining $54.8 million of our 5% convertible subordinated notes, due 2006, pursuant to terms of the

2024 debentures; depending upon market conditions from time to time, to consider steps to modify our capital structure (which may include the repurchase of a portion of our outstanding equity securities or debt); and for our general corporate purposes (including payment of Safeguard's transaction expenses related to the proposed CompuCom merger).

Safeguard has agreed to provide to the landlord under CompuCom's Dallas headquarters lease, Corp Delaware L.P., a subsidiary of W.P. Carey & Co. LLC, a letter of credit in the amount equal to $6.3 million, after the effective date of the proposed CompuCom merger (see Note 18), in order to facilitate CompuCom obtaining the consent required under the lease agreement, dated March 31, 1999, between Delaware Corp LLC and CompuCom. The letter of credit will expire on March 31, 2019 and CompuCom will reimburse Safeguard for all fees and expenses incurred by Safeguard in order to obtain and maintain this letter of credit. This reimbursement may not exceed 1.5% of the aggregate principal amount of Safeguard's letter of credit per annum.

In connection with this transaction, a possible impairment of the carrying value of goodwill was indicated as Safeguard's estimated net proceeds from the transaction are less than Safeguard's carrying value of CompuCom. Accordingly, Safeguard completed the two-step testing requirements of SFAS No. 142. In the first step, Safeguard compared the fair value of the CompuCom reporting unit to its carrying value. Fair value was determined based on Safeguard's estimated net proceeds from the transaction. This calculation resulted in an indication of impairment in the CompuCom reporting unit. The fair value of the CompuCom reporting unit was then allocated to the assets and liabilities of the CompuCom reporting unit. This fair value was then deducted from the fair value of the CompuCom reporting unit to determine the implied fair value of goodwill. The carrying value of the goodwill exceeded its implied fair value by $23.3 million.

An analysis of the proposed merger also indicated that the goodwill on CompuCom's separate company financial statements may also be impaired. Accordingly, CompuCom separately performed the two-step testing requirements of SFAS No. 142. As a result, CompuCom recorded a loss from impairment of goodwill of $33.4 million during the second quarter of 2004. CompuCom also recorded an income tax benefit of $9.5 million related to the impairment charge. Safeguard's share of this charge was $19.4 million on a pre-tax basis, or $14.0 million, net of income taxes.

After recording Safeguard's share of CompuCom's impairment charge, Safeguard's carrying value of its goodwill still exceeded its implied fair value by $9.3 million, Safeguard recorded an additional impairment charge of $9.3 million.

The net effect of the impairment charge is presented on the Consolidated Statements of Operations as follows (in millions):

Impairment on Consolidated Statements of Operations	$(42.7)
Share of impairment allocated to minority shareholders of CompuCom (included in Minority Interest on the Consolidated Statements of Operations)	14.0
Safeguard's share of CompuCom's tax benefit related to the impairment charge (included in Income Taxes on the Consolidated Statements of Operations)	5.4
	$(23.3)

The transaction is expected to close in the third quarter of 2004 at which point, Safeguard will present the results of operations of CompuCom as discontinued operations for all periods presented and will record a gain or loss on the disposal for the difference between Safeguard's carrying value in CompuCom, as adjusted for the impairment charge and the net proceeds received by Safeguard. The amount of the gain or loss on disposal will be affected by several factors including CompuCom's results from July 1, 2004 through the date of the closing, the amount of additional impairment charge, if any, and any adjustments to current estimates of proceeds and transaction costs.

Net Results of Operations

Our reportable segments include i) Strategic Companies, which includes those companies in which we maintain controlling interest and are strategically and operationally engaged with the goal of accelerating value creation; ii) Non-Strategic Companies (formerly referred to as "Legacy" in the second quarter of 2003) in which we generally have less than a controlling interest or which do not directly fall within our strategic focus; and iii) CompuCom, which represents the results of our subsidiary, CompuCom. See "Proposed Sale of CompuCom."

At June 30, 2004, we had ownership in 12 companies, which were classified into the following segments:

	Strategic Companies	Non-Strategic Companies	CompuCom
Consolidated	Alliance Consulting (100%) ChromaVision Medical Systems(57%) Mantas (84%)	Pacific Title and Art Studio (84%)	CompuCom (58%) [(b)]
Equity		Nextone (27%) ProModel Solutions [(a)] (35%)	
Cost		eMerge (17%) Mobility Technologies (3%) Neuronyx (7%) Realtime Media (9%) Ventaira (formerly BatellePharma) (11%)	

(a) QuestOne Decision Sciences does business as ProModel Solutions.

(b) See "Proposed Sale of CompuCom."

Each segment includes the results of the consolidated companies and records our share of income or losses for entities accounted for under the equity method. Segment results also include impairment charges, gains or losses related to the disposition of our companies and the mark to market of trading securities. All significant intersegment activity has been eliminated. Accordingly, segment results reported exclude the effect of transactions between us and our subsidiaries.

Other items, which include corporate operations and income taxes, are reviewed by management independent of segment results. Corporate expenses include the costs of providing operations and management support to our companies.

The Company's operating results by segment are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Strategic companies	$(10,586)	$(10,481)	$(16,609)	$(18,182)
Non-Strategic companies	28,314	12,858	37,486	13,433
CompuCom	(26,974)	3,377	(25,516)	6,823
Total segments	(9,246)	5,754	(4,639)	2,074
Corporate operations	(7,898)	(7,439)	(16,371)	(17,906)
Income tax benefit (expense)	4,683	(1,465)	3,915	(2,857)
	$(12,461)	$ (3,150)	$(17,095)	$(18,689)

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Strategic Companies

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue				
Product sales	$ 1,838	$ 524	$ 3,695	$ 2,376
Service sales	29,748	26,150	58,928	55,940
Other	79	46	86	99
Total Revenue	31,665	26,720	62,709	58,415
Operating Expenses				
Cost of sales - product	235	204	385	442
Cost of sales - service	19,302	17,853	38,084	37,390
Selling and service	12,861	12,174	24,400	24,821
General and administrative	8,233	6,542	14,128	12,849
Depreciation and amortization	2,385	2,767	4,867	5,207
Total Operating Expenses	43,016	39,540	81,864	80,709
	(11,351)	(12,820)	(19,155)	(22,294)
Other loss, net	(347)	(55)	(347)	(55)
Interest income	60	16	73	39
Interest and financing expense	(168)	(135)	(298)	(306)
Minority interest	1,220	2,513	3,118	4,434
	$(10,586)	$(10,481)	$(16,609)	$(18,182)

Alliance Consulting is an information technology services and consulting firm that provides custom business driven solutions by leveraging domain expertise and extensive technical competency. Alliance Consulting architects, builds and delivers technology solutions for the Fortune 2000 market, offering business intelligence and data warehousing, packaged enterprise solutions, strategy, application development and integration, and managed services. Over its ten-year history, Alliance Consulting has developed considerable domain expertise in the pharmaceutical, financial services, manufacturing, healthcare, retail and distribution industries. Alliance Consulting has 10 offices in the U.S. and has approximately 600 employees and contractors. Alliance Consulting recognizes revenue upon the performance of services. Contracts for services are typically for one year or less. Alliance Consulting's revenue potential is largely dependent upon spending for IT services and its ability to compete with both on-shore and off-shore providers.

ChromaVision provides a proprietary, software-based microscope, imaging system, called ACIS or automated cellular imaging system, which aids pathologists in the analysis of various diseases and conditions. ChromaVision places most of its ACIS units with users on a "fee-per-use" basis. Revenue is recognized based on the greater of actual usage fees or the minimum monthly rental fee specified in the contract with the customer. Revenue on product sales is recognized upon acceptance by the customer subsequent to a testing and evaluation period. Maintenance revenue is recognized ratably over the term of the maintenance contract, typically 12 months. ChromaVision's existing offering is centered around diagnostic testing, primarily for breast cancer. ChromaVision has begun the implementation plans to broaden their service offering to include the direct provisions of Access technical services to their Access remote pathology customers as well as to provide an array of complementary advanced cancer diagnostic services. ChromaVision is beginning to provide Access technical services in their own laboratory facility that is currently being renovated for these purposes. Future revenue will be impacted by ChromaVision's ability to sell ACIS units to research and development organizations, expand its' tests to other cancer therapies, expand its lab services offerings and to partner with pharmaceutical industry drug developers in defining target therapies for specific, identifiable markers. ChromaVision is expected to face increasing competition from competitors in its existing and expansion markets.

Mantas provides next-generation analytic applications for the global financial services and telecommunications markets. Mantas' products are used by global leaders to comply with major industry regulations, such as the USA PATRIOT Act. All of Mantas' financial services products are based on its Behavior Detection Platform that encompasses proprietary analytical techniques to provide applications for anti-money laundering, compliance fraud management and revenue assurance. During the fourth quarter of 2003, SOTAS, a majority-owned subsidiary, was merged into Mantas, joining complementary technologies, target markets, development capabilities and ultimately customer value propositions. Mantas recognizes revenue from software licenses, post-contract customer support and related consulting services under contracts ranging from one to three years. Mantas is a market leader in behavior technology for the financial services and telecommunications industries. Its ability

to grow will be largely influenced by its ability to enhance its technology, and to expand it to new tiers of the financial services and telecommunications markets, including markets overseas, as well as new vertical markets. Mantas faces significant competition from large consulting firms and software development businesses.

In 2003, the strategic segment also included the operating results of Agari Mediaware, which was shut down in July 2003. For comparative purposes, the operating results of SOTAS, Inc., which was merged with Mantas on October 1, 2003, have been combined with the operating results of Mantas.

These companies all incurred losses in 2003 and may need additional capital to fund their operations. If we decide not to provide sufficient capital resources to allow them to reach a cash flow positive position, and these companies are unable to raise capital from outside resources, then they may need to scale back their operations. If Alliance Consulting meets its business plans for 2004 and the related milestones established by us, we believe they will have sufficient cash or availability under established lines of credit to fund their operations for at least the next twelve months. In the first quarter of 2004, we funded a total of $12.5 million to ChromaVision, of which $4.5 million was released to ChromaVision in the second quarter of 2004. ChromaVision separately raised an additional $13.5 million in the first quarter of 2004, which was released to ChromaVision as of April 27, 2004, which should provide sufficient cash for ChromaVision for the next twelve months. In July 2004, we committed $10 million to fund Mantas, $5 million of which was funded in July 2004.

There is intense competition in the markets in which these 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 new products and services, shifting distribution channels, evolving government regulation, frequently changing intellectual property landscapes and changing customer demands. These companies' future success depends on each company's ability to execute their business plan and to adapt to their respective rapidly changing markets.

Revenue .

Quarter 2004 vs. 2003. Total revenue increased $4.9 million or 18.5% for the three months ended June 30, 2004 as compared to the prior year period. Alliance recorded an increase of $3.2 million or 15.6% in 2004 as compared to 2003. Alliance attributes this increase to increased efficiency related to the utilization of staff; however the acceleration of offshore outsourcing and ongoing industry consolidation has slowed the rate of revenue growth at Alliance. Mantas recorded a $2.2 million increase or 66.8% increase in revenue in 2004 as compared to 2003. Mantas attributes the increase to continued growth in the financial services sector of its business. Mantas continues to be affected by the weakness of external IT spending, which results in intense competition among systems integrators, consultants and software vendors for available business opportunities. Partially offsetting these increases in revenues is a decrease at ChromaVision of $0.5 million or 16.2% in 2004 as compared to 2003. ChromaVision attributes the decline primarily to a decrease in the average monthly revenue for ACIS placements and the remote viewing stations. The decline in average monthly revenue is primarily due to pricing concessions offered to ChromaVision's customers in response to lower Medicare reimbursement levels from 2003 to 2004. This decline was offset by an increase in system sales revenue of $0.6 million as well as $0.2 million of lab services revenue.

Year-to-date 2004 vs. 2003. Total revenue increased $4.3 million or 7.4% for the six months ended June 30, 2004 as compared to the prior year period. Alliance recorded an increase in revenue of $3.5 million or 8.1% in 2004 as compared to 2003. Alliance attributes this increase to greater utilization of staff. Mantas recorded an increase in revenue of $2.2 million or 24.4% in 2004 as compared to 2003. Mantas attributes this increase to continued growth in the financial services sector of its business. Partially offsetting these increases is a decrease at ChromaVision of $1.4 million or 24.3% in 2004 as compared to 2003. ChromaVision attributes the decline primarily to pricing concessions offered to ChromaVision's customers in response to lower reimbursement levels from 2003 to 2004. This decline was partially offset by an increase of system sales of $0.7 million as well as $0.2 million of revenue associated with the new lab services line of the business.

ChromaVision anticipates that average monthly ACIS System revenue will remain at approximately the levels experienced in the first half of 2004, and that most, if not all, of the negative impact from reimbursement has been reflected in the current revenue amounts. Both system sales and lab services are expected to have a favorable impact on revenues in the second half of 2004.

Cost of Sales .

Quarter 2004 vs. 2003. Total cost of sales increased $1.5 million or 8.2% for the three months ended June 30, 2004 as compared to the prior year period. Alliance recorded an increase of $1.5 million or 9.9% in 2004 as compared to 2003. Alliance attributes this increase to increased revenues as gross margins were relatively constant. ChromaVision recorded an increase in cost of sales of $0.2 million or 63.8% in 2004 as compared to 2003. ChromaVision attributes this increase to an increase in the number of system sales in 2004 as compared to 2003. ChromaVision recorded five system sales in 2004 as compared to two sales in 2003. Partially offsetting the increase was a decrease in cost of sales at Mantas of $0.2 million or 6.8%. Mantas attributes this decline to better contract terms in 2004 as compared to 2003.

Year-to-date 2004 vs. 2003. Total cost of sales increased $0.6 million or 1.7% for the six months ended June 30, 2004 as compared to the prior year period. Alliance recorded an increase of $1.0 million or 3.2% in 2004 as compared to 2003. Alliance attributes this increase to increased revenues as gross margins were relatively constant. ChromaVision recorded an increase in cost of sales of $0.2 million or 29.7% in 2004 as compared to 2003 due to increased system sales and costs associated with its new lab services business. ChromaVision attributes this increase to an increase in the number of system sales in 2004 as compared to 2003. ChromaVision recorded 8 system sales in 2004 as compared to two sales in 2003. Partially offsetting these increases was a decrease in cost of sales at Mantas of $0.6 million or 9.4%. Mantas attributes this decline to better contract terms in 2004 as compared to 2003.

Selling and Service and General and Administrative.

Quarter 2004 vs. 2003. Selling and service and general and administrative expenses increased by $2.4 million or 12.7% for the three months ended June 30, 2004 as compared to the prior year period. ChromaVision recorded an increase of $2.2 million or 54.9% in 2004 as compared to 2003. ChromaVision attributes this increase primarily to non-cash compensation charges related to stock options and restricted stock for employees, consultants costs, as well as legal costs. Alliance recorded a $1.7 million or 24.3% increase in 2004 as compared to 2003. Alliance attributes this increase primarily to employee related costs associated with new hires and severance for a former executive. Partially offsetting these increases is a decline at Mantas of $0.6 million or 9.4%. The decline at Mantas primarily relates to cost savings realized from the reduced headcount as a result of the merger with SOTAS in October 2003. The remaining decline is related to operations at Agari Mediaware, which was shut down in July 2003.

Year-to-date 2004 vs. 2003. Selling and service and general and administrative expenses increased $0.8 million or 2.3% for the six months ended June 30, 2004 as compared to the prior year period. ChromaVision recorded an increase of $2.3 million or 28.7% in 2004 as compared to 2003. ChromaVision attributes this increase to additional professional fees surrounding various corporate matters and non-cash compensation charges related to stock options and restricted stock. Alliance recorded an increase of $1.6 million or 11.6% in 2004 as compared to 2003. Alliance attributes this increase to an increase in employee related costs primarily due to new hires and severance for a former executive. Partially offsetting these increases is a decrease at Mantas of $1.0 million or 7.3%. Mantas attributes this decline primarily to efficiency realized from the reduced headcount as a result of the merger with SOTAS in October 2003. The remaining decline relates to operations at Agari Mediaware, which was shut down in the third quarter of 2003.

Non-Strategic Companies

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
	(in thousands) (unaudited)		**(in thousands) (unaudited)**	
Revenue	$ 8,186	$14,678	$16,139	$23,297
Operating expenses	6,580	12,206	15,277	20,540
	1,606	2,472	862	2,757
Other income, net	30,829	12,881	42,611	17,017
Interest income	5	2	11	3
Interest and financing expense	(16)	(34)	(46)	(76)
Minority interest	(249)	(315)	224	(132)
Equity loss	(3,861)	(2,148)	(6,176)	(6,136)
	$28,314	$12,858	$37,486	$13,433

Introduction.

Revenue for the non-strategic segment is primarily derived from Pacific Title's film title and special effects services. In 2003, Pacific Title sold large format film projectors. It exited this business at the end of 2003. In addition, in 2003 and until Tangram was sold in February 2004, revenue included software license sales of Tangram's asset tracking software, software maintenance contracts and post-contract customer support consulting services. The non-strategic segment also included the management fees generated by a management company of a private equity fund through August 2003 when it was sold.

Revenue .

Quarter 2004 vs. 2003. Revenue decreased $6.5 million or 44.2% for the three months ended June 30, 2004 as compared to the prior year period. Pacific Title recorded a decline of $3.1 million or 27.6% in 2004 as compared to 2003. Pacific Title attributes this decline to the shut down of its large format projectors business in 2003. A total of $2.6 million of the decline in revenue relates to the sale in February 2004 of Tangram. Also contributing to the decline is $0.8 million related to the sale of our interest in a management company of a private equity fund in August 2003.

Year-to-date 2004 vs. 2003. Revenue decreased $7.2 million or 30.7% for the six months ended June 30, 2004 as compared to the prior year period. Tangram represents a $3.6 million decline in 2004 as compared to 2003 primarily due to their sale in February 2004. Pacific Title recorded a $2.0 million or 12.1% decline in revenue in 2004 as compared to 2003. Pacific Title attributes $4.2 million of this decline to the sales of large format projectors in 2003, which they no longer sell. This decline was offset by an increase of $2.1 million related to increases in its post-production services business. A total of $1.5 million of the decline is related to the sale of our interest in a management company of a private equity fund in August 2003.

Operating Expenses

Quarter 2004 vs. 2003. Operating expenses decreased $5.6 million or 46.1% for the three months ended June 30, 2004 as compared to the prior year period. Tangram represents $2.6 million of the decline due to their sale in February 2004. Pacific Title recorded a $2.1 million or 24.1% decline in 2004 as compared to 2003. Pacific Title attributes this decline to sales of its large format projectors in 2003, which was shut down in 2003. Also contributing to the decline is $0.9 million recorded in 2003 related to operating expenses at Protura Wireless and a management company of a private equity fund. We sold our interest in this fund in August 2003 and closed Protura Wireless in July 2003.

Year-to-date 2004 vs. 2003. Operating expenses decreased $5.3 million or 25.6% for the six months ended June 30, 2004 as compared to the prior year period. A total of $2.2 million of the decrease relates to operations at Tangram, which was sold in February 2004. A total of $1.9 million was recorded in 2003 related to operating expenses at Protura Wireless and a management company of a private equity fund. We sold our interest in this fund in August 2003 and closed Protura Wireless in July 2003. Pacific Title recorded a decline of $1.0 million or 7.6% in 2004 as compared to 2003. Pacific Title attributes this decline to costs associated with the large format projector business which was shut down at the end of 2003.

Other Income, Net.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Gain on sale of companies and funds, net	$32,200	$12,884	$44,416	$17,088
Gain (loss) on trading securities	161	874	(396)	810
Impairment charges	(1,550)	(489)	(1,550)	(489)
Other	18	(388)	141	(392)
	$30,829	$12,881	$42,611	$17,017

Quarter 2004 vs. 2003. During the second quarter of 2004, we sold our interest in Sanchez for cash and shares of Fidelity National Financial ("FNF") and reported a gain of $31.7 million, which is included in gain on sale of companies and funds. Gain on sale of companies for the three months ended June 30, 2003 includes $5.9 million related to the sale of DocuCorp and $6.4 million related to the sale of Internet Capital Group. Total net cash proceeds for gains on sale of companies and funds was $32.5 million and $25.4 million for the three months ended June 30, 2004 and 2003.

The gain on trading securities for the second quarter of 2004 reflects the adjustment to fair value of our holdings of Opsware and FNF common stock. Total net proceeds related to the sale of Opsware and FNF common stock during the second quarter of 2004 was $10.7 million. The gain on trading securities for the second quarter of 2003 is related to the adjustment to fair value of our holdings in Vertical Net.

Year-to-date 2004 vs. 2003. In addition to the $31.7 million gain recognized on our sale of Sanchez in the second quarter of 2004, we recorded a gain of $8.5 million related to our sale of Tangram for shares of Opsware in the first quarter of 2004. Also included in gain on sale of companies is $2.7 million attributable to a distribution from a bankruptcy proceeding and $1.5 million relating to the final payment of an installment sale of a company sold in 1997. Gain on sale of companies for the six months ended June 30, 2003 includes the second quarter sales of DocuCorp and Internet Capital Group, a $3.0 million gain related to proceeds received in 2003 for a company sold by us in 1997 and a $0.9 million gain related to the sale of a portion of our interest in a non-strategic company. Total net cash proceeds for gains on sale of companies and funds was $37.3 million for the six months ended June 30, 2004 and $29.8 million for the six months ended June 30, 2003.

Loss on trading securities in 2004 primarily reflect the adjustment to fair value of our holdings in Opsware and subsequent loss on sale of Opsware stock of $0.1 million. Total net cash proceeds related to our sales of Opsware and FNF common stock for the six months ended June 30, 2004 was $14.8 million. Loss on trading securities in 2003 primarily reflect the adjustment to fair value of our holdings in Vertical Net, which were classified as trading securities.

Impairment charges reflect certain equity holdings judged to have experienced an other than temporary decline in value. We also have recorded impairment charges for certain holdings accounted for under the cost method determined to have experienced an other than temporary decline in value in accordance with our existing policy regarding impairment of investments.

Equity Loss. Equity loss fluctuates with the number of companies accounted for under the equity method, our voting ownership percentage in these companies and the net results of operations of these companies. We recognize our share of losses to the extent we have cost basis in the equity investee, or we have outstanding commitments or guarantees. Equity loss consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Share of our equity method non-strategic companies’ results of operations	$(1,437)	$ 795	$(1,764)	$ 1,199
Share of private equity funds results of operations	(2,424)	(2,665)	(4,412)	(7,057)
Impairment charges on cost method holdings	—	(278)	—	(278)
	$(3,861)	$(2,148)	$(6,176)	$(6,136)

Certain amounts recorded to reflect our share of the income or losses of our companies accounted for under the equity method are based on estimates and on unaudited results of operations of those companies and may require adjustments in the future when audits of these entities are made final.

Quarter 2004 vs. 2003. The $1.7 million increase in equity loss in 2004 as compared to 2003 is primarily attributable to a $2.2 million increase in our share of equity method non strategic companies results of operations. Included in this total is $1.5 million related to companies in which we no longer have ownership interests. Partially offsetting the overall increase in equity loss is a $0.2 million decline in our share of private equity funds results of operations, which is attributable to the sale of a private equity fund in the third quarter of 2003.

Year-to-date 2004 vs. 2003. Equity loss for the six months ended June 30, 2004 compared to the prior year period remained constant. Included in equity loss is $3.0 million increase in our share of equity method non-strategic companies results of operations and is mainly attributable to $2.1 million of equity losses attributable to companies in which we no longer have ownership interests. The $2.6 million decline in our share of private equity funds results of operations is primarily due to the sale of a private equity fund in the third quarter of 2003.

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CompuCom

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue				
Product sales	$260,949	$304,731	$481,736	$562,149
Service sales	80,964	72,997	159,833	145,876
Total Revenue	341,913	377,728	641,569	708,025
Operating Expenses				
Cost of sales – product	244,757	284,939	451,687	520,238
Cost of sales – service	54,993	48,884	108,044	99,212
Other operating expenses	39,391	38,351	76,634	77,376
Impairment	42,719	—	42,719	—
	381,860	372,174	679,084	696,826
	(39,947)	5,554	(37,515)	11,199
Interest income	209	334	392	652
Interest and financing expense	(116)	(420)	(236)	(823)
Minority interest	12,880	(2,091)	11,843	(4,205)
	$ (26,974)	$ 3,377	$ (25,516)	$ 6,823

See "Proposed Sale of CompuCom".

CompuCom's product revenue is derived from procurement services CompuCom offers to its clients, providing them with a single point of contact for multi-vendor technology acquisition and support. CompuCom's service revenue is derived primarily from IT outsourcing services, IT consulting and system integration services, complex configuration and imaging services, vendor warranty contracts, software licensing management fees and services provided in support of certain manufacturers' direct fulfillment initiatives.

Revenue

Quarter 2004 vs. 2003. Revenue, which consists of product revenue and service revenue, decreased $35.8 million or 9.5% for the three months ended June 30, 2004 as compared to the same period in 2003. Of the decrease, $43.8 million or 14.4% in 2004 as compared to 2003 was attributable to product revenue partially offset by an increase of $8.0 million or 10.9% in 2004 as compared to 2003 related to service revenue. CompuCom reported declines in both the hardware and software portions of product revenue. CompuCom attributes the decline in the hardware portion of total product revenue to the result of lower sales generated by CompuCom's large enterprise account base, as well as lower sales to the federal government. CompuCom attributes the decline in the software portion of total product revenue to the shift to a greater mix of software licenses sold for which CompuCom recorded a fee rather than gross revenue. CompuCom attributes the increase in service revenue primarily to increased demand for their application development staffing and testing services and ITO services, partially offset by a decrease in services provided to the federal government.

Year–to-Date 2004 vs. 2003. Revenue, which consists of product revenue and service revenue, decreased $66.5 million or 9.4% for the six months ended June 30, 2004 as compared to the same period in 2003. Of the decrease, $80.4 million or 14.3% in 2004 as compared to 2003 was attributable to product revenue partially offset by an increase of $13.9 million or 9.6% in 2004 as compared to 2003 related to service revenue. CompuCom reported declines in both the hardware and software portions of product revenue. CompuCom attributes the decline in the hardware portion of total product revenue to the result of lower sales generated by CompuCom's large enterprise accounts, as well as lower sales to the federal government. CompuCom attributes the decline in the software portion of total product revenue to the shift to a greater mix of software licenses sold for which CompuCom recorded a fee rather than gross revenue. CompuCom attributes the increase in service revenue primarily to increases in their application development staffing and testing services, ITO services and fees earned from their software licensing management services, partially offset by a decrease in services provided to the federal government.

Cost of Sales/Gross Margin

Quarter 2004 vs. 2003. Product gross margin for the three months ended June 30, 2004 was 6.2% compared to 6.5% for the same period in 2003. CompuCom believes this decrease is primarily due to continued pricing pressure in their large enterprise account base, partially offset by an increase in volume incentive dollars received from suppliers, the reduction in lower margin

sales to the federal government, and a decline in the mix of lower margin software revenue relative to total product revenue. Service gross margin for the three months ended June 30, 2004 was 32.1% compared to 33.0% for the same period in 2003. This decline is primarily the result of a higher mix of application development staffing and testing services, as well as lower gross margins in their ITO services.

Year–to-Date 2004 vs. 2003. Product gross margin for the six months ended June 30, 2004 was 6.2% compared to 7.5% for the same period in 2003. CompuCom believes this decrease is primarily due to continued pricing pressure and lower volume incentive dollars received from suppliers. Service gross margin for the six months ended June 30, 2004 was 32.4% compared to 32.0% for the same period in 2003. CompuCom attributes this increase primarily to the result of the increase in fees from CompuCom's software management services and from the decrease in lower margin sales to the federal government, partially offset by an increase in the mix of application development and testing services and competitive pricing pressures in CompuCom's ITO services.

Due to economic and competitive conditions, CompuCom expects to experience continued pressure on both revenue and gross margin, the result of which may be lower revenue and related gross margin when compared to the comparable prior year period or previous quarter.

Other Operating Expenses.

Quarter 2004 vs. 2003. Other operating expenses increased 2.7% for the three months ended June 30, 2004. CompuCom attributes this increase for the three month period to an increase in selling and service expenses related to increases in personnel and related costs associated with their investment in the expansion and specialization of their sales force and increased revenue in application development and testing services partially offset by their own cost management efforts related to general and administrative expenses, including certain infrastructure costs, in particular occupancy-related expenses, as well as personnel related costs .

Year–to-Date 2004 vs. 2003. Other operating expenses decreased 1.0% for the six months ended June 30, 2004 as compared to the same period in 2003. CompuCom attributes this decrease for the six month period to its own cost management efforts related to general and administrative expenses, including certain infrastructure costs, in particular occupancy-related expenses, as well as personnel related costs. This is partially offset by an increase in selling and service expenses related to increases in personnel and related costs associated with their investment in the expansion and specialization of their sales force and increased revenue in application development and testing services.

Impairment

On May 28, 2004, Safeguard announced that its subsidiary, CompuCom Systems, Inc. entered into a definitive agreement pursuant to which an affiliate of Platinum Equity, LLC would acquire CompuCom for $4.60 per common share in cash. Platinum will also acquire the Company's holdings of CompuCom preferred shares at par of $15 million plus accumulated dividends (see "Proposed Sale of CompuCom"). In connection with this merger with CompuCom announced during the second quarter of 2004, a possible impairment of the carrying value of goodwill was indicated as Safeguard's estimated net proceeds from the transaction are less than Safeguard's carrying value of CompuCom. Accordingly, Safeguard completed the two-step testing requirements of SFAS No. 142. In the first step, Safeguard compared the fair value of the CompuCom reporting unit to its carrying value. Fair value was determined based on Safeguard's estimated net proceeds from the transaction. This calculation resulted in an indication of impairment in the CompuCom reporting unit. The fair value of the CompuCom reporting unit was then allocated to the assets and liabilities of the CompuCom reporting unit. This fair value was then deducted from the fair value of the CompuCom reporting unit to determine the implied fair value of goodwill. The carrying value of the goodwill exceeded its implied fair value by $23.3 million.

An analysis of the proposed merger also indicated that the goodwill on CompuCom's separate company financial statements may also be impaired. Accordingly, CompuCom separately performed the two-step testing requirements of SFAS No. 142. As a result, CompuCom recorded a loss from impairment of goodwill of $33.4 million during the second quarter of 2004. CompuCom also recorded an income tax benefit of $9.5 million related to this impairment charge. Safeguard's share of this charge was $19.4 million on a pre-tax basis, or $14.0 million, net of income taxes, which is included in Other Items.

After recording our share of CompuCom's impairment charge, Safeguard's carrying value of its goodwill still exceeded its implied fair value by $9.3 million, Safeguard recorded an additional impairment charge of $9.3 million.

The net effect of the impairment charge is presented in the CompuCom Segment as follows (in millions):

Impairment on CompuCom Segment	$(42.7)
Share of impairment allocated to minority shareholders of CompuCom (included in Minority Interest on the CompuCom Segment)	14.0
Safeguard's share of CompuCom's tax benefit related to the impairment charge (included in Income Taxes in Other Items)	5.4
	$(23.3)

Interest Income . Interest income decreased for the three and six months ended June 30, 2004 as compared to the same periods in 2003. CompuCom attributes the decline to a decrease in interest earned on available cash for the three and six months ended June 30, 2004 as compared to the same prior year period, primarily as a result of a decline in interest rates.

Interest and Financing Expense. Interest and financing expense decreased for the three and six months ended June 30, 2004 as compared to the prior year periods. The decrease is primarily due to the fourth quarter 2003 reduction in amounts utilized under CompuCom's receivable securitization.

Other Items

Corporate Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
	(in thousands) (unaudited)		(in thousands) (unaudited)	
General and administrative costs, net	$(4,094)	$(4,557)	$ (8,007)	$(11,277)
Stock-based compensation	(935)	(500)	(1,486)	(1,294)
Depreciation and amortization	(60)	(63)	(122)	(238)
Interest income	457	501	890	1,191
Interest expense	(2,316)	(2,888)	(5,334)	(5,716)
Impairment – related party	—	—	—	(659)
Other	(950)	68	(2,312)	87
	$(7,898)	$(7,439)	$(16,371)	$(17,906)

General and Administrative Costs, Net. Our general and administrative expenses consist primarily of employee compensation, insurance, outside services such as legal, accounting and consulting, and travel-related costs. The decline of $0.5 million or 10.2% for the three months ended June 30, 2004 as compared to the prior year period is primarily due to certain cost reduction efforts including reduced employee-related costs and the reduction in the use of outside consulting services. The $3.3 million or 29.0% decline in general and administrative costs for the six months ended June 30, 2004 as compared to the prior year period is mainly attributable to certain cost reduction efforts including reduced employee-related costs, the reduction in the use of outside consulting services and a decline in the costs of certain directors and officers insurance expense.

Stock Based Compensation. Stock based compensation consists primarily of expense related to grants of restricted stock and deferred stock units to employees. This expense increased for the three and six months ended June 30, 2004 versus the same period in the prior year due to certain deferred stock units issued in January 2004, which are expected to vest in the third quarter of 2004 upon the sale of CompuCom. This increase was offset by a decrease in restricted stock amortization as more restricted stock vested in the 2003 periods.

Interest Income. Interest income remained constant for the three months ended June 30, 2004 as compared to the prior year period and decreased $0.3 million for the six months ended June 30, 2004 when compared to the same prior year period. The decline is related to the interest on a note in 2004 related to the sale of the corporate campus in October 2003 as well as the collection of an installment sale related to a company sold in 1997. Both the note and installment sale were paid to the

Company in 2004. Also attributing to the decline is a decline of interest earned on invested cash balances due to lower interest rates in 2004 as compared to 2003.

Interest Expense. Interest expense is primarily comprised of the interest payments on our $200 million, 5% subordinated convertible debt due 2006 and the $150 million, 2.625% convertible senior debentures with a stated maturity of 2024. Interest expense decreased $0.6 million and $0.4 million for the three and six months ended June 30, 2004 when compared to the same prior year period due to the purchases Safeguard completed of a portion of the 2006 Notes through privately negotiated transactions during the first and second quarters of 2004. Partially offsetting this decrease is an increase of $1.5 million and $1.0 million for the three and six months ended June 30, 2004 related to the 2024 Notes issued in February 2004.

Impairment – related party. In May 2001, we entered into a loan agreement with Mr. Musser, our former CEO. In the first quarter of 2003, we impaired the loan by $0.7 million to the estimated value of the collateral that we held at that date. The carrying value of the collateral we held at March 31, 2003 was approximately $13.8 million. There was no impairment charge taken in the first six months of 2004 as the carrying value of the collateral we held at June 30, 2004 was approximately $11 million. We will continue to evaluate the value of the collateral to the carrying value of the note on a quarterly basis. In addition, if the proposed sale of CompuCom is consummated, the Company will receive an additional $2.0 million related to the CompuCom shares held by Mr. Musser, which are included as a portion of the collateral described above. See “Proposed Sale of CompuCom.”

Other. Included in this category are costs associated with the purchases of our 2006 Notes, including $0.5 million and $1.4 million for the three and six months ended June 30, 2004 due to the acceleration of the amortization relative to deferred issuance costs on the 2006 Notes repurchased during 2004. Also included is $0.5 million and $0.9 million for the three and six months ended June 30, 2004 related to the commissions and premiums paid relative to the repurchase of the 2006 Notes.

Income Taxes. Our consolidated income tax benefit recorded for the three and six months ended June 30, 2004, was $4.7 million and $3.9 million net of recorded valuation allowance of $13.0 million and $17.9 million. Of the $4.7 million and $3.9 million of income tax benefit, $4.8 million and $4.0 million was generated by CompuCom, which is not consolidated for tax purposes, and $0.1 million and $0.1 million relates to state income tax expense generated by subsidiaries in jurisdictions where the company has no offsetting tax attributes. 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 except for deferred tax assets related to CompuCom, which files separate federal and state income tax returns.

Liquidity And Capital Resources

We funded our operations with proceeds from sales of and distributions from companies, funds, trading securities and sales of non-strategic assets. Other sources of liquidity which have been utilized by Safeguard in prior periods include sales of available-for-sale securities, Safeguard equity, issuance of Safeguard debt or operating cash flow from our wholly owned business and IT service companies. Our ability to generate liquidity from sales of companies, sales of available-for-sale securities and Safeguard equity and debt issuances has at times been adversely affected by the decline in the US markets and other factors.

Parent Company

Parent company includes Safeguard and its wholly owned subsidiaries, including Alliance Consulting.

As of June 30, 2004 at the parent company level, we had $152.4 million of cash and cash equivalents, $0.5 million of restricted cash and $8.5 million of short-term investments, for a total of $161.4 million. In addition, our majority-owned subsidiaries had cash and cash equivalents of $140.0 million, of which CompuCom represents $115.7 million.

Proceeds from sales of and distributions from companies and funds were $33.3 million and $38.4 million for the three and six months ended June 30, 2004, primarily related to the sale of Sanchez. Proceeds from sales of trading securities were $10.7 million and $14.8 million for the three and six months ended June 30, 2004, primarily attributable to sales of FNF and Opsware common shares. Proceeds from sales of and distributions from companies and funds were $2 million and $7 million for the three and six months ended June 30, 2003. Proceeds from sales of available-for-sale and trading securities were $22 million for the three and six months ended June 30, 2003.

In May 2004, we renewed our revolving credit facility that provides for borrowings, issuances of letters of credit and guarantees of up to $25 million. Borrowing availability under the facility is reduced by the face amount of outstanding letters of credit and guarantees. This credit facility matures in May 2005 and bears interest at the prime rate (4.0% at June 30, 2004) for outstanding borrowings. The credit facility is subject to an unused commitment fee of 0.125%, which is subject to reduction based on deposits maintained at the bank. The facility requires cash collateral equal to one times any outstanding amounts under the facility. In conjunction with the issuance of the 2024 Notes, we amended our revolving credit facility to grant the bank a right to a security interest in accounts held by us at the bank equal to any amounts outstanding under the facility. The reduction from the two times cash collateral has provided us with less restrictions of our cash and increased our liquidity. This facility provides us additional flexibility to implement our strategy and support our companies. As of June 30, 2004, we provided guarantees related to three strategic companies' credit facilities that allowed for borrowing of up to $18 million of which $12 million was outstanding. As of June 30, 2004, there was $7 million available under the facility.

The transactions we enter into in pursuit of our strategy could impact our liquidity at any point in time. As we seek to acquire technology-related companies, we may be required to expend our cash or incur debt, which will decrease our liquidity. Conversely, as we dispose of our interests in companies that are no longer strategic, 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 Mr. Musser, the former CEO of Safeguard. The loan bears interest at an annual default rate of 9% and became payable on a limited basis on January 1, 2003. Safeguard sent Mr. Musser a demand notice in January 2003 and, when no payment was received, a default notice. In conjunction with the original loan, Mr. Musser granted us security interests in securities and real estate as collateral. Based on the information available to us, we concluded that Mr. Musser may not have sufficient personal assets to satisfy the outstanding balance due under the loan when the loan becomes full recourse against Mr. Musser on April 30, 2006. In the fourth quarter of 2002 and the first quarter of 2003, we impaired the loan by $11.4 million and $0.7 million respectively, to the estimated value of the collateral that we held at that date. The carrying value of the loan at June 30, 2004 was $7.0 million and the value of the underlying collateral was $10.7 million. In April 2004, we received a total of $4.5 million in net cash proceeds from Mr. Musser as a result of the sale of certain collateral. We will continue to evaluate the value of the collateral to the carrying value of the note on a quarterly basis. In addition, if the proposed sale of CompuCom is consummated, the Company will receive an additional $2.0 million related to the CompuCom shares held by Mr. Musser, which are included as a portion of the collateral described above. See "Proposed Sale of CompuCom."

In connection with our ownership interests in certain affiliates, we have guarantees associated with various forms of debt including lines of credit, term loans, performance bonds, equipment leases and mortgages. Of our total guarantees of $23 million at June 30, 2004, a total of $18 million relates to guarantees of our consolidated companies under our credit facility. A total of $12 million of debt associated with our guarantees has been recorded on the consolidated companies' Balance Sheets and is therefore reflected in the Company's Consolidated Balance Sheets at June 30, 2004. Additionally, we have committed capital of approximately $25 million, including commitments made in prior years to various companies and funds, to be funded over the next several years, including approximately $10 million, which is expected to be funded in the next twelve months.

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 it received as a general partner to the fund for further distribution to the fund's limited partners (the "clawback"). Assuming the Funds in which we are a general partner are liquidated or dissolved on June 30, 2004 and assuming for these purposes the only distributions from the funds is equal to the carrying value of the funds on the June 30, 2004 financial statements, the maximum clawback we would be required to return for our general partner interest is approximately $6 million. Management estimates its liability to be approximately $4 million. This amount is reflected in "Other Long-Term Liabilities" on the Consolidated Balance Sheets.

Our ownership in the general partner of the funds which have potential clawback liabilities range 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 in escrow and adding rights of set-off among certain funds. We believe our liability under the default of other general partners is remote.

In October 2001, Safeguard 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. As a result of this agreement, Safeguard recorded expense of $5.5 million, which was included in General and Administrative Expense in the Consolidated Statements of Operations for the year ended December 31, 2001. The related current liability of $0.5 million is included in Accrued Expenses and the long-term portion of $4.4 million is included in Other Long-Term Liabilities on the Consolidated Balance Sheets at June 30, 2004.

At December 31, 2003, we had outstanding $200 million of 5% convertible subordinated notes due June 15, 2006 (the 2006 Notes). In February 2004, we completed the sale of $150 million of 2.625% convertible senior debentures due March 15, 2024 (the 2024 Notes). We used all of the net proceeds of this offering of approximately $146 million to retire a majority of the 2006 Notes by one or more privately negotiated transactions. As of June 30, 2004, we had repurchased $145.2 million of face value of the 2006 Notes for $146.1 million. As of June 30, 2004, the outstanding balance of the 2006 Notes is $54.8 million. We intend to use a portion of the proceeds from the proposed sale of CompuCom to redeem the remaining 2006 Notes.

Interest on the 2006 Notes is payable semi-annually. The 2006 Notes are redeemable in whole or in part at our option for a maximum of 101.67% of face value depending on the date of redemption and subject to certain restrictions. At the note holders' option, the notes are convertible into our common stock. The conversion rate of the notes at June 30, 2004 was $24.1135 of principal amount per share. The closing price of our common stock on June 30, 2004 was $2.30. The note holders may also require repurchase of the notes upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution or a change in control.

Interest on the 2024 Notes is payable semi-annually. At the note holders' option subsequent to June 30, 2004, the notes are convertible into our common stock before the close of business on March 14, 2024 subject to certain conditions. The conversion rate of the notes at June 30, 2004 was $7.2174 of principal amount per share. The note holders may require repurchase of the notes on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective amount plus accrued and unpaid interest. The note holders may also require repurchase of the notes upon certain events, including sale of all or substantially all of our common stock or assets, liquidation, dissolution or a change in control. Subject to certain conditions, we may redeem all or some of the 2024 Notes commencing March 20, 2009.

The 2024 Notes also provide that if we sell an interest in a company that is not strategic, and the aggregate book value of that interest, when added to the aggregate book value of all such interests sold in the preceding 12 months, exceeds $50 million, we will:

(i) place in escrow and pledge to the trustee an amount equal to our interest obligations on the 2024 Notes through March 2009;

(ii) apply, within one year after such sale, an amount equal to the lesser of (a) the outstanding principal amount on the 2006 Notes or (b) 50% of remaining cash proceeds after (i) is satisfied, to repurchase our outstanding 2006 Notes. If this amount is less than $20 million and the outstanding balance of the 2006 Notes exceeds $20 million, we will use 50% of cash proceeds from the subsequent sales of non-strategic companies to repurchase 2006 Notes until the aggregate amount equals $20 million. We may use our common stock to satisfy these repurchase obligations during the one-year period.

The aggregate book value of all of our companies that are not strategic was $169.5 million at June 30, 2004.

The proposed sale of CompuCom is considered the sale of a non-strategic asset and accordingly, uses of such proceeds are subject to the requirements under the terms of the 2024 Notes described above. See "Proposed Sale of CompuCom".

We believe, through the execution of our stated strategy, including business growth at our subsidiaries and the sale from time to time of various holdings, we will have the ability to repurchase or refinance the remaining balance of the 2006 Notes prior to their due date.

Based on the above discussion, we believe our cash and cash equivalents at June 30, 2004 and other internal sources of cash flow are expected to be sufficient to fund our cash requirements for the next twelve months, including commitments to our existing companies, our current operating plan to acquire interests in new companies and our general corporate requirements.

As a result of the proposed CompuCom transaction, we would receive approximately $128 million of cash proceeds, which would be used to pay transaction costs, retire the remaining $54.8 million of principal related to the 2006 Notes as well as escrowing approximately $19.7 million for certain future interest payments on our 2024 Notes.

Alliance Consulting, which is included in the parent company, has an outstanding credit facility that provides for borrowings of up to $10 million as of June 30, 2004. The revolving credit facility matures in September 2004. As of June 30, 2004, outstanding borrowings under this facility were $8 million.

Analysis of Parent Company Cash Flows

Cash (Used In) Operating Activities

Net cash used in operating activities was $15.2 million for the six months ended June 30, 2004 compared to $17.6 million for the six months ended June 30, 2003. The decrease was due primarily to working capital changes.

Cash Provided by Investing Activities

Cash provided by investing activities primarily reflects the proceeds from the sales of non-strategic assets and private equity funds, partially offset by acquisition of ownerships interests in companies from third parties.

Net cash provided by investing activities was $41.2 million for the six months ended June 30, 2004 compared to $17.1 million for the six months ended June 30, 2003. The increase in cash provided of $24.1 million is primarily due to an increase of $31.2 million in proceeds from sales and distributions from companies and funds, partially offset by a $7.6 million decline in proceeds from sales of trading securities and a $3.9 million decline in acquisitions of ownership interests in companies, funds and subsidiaries, net of cash acquired, which includes $12.5 million of funding to ChromaVision in 2004 as compared to $5.0 million in 2003 and $1.6 million relating to our investment in private equity funds in 2004 as compared to $4.8 million in 2003. Included in the increase in proceeds from sales and distributions from companies and funds is $32.1 in cash proceeds related to our sale of Sanchez. Included in proceeds from sales of trading securities in 2004 is $8.3 million related to our sales of FNF common stock (received in Sanchez merger in the second quarter of 2004) and $6.5 million related to our sale of Opsware common stock (received in sale of Tangram in the first quarter of 2004).

Cash Provided by (Used In) Financing Activities

Cash provided by financing activities was $3.4 million for the six months ended June 30, 2004 as compared to cash used in financing activities of $2.9 million for the six months ended June 30, 2003. The increase of $6.3 million is mainly attributable to a $15.1 million and $20.7 million decline in borrowings and repayments on revolving credit facilities. In February 2004, we completed the sale of $150 million of 2.625% convertible senior debentures with a stated maturity of 2024, net of related offering costs of $5.0 million. We have repurchased $145.2 million of face value of the 2006 notes as of June 30, 2004.

CompuCom (See “Proposed Sale of CompuCom”).

CompuCom maintains separate, independent financing arrangements, which are non-recourse to us and are secured by certain assets of CompuCom. During recent years, CompuCom has utilized bank financing arrangements and internally generated funds to fund its cash requirements.

At June 30, 2004, CompuCom has a $25 million working capital facility and a $50 million receivables securitization facility. Consistent with its financing requirements, CompuCom did not renew the working capital facility in July 2004. No amounts were outstanding under the working capital facility at June 30, 2004 and December 31, 2003. Terms of the facility limit the amounts available for capital expenditures and dividends.

The securitization facility’s pricing is based on a designated short-term interest rate plus an agreed upon spread. Amounts outstanding as sold receivables as of June 30, 2004 consisted of one $10 million certificate, with an October 2005 maturity date. Both facilities are subject to CompuCom’s compliance with selected financial covenants and ratios.

CompuCom’s liquidity is impacted by the dollar volume of certain manufacturers’ customer specific rebate programs. Under these programs, CompuCom is required to pay a higher initial amount for product and then claim a rebate from the manufacturer to reduce the final cost. These rebates are then passed on to the customer in the form of reduced sales price. The collection of these rebates can take an extended period of time. Due to these programs, CompuCom’s initial cost for the product is often higher than the sales price CompuCom can obtain from its clients. These programs have been at times a material factor in CompuCom’s financing needs. As of June 30, 2004 and December 31, 2003, CompuCom was owed approximately $7.0 million and $18.6 million, respectively, under these vendor rebate programs. These outstanding amounts are included as a reduction to Accounts Payable on the Consolidated Balance Sheets and a reduction of Cost of Sales in the Consolidated Statements of Operations.

In addition, CompuCom participates in certain programs provided by various suppliers that enable it to earn volume incentive dollars. These incentives are generally earned by achieving quarterly sales targets. The amounts earned under these programs are recorded as a reduction to cost of sales when earned. These amounts are recorded as Accounts Receivable on the Consolidated Balance Sheets, and any amounts received in excess of the actual amounts incurred are recorded as a reduction of Cost of Sales in the Consolidated Statements of Operations. As of June 30, 2004 and December 31, 2003, CompuCom was owed approximately $3.6 million and $2.6 million, respectively, under these supplier incentive programs.

CompuCom's ability to make distributions to its shareholders is limited by restrictions in CompuCom's financing agreements and CompuCom's working capital needs. We do not consider CompuCom's liquidity to be a source of liquidity to us.

Other Consolidated Subsidiaries

Mantas, ChromaVision and Pacific Title have outstanding credit facilities that provide for borrowings of up to $10 million as of June 30, 2004. A revolving credit facility for $2 million which had an original maturity of July 2004 has been extended to September 2004, a total of $3 million matures in February 2005 and $5 million matures in March 2005. As of June 30, 2004, there were $4 million of outstanding borrowings under these facilities.

Consolidated Working Capital

Consolidated working capital increased to $326 million at June 30, 2004 compared to $278 million at December 31, 2003. The increase is primarily attributable to proceeds from sales of and distributions from companies and funds as well as decreases in accounts payable and accrued liabilities, partially offset by declines in receivables and inventories at CompuCom. CompuCom attributes this activity to a decline in revenue in the second quarter of 2004 as compared to the fourth quarter of 2003.

Analysis of Consolidated Company Cash Flows

Cash used in Operating Activities

Net cash provided by operating activities was $14.7 million for the six months ended June 30, 2004 compared to net cash used of $27.4 million for the same prior year period. The increase is attributable to decreases in accounts receivable and inventories, primarily at CompuCom.

Cash Provided by Investing Activities

Cash provided by investing activities primarily reflects the acquisition of ownership interests in companies from third parties, partially offset by proceeds from the sales of non-strategic assets and private equity funds.

Net cash provided by investing activities was $40.5 million for the six months ended June 30, 2004 as compared to $16.3 million in the prior period. The increase of $24.2 million is primarily due to a $31.2 million increase in proceeds from sales of and distributions from companies and funds, partially offset by a $7.6 million decline in proceeds from available-for-sale and trading securities.

During the second quarter of 2004, we sold our interest in Sanchez Computer Associates, Inc. We received $32.1 million in cash and 226,435 shares of Fidelity National Financial ("FNF") common stock valued at $8.3 million on the date of the merger in exchange for our Sanchez common stock, which we sold during the second quarter for net cash proceeds of $8.3 million. Also, during the second quarter of 2004, we completed the sale of our Opsware common shares for $2.4 million in cash proceeds. Total cash proceeds in 2004 related to our sale of Opsware common stock was $6.5 million, which is included in proceeds from sales of available-for-sale and trading securities for the six months ended June 30, 2004.

Cash Provided by Financing Activities

Cash provided by financing activities was $19.3 million for the six months ended June 30, 2004 compared to $1.7 million for the prior year period. The increase of $17.6 million is primarily due to a $13.6 million increase in issuance of subsidiary common stock to third parties by ChromaVision.

Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations and other commercial commitments as of June 30, 2004, by period due or expiration of the commitment.

	Payments Due by Period				
	Total	2004	2005 and 2006	2007 and 2008	Due after 2008
			(in millions) (unaudited)		
Contractual Cash Obligations					
Long-term debt and capital lease obligations(a)	$ 18.9	$12.3	$ 6.6	$ —	$ —
Convertible subordinated notes (b)	54.8	—	54.8	—	—
Convertible senior debentures (c)	150.0	—	—	—	150.0
Operating leases	89.1	6.5	19.0	15.9	47.7
Funding commitments (d)	25.4	4.6	11.1	5.0	4.7
Potential clawback liabilities (e)	3.8	—	—	—	3.8
Other long-term obligations (f)	4.8	0.2	1.0	1.1	2.5
Total Contractual Cash Obligations	$346.8	$23.6	$92.5	$22.0	$208.7

(a) We have various forms of debt including lines of credit, term loans, equipment leases and mortgages. Of our total outstanding guarantees of $23 million, $13 million of outstanding debt associated with the guarantees is included on the Consolidated Balance Sheets at June 30, 2004. The remaining $10 million is not reflected on the Consolidated Balance Sheets or in the above table.

(b) The 2006 Notes are due on June 15, 2006 and are redeemable in whole or in part at our option on or after June 18, 2002, for a maximum of 101.67% of face value depending on the date of redemption and subject to certain restrictions. At the note holders' option, the notes are convertible into our common stock subject to adjustment under certain conditions. The conversion rate of the 2006 notes at June 30, 2004 was $24.1135 of principal amount per share. The closing price of our common stock on June 30, 2004 was $2.30 per share. The 2006 note holders may also require repurchase of the notes upon certain events, including the sale of all or substantially all of our common stock or assets, liquidation, dissolution or a change in control. See (c) for repurchases. See "Proposed Sale of CompuCom".

(c) In February 2004, we completed the issuance of $150 million of 2.625% convertible senior debentures due 2024. The above table reflects the outstanding balance of our 2024 Notes as of March 31, 2004. We used all of the net proceeds of this offering of approximately $146 million to retire a majority of the 2006 Notes by redemption or by one or more privately negotiated transactions. As of June 30, 2004, we have repurchased $145.2 million of face value of 2006 Notes. See "Proposed Sale of CompuCom".

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

(e) 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 to the fund for a further distribution to the fund's limited partners (the "clawback"). Assuming the funds in which we are a general partner are liquidated or dissolved on June 30, 2004 and the only value provided by the funds is the carrying values represented on the June 30, 2004 financial statements, the maximum clawback we would be required to return for our general partner interests is $6 million. Management estimates its liability to be approximately $4 million. This amount is reflected in "Other Long-Term Liabilities" on the Consolidated Balance Sheets.

(f) Primarily reflects the amount payable to our former Chairman and CEO under a consulting contract.

We have entered into retention agreements with certain executive officers at June 30, 2004. These agreements provide for severance payments to the executive officer in the event the officer is terminated without cause or the officer terminates their employment for "good reason." The amount of severance payment is a multiple of the executive's salary and bonus. The applicable multiple ranges from 1.5 to 3.0 depending upon the officer's position, the officer's tenure, and whether or not a "change of control" has occurred. The agreement also provides for acceleration of vesting and extended exercise periods for certain equity grants to the officer and certain other rights. The maximum aggregate exposure under the agreements is $7 million at June 30, 2004. This amount is not included in the above table.

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 our consolidated financial position or results of operations.

Recent Accounting Pronouncements

See Note 5 to the Consolidated Financial Statements.

Factors That May Affect Future Results

Forward-looking statements in this report and those made from time to time by us through our senior management team are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements are described in our SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2003. These factors include, but are not limited to, the following:

- The performance of our companies, which face risks such as intense competition, rapid changes in technology and customer demands, frequent new products and service introductions, shifting distribution channels, the ability to protect their proprietary rights, the ability to manage growth, impact of economic downturns, and government regulations and legal uncertainties;

- Many of our companies have a history of operating losses or limited operating histories, no historical profits and financing requirements that they may not be able to satisfy, and these companies may not have operating income or net income in the future and their financial results may vary dramatically from quarter to quarter;

- Our companies currently do not provide us with any cash flow from their operations so we rely on cash on hand, liquidity events and our ability to generate cash from capital raising activities to finance our operations and therefore we may have problems raising money we need in the future to fund the needs of our companies, to make acquisitions and to fund our operations;

- Our stock price may be subject to significant fluctuations because of market conditions generally and due to the impact of the volatility of the public companies we own, which can be subject to fluctuations unrelated or disproportionate to operating performance;

- Intense competition from other acquirers of interests in companies could result in lower gains or possibly losses on our companies, in addition we may not be able to obtain maximum value for our holdings in companies or liquidate our interests in companies on a timely basis;

- We have incurred significant indebtedness and may incur additional indebtedness in the future, which could adversely affect our business and our ability to make full payment on our indebtedness and may restrict our operating flexibility, in addition, our ability to repay or refinance our indebtedness will depend upon our future ability to monetize our interests in our companies and our operating performance, which may be affected by general economic, financial, competitive, regulatory, business and other factors beyond our control;

- The values of our companies as determined by the public and private capital markets may decline, our companies’ access to the public and private capital markets on terms acceptable to them may be limited, and our companies could make business decisions that could impair the value of our company interests;

- Accounting conventions which may require us to change the presentation of our financial statements;

- The outcome of several lawsuits which have been brought or threatened against us; and

- We may incur significant costs, and fail to obtain maximum value for our companies, to avoid being subject to the Investment Company Act of 1940, and we would suffer adverse consequences if we were deemed to be an investment company.

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

We are exposed to equity price risks on the marketable portion of our securities. These securities include equity positions in companies in the technology industry, many of which have experienced significant volatility in their stock prices. Historically, we have not attempted to reduce or eliminate our market exposure on securities. Based on closing market prices at June 30, 2004, the fair market value of our holdings in public securities was approximately $200 million. A 20% decrease in equity prices would result in an approximate $40 million decrease in the fair value of our publicly traded securities. At June 30, 2004, the value of the collateral securing the Musser loan, included $2.7 million of equity securities, $2.0 million of which is held in CompuCom common stock. See “Proposed Sale of CompuCom”.

CompuCom is exposed to interest rate risk primarily through its receivables securitization and working capital facilities. CompuCom utilizes borrowings on these facilities to meet its working capital and other financing needs. At June 30, 2004, the securitization facility had borrowings of approximately $10 million, and there were no borrowings on the working capital facility. If CompuCom’s effective interest rate were to increase by 100 basis points, or 1.00%, CompuCom’s annual interest and financing expense would increase by $0.1 million based on CompuCom’s average balances utilized under its facilities during the six months ended June 30, 2004. Our share of this increase would be approximately $0.1 million after deduction for minority interest but before income taxes.

At June 30, 2004, we had outstanding $54.8 million of fixed rate notes due in June 2006. Interest payments are due June and December of each year. Based on transactions for these notes in the secondary market, these notes have a fair market value at June 30, 2004 of approximately $54.9 million. See “Proposed Sale of CompuCom.”

Liabilities	2004	2005	2006	Fair Market Value at 6/30/04
Convertible Subordinated Notes due by year (in millions)	—	—	$54.8	$54.9
Fixed Interest Rate	5%	5%	5%	5%
Interest Expense (in millions)	$4.6	$2.7	$ 1.3	N/A

In February 2004, we completed the issuance of $150 million of fixed rate notes with a stated maturity of 2024. Interest payments of approximately $2.0 million are due March and September of each year starting in September 2004. We used all of the net proceeds of this offering of approximately $146 million to retire a majority of the 2006 Notes by one or more privately negotiated transactions. As of June 30, 2004, we have repurchased $145.2 million of face value of 2006 Notes. The holders of the 2024 Notes may require repurchase of the notes on March 21, 2011, March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their respective amount plus accrued and unpaid interest. See “Proposed Sale of CompuCom”.

Liabilities	2004	2005	2006	After 2006	Fair Market Value at 6/30/04
Convertible Senior Notes due by year (in millions)	—	—	—	$150.0	$109.3
Fixed Interest Rate	2.625%	2.625%	2.625%	2.625%	2.625%
Interest Expense (in millions)	$ 3.5	$ 4.0	$ 4.0	$ 68.7	N/A

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

Our management, under the supervision and 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 have been designed and 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 recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe that a controls system, no matter how well designed and operated, 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.

There were no significant changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 1. *Legal Proceedings*

Safeguard Scientifics Securities Litigation

On June 26, 2001, the Company and Warren V. Musser, the Company's former Chairman, were named as defendants in a putative class action filed in federal court in Philadelphia. Plaintiffs allege that defendants failed to disclose that Mr. Musser had pledged some or all of his Safeguard stock as collateral to secure margin trading in his personal brokerage accounts. Plaintiffs allege that defendants' failure to disclose the pledge, along with their failure to disclose several margin calls, a loan to Mr. Musser, the guarantee of certain margin debt and the consequences thereof on Safeguard's stock price, violated the federal securities laws. Plaintiffs allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

On August 17, 2001, a second putative class action was filed against the Company and Mr. Musser asserting claims similar to those brought in the first proceeding. In addition, plaintiffs in the second case allege that the defendants failed to disclose possible or actual manipulative aftermarket trading in the securities of Safeguard's companies, the impact of competition on prospects for one or more of Safeguard's companies and the Company's lack of a superior business plan.

These two cases were consolidated for further proceedings under the name "In Re: Safeguard Scientifics Securities Litigation" and the Court approved the designation of a lead plaintiff and the retention of lead plaintiffs' counsel. The plaintiffs filed a consolidated and amended complaint. On May 23, 2002, the defendants filed a motion to dismiss the consolidated and amended complaint for failure to state a claim upon which relief may be granted. On October 24, 2002, the Court denied the defendants' motions to dismiss, holding that, based on the allegations of plaintiffs' consolidated and amended complaint, dismissal would be inappropriate at that juncture. On December 20, 2002, plaintiffs filed with the Court a motion for class certification. On August 27, 2003, the Court denied plaintiffs' motion for class certification. On September 12, 2003, plaintiffs filed with the United States Court of Appeals for the Third Circuit a petition for permission to appeal the order denying class certification. On November 5, 2003, the Third Circuit denied plaintiffs' petition and declined to hear the appeal. On November 18, 2003, plaintiffs' counsel moved to intervene in the consolidated action new plaintiffs and proposed class representatives, which motion was denied by the Court on February 18, 2004. On July 12, 2004, a third putative class action complaint captioned Mandell v. Safeguard Scientifics, Inc., et al. was filed against Safeguard and Mr. Musser in the United States District Court for the Eastern District of Pennsylvania. The new complaint asserts similar claims to those asserted in the consolidated and amended class action complaint. The complaint also asserts individual claims on behalf of two individual plaintiffs who had attempted unsuccessfully to intervene in the consolidated action. Safeguard has not yet responded to the new complaint, but intends to pursue a vigorous defense. Safeguard believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

CompuCom Litigation

On May 28, 2004, Safeguard was named along with CompuCom Systems Inc. and members of CompuCom's board of directors as a defendant in a putatitve class action lawsuit brought in the Court of Chancery of the State of Delaware on behalf of CompuCom's minority stockholders seeking to enjoin the proposed merger of CompuCom with Platinum Equity, LLC on the ground that the members of the board of directors of CompuCom and Safeguard have allegedly breached fiduciary duties to CompuCom and its minority stockholders. On June 1, 2004 and June 10, 2004, two separate putative class action lawsuits were filed in the Court of Chancery against the same defendants, each lawsuit asserting claims similar to those brought in the first proceeding. The lawsuits were subsequently consolidated. On July 27, 2004, the plaintiffs filed an amended class action complaint, asserting claims similar to those brought in the original complaints and adding claims relating to CompuCom's disclosure in its Schedule 14A filed with the Securities & Exchange Commission on July 15, 2004. On July 27, 2004, the plaintiffs also filed a motion for expedited proceedings and discovery in connection with the injunctive relief sought and requested that a preliminary injunction hearing be held before August 19, 2004, the date of the special meetings of the shareholders of Safeguard and the stockholders of CompuCom relating to the CompuCom merger. Defendants filed their opposition to the motion on July 28, 2004. On July 29, 2004, the Court denied the Plaintiffs' motion. Safeguard has not yet responded to the amended complaint.

While the outcome of this litigation is uncertain, the Company believes that it has valid defenses to plaintiffs' claims and intends to defend the lawsuits vigorously.

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Item 2. ***Change in Securities, Use of Proceeds and Issuer Repurchases of Equity Securities***

Recent Sales of Unregistered Securities . On February 18, 2004, we issued and sold in a private placement $125 million aggregate principal amount of 2.625% convertible senior debentures due 2024 (2024 Notes) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. On February 20, 2004, we issued and sold an additional $25 million in aggregate principal amount of the 2024 Notes, purchased pursuant to the initial purchaser's option. Wachovia Securities acted as the initial purchaser in connection with the offering of the 2024 Notes. The aggregate discounts or commissions paid in connection with this sale totaled $4.5 million.

The 2024 Notes are convertible, subject to certain conditions, into Safeguard's common stock at an initial conversion rate of 138.5540 shares per $1,000 principal amount of the 2024 Notes, which is equal to a conversion price of approximately $7.2174 per share, subject to adjustment in certain circumstances.

Purchases of Equity Securities by the Company and Affiliated Purchasers. During the first and second quarter of 2004, the Company repurchased $86.5 and $58.7 million, respectively, principal amount of its 5% convertible subordinated notes due June 15, 2006 (2006 Notes). Prior to the repurchases, a total of $200 million principal amount of the 2006 Notes were outstanding. The 2006 Notes are convertible, at the holder's option, into shares of the Company's common stock. The conversion rate of the 2006 Notes at June 30, 2004 was $24.1135 of principal amount per share. The following table sets forth information regarding repurchases of the 2006 Notes by the Company.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Principal Amount of 2006 Notes Purchased	Average Price Paid Per $1,000 Principal Amount of the 2006 Notes	Total Principal Amount of 2006 Notes Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of 2006 Notes that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2004 – January 31, 2004	—	—	—	—
February 1, 2004 – February 29, 2004	$ 42,000,000(3)	$24.17(8)	$ 42,000,000	$103,895,000(2)
March 1, 2004 – March 31, 2004	$ 44,500,000(4)	$24.29(9)	$ 44,500,000	$ 59,061,250(2)
April 1, 2004 – April 30, 2004	$ 17,600,000(5)	$24.29(10)	$ 17,600,000	$ 41,329,250(2)
May 1, 2004 – May 31, 2004	$ 41,137,000(6)	$24.31(11)	$ 41,137,000	$ —(2)
June 1, 2004 – June 30, 2004	—	—	—	$ —(2)
Total	$145,237,000(7)	$24.26(12)	$145,237,000	$ —(2)

(1) The Company announced in a press release on February 11, 2004 its plan to retire a majority of the principal amount of the Company's 2006 Notes by redemption or through one or more privately negotiated repurchase transactions, using all of the net proceeds of approximately $146 million received from the sale of the 2024 Debentures. On that date, $200 million principal amount of the 2006 Notes were outstanding. Since the plan was not in effect during the period from January 1, 2004 through January 31, 2004, there were no 2006 Notes repurchased, or yet to be repurchased, under the plan during this period.

(2) Represents the funds available for repurchases under the plan at the end of the relevant periods after taking into account the principal amount of debt repurchased and costs incurred to repurchase such debt.

(3) The total principal amount of these 2006 Notes was convertible into 1,741,762 shares of the Company's common stock as of the date of repurchase.

(4) The total principal amount of these 2006 Notes was convertible into an aggregate of 1,845,439 shares of the Company's common stock as of the respective dates of repurchase.

(5) The total principal amount of these 2006 Notes was convertible into an aggregate of 729,882 shares of the Company's common stock as of the respective dates of repurchase.

(6) The total principal amount of these 2006 Notes was convertible into an aggregate of 1,705,974 shares of the Company's common stock as of the respective dates of repurchase.

(7) The total principal amount of these 2006 Notes was convertible into an aggregate of 6,023,057 shares of the Company's common stock as of the respective dates of repurchase.

(8) On an "as converted" basis, the average purchase price paid per share of common stock issuable upon conversion of the 2006 Notes was $24.17.

(9) On an "as converted" basis, the average purchase price paid per share of common stock issuable upon conversion of the 2006 Notes was $24.29.

(10) On an "as converted" basis, the average purchase price paid per share of common stock issuable upon conversion of the 2006 Notes was $24.29.

(11) On an "as converted" basis, the average purchase price paid per share of common stock issuable upon conversion of the 2006 Notes was $24.31.

(12) On an "as converted" basis, the average purchase price paid per share of common stock issuable upon conversion of the 2006 Notes was $24.26.

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

The shareholders of the Company voted on three items of business at the Annual Meeting of Shareholders held on June 11, 2004:

1. the election of nine directors,

2. a proposal to approve the Safeguard Scientifics, Inc. 2004 Equity Compensation Plan, and

3. a proposal to ratify the appointment of KPMG LLP as independent auditor for the fiscal year ending December 31, 2004.

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

NOMINEE	VOTES FOR	VOTES WITHHELD
Anthony L. Craig	105,269,984	3,464,356
Julie A. Dobson	104,897,195	3,837,145
Robert E. Keith, Jr.	105,152,713	3,581,627
Andrew E. Lietz	104,965,634	3,768,706
George MacKenzie	104,997,132	3,737,208
Jack L. Messman	105,105,657	3,628,683
John W. Poduska, Sr.	105,085,443	3,648,897
Robert Ripp	105,803,000	2,931,340
John J. Roberts	104,903,025	3,831,315

The proposal to approve the Safeguard Scientifics, Inc. 2004 Equity Compensation Plan received the following votes:

46,931,468	VOTES FOR
13,800,740	VOTES AGAINST
825,198	ABSTENTIONS
47,176,934	BROKER NON-VOTES

The proposal to ratify the appointment of KPMG LLP as independent auditors for the fiscal year ending December 31, 2004 received the following votes:

105,362,185	VOTES FOR
2,695,205	VOTES AGAINST
676,950	ABSTENTIONS
0	BROKER NON-VOTES

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Item 6. ***Exhibits and Reports on Form 8-K***

(a) Exhibits.

10.1 Safeguard Scientifics, Inc. 2004 Equity Compensation Plan

10.2 First Amendment to Safeguard Scientifics, Inc. 1999 Equity Compensation Plan

10.3 Second Amendment to Safeguard Scientifics, Inc. 2001 Associates Equity Compensation Plan

31 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934

32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

On April 12, 2004, the Company filed a Current Report on Form 8-K, Items 5 and 7, regarding a press release announcing that it had completed the repurchase of an additional $19.9 million of face value of its 5% Convertible Subordinated Notes due June 15, 2006.

On April 15, 2004, the Company filed a Current Report on Form 8-K, Items 5 and 7, regarding a press release announcing the completion of the merger of Sanchez Computer Associates, Inc. and a subsidiary of Fidelity National Financial, Inc.

On April 26, 2004, the Company filed a Current Report on Form 8-K, Items 5 and 7, regarding a press release announcing the filing of a registration statement on Form S-3 with the Securities and Exchange Commission relating to the resale by selling–security holders of its 2.625% Convertible Senior Debentures due 2024, and the common stock issuable upon conversion of the debentures.

On May 5, 2004, the Company filed a Current Report on Form 8-K, Items 5 and 7, regarding a press release announcing the appointment of Anthony Ibarguen as Chief Executive Officer and President of Alliance Consulting Group Associates, Inc., a subsidiary of Safeguard, which report also included the furnishing of information under Item 12.

On May 17, 2004, the Company filed a Current Report on Form 8-K, Items 5 and 7, regarding a press release announcing the repurchase of an additional $41.1 million face value of its 5% Convertible Subordinated Notes due June 15, 2006.

On May 28, 2004, the Company filed a Current Report on Form 8-K, Items 5 and 7, regarding a press release announcing the entrance of CompuCom Systems Inc. into an Agreement and Plan of Merger with CHR Holding Corporation and CHR Merger Corporation.

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SIGNATURES

Pursuant to the requirements 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.
(Registrant)

Date: August 6, 2004

ANTHONY L. CRAIG

Anthony L. Craig
Chief Executive Officer and President

Date: August 6, 2004

CHRISTOPHER J. DAVIS

Christopher J. Davis
Executive Vice President and Chief Administrative and Financial Officer

EXHIBITS

10.1 Safeguard Scientifics, Inc. 2004 Equity Compensation Plan

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32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 10.1

SAFEGUARD SCIENTIFICS, INC.
2004 EQUITY COMPENSATION PLAN

1. Purpose

The purpose of the Safeguard Scientifics, Inc. 2004 Equity Compensation Plan is to provide (i) designated Company employees, (ii) individuals to whom an offer of employment has been extended, (iii) certain advisors who perform services for the Company, and (iv) nonemployee members of the Company's Board of Directors with the opportunity to receive grants of incentive stock options, nonqualified stock options, stock units, stock appreciation rights, performance units, stock awards, dividend equivalents and other stock-based awards. The Company believes that the Plan will encourage the participants to contribute materially to the Company's growth, thereby benefiting the Company's shareholders, and will align the economic interests of the participants with those of the shareholders.

2. Definitions

Whenever used in this Plan, the following terms will have the respective meanings set forth below:

(a) *"Board"* means the Company's Board of Directors as constituted from time to time.

(b) *"Change of Control"* means the first to occur of any of the following events:

(i) An acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then outstanding shares of Common Stock of the Company ("Common Stock") or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities") (a "Control Purchase"); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) of this definition, or (5) provided, however, that notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person acquires beneficial ownership of more than 20% of the Common Stock or the Outstanding Company Voting Securities as a result of the acquisition of Common Stock or Outstanding Company Voting Securities by the Company which reduces the amount of Common Stock or Outstanding Company Voting Securities; provided, that if after such acquisition by the Company such Person becomes the beneficial owner of additional Common Stock or Outstanding Company Voting Securities that increases the percentage of Common Stock or

Outstanding Company Voting Securities beneficially owned by such Person, a Change in Control shall then occur; or

(ii) A change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this subsection (ii), that any individual who becomes a member of the Board subsequent to the effective date of the Plan, whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or whose membership on the Board was so approved by a board which itself consisted of a majority of directors elected by the Incumbent Board) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board shall not be so considered as a member of the Incumbent Board (a "Board Change"); or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company ("Corporate Transaction"); excluding, however, such a Corporate Transaction pursuant to which (1) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 50% of, respectively, the outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) will beneficially own, directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors except to the extent that such ownership existed prior to the Corporate Transaction, and (3) individuals who were members of the Incumbent Board will constitute at least a majority of the members of the board of directors of the corporation resulting from such Corporate Transaction; or

(iv) The approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) *"Code"* means the Internal Revenue Code of 1986, as amended.

(d) *"Committee"* means (i) with respect to Grants to Employees, the Compensation Committee of the Board or its delegate or successor, or such other committee appointed by the Board to administer the Plan or its delegate or its successor, (ii) with respect to Grants made to Nonemployee Directors, the Board or its delegate, and (iii) with respect to Grants designated as "qualified performance based compensation" under Code Section 162(m), a committee that consists of two or more persons appointed by the Board, all of whom shall be "outside directors" as defined under Code Section 162(m) and related Treasury regulations.

(e) *"Company"* means Safeguard Scientifics, Inc., any successor corporation, each corporation which is a member of a controlled group of corporations (within the meaning of Code Section 414(b)) of which the Company is a component member, any subsidiary at least 50% directly or indirectly owned by Safeguard Scientifics, Inc. (or any successor thereto)and any affiliate entity which, with the approval of the Committee, is deemed to constitute an entity controlled by Safeguard Scientifics, Inc.

(f) *"Date of Grant"* means the effective date of a Grant; provided, however, that no retroactive Grants will be made.

(g) *"Dividend Equivalent"* means an amount determined by multiplying the number of shares of Stock or Stock Units subject to a Grant by the per-share cash dividend, or the per-share fair market value (as determined by the Committee) of any dividend in consideration other than cash, paid by the Company on its Stock on a dividend payment date.

(h) *"Effective Date "* means April 6, 2004, subject to the Company's obtaining shareholder approval of this Plan.

(i) *"Employee"* means, unless otherwise determined by the Committee, an employee of the Company (including an officer or director who is also an employee) other than an individual (a) employed in a casual or temporary capacity (i.e., those hired for a specific job of limited duration), (b) whose terms of employment are governed by a collective bargaining agreement that does not provide for participation in this Plan, (c) characterized as a "leased employee" within the meaning of Code Section 414(d) who is a non-resident alien, or (d) classified by the Company as a "contractor" or "consultant," no matter how characterized by the Internal Revenue Service, other governmental agency or a court; provided, however, that the Committee shall have the discretion to determine on a case by case basis whether and to what extent an employee of an affiliate shall be deemed an Employee. Any change of characterization of an individual by any court or government agency shall have no effect upon the classification of an individual as an Employee for purposes of this Plan, unless the Committee determines otherwise.

(j) *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

(k) *"Fair Market Value"* means the average of the highest and lowest sales prices of a share of Stock on the New York Stock Exchange on the day on which Fair Market Value is being determined, as reported on the composite tape for transactions on the New York Stock Exchange. In the event that there are no Stock transactions on the New York Stock

Exchange on such day, the Fair Market Value will be determined as of the immediately preceding day on which there were Stock transactions on that exchange. Notwithstanding the foregoing, in the case of a cashless exercise pursuant to Section 8(g), the Fair Market Value will be the actual sale price of the shares issued upon exercise of the Option.

(l) *"Grant"* means an Option, Stock Unit, Performance Unit, Stock Award, Dividend Equivalent, Stock Appreciation Right or Other Stock-Based Award granted under the Plan.

(m) *"Grant Instrument"* means the written agreement that sets forth the terms and conditions of a Grant, including all amendments thereto.

(n) *"Incentive Stock Option"* means a stock option that is intended to meet the requirements of Code Section 422, as described in Section 8.

(o) *"Nonemployee Director"* means a member of the Board who is not an employee of the Company.

(p) *"Nonqualified Stock Option"* means a stock option that is not intended to meet the requirements of Code Section 422, as described in Section 8.

(q) *"Option"* means an Incentive Stock Option or Nonqualified Stock Option to purchase Stock at the Option Price for a specified period of time.

(r) *"Option Price"* means an amount per share of Stock purchasable under an Option, as designated by the Committee.

(s) *"Other Stock-Based Award"* means any Grant based on, measured by or payable in Stock (other than Grants described in Sections 7, 8, 9, 10, 11 and 12 of the Plan) as described in Section 13.

(t) *"Participant"* means an Employee, Nonemployee Director or Key Advisor designated by the Committee to participate in the Plan.

(u) *"Performance Units"* means phantom units, as described in Section 10.

(v) *"Plan"* means this 2004 Equity Compensation Plan, as in effect from time to time.

(w) *"Stock"* means the common stock of Safeguard Scientifics, Inc. or such other securities of Safeguard Scientifics, Inc. as may be substituted for Stock pursuant to Section 5(c) or Section 18.

(x) *"Stock Award"* means an award of Stock, as described in Section 11.

(y) *"Stock Unit"* means an award of a phantom unit, representing one or more shares of Stock, as described in Section 9.

3. Administration

(a) *Committee* . The Plan shall be administered and interpreted by the Committee or its successor; ministerial functions may be performed by an administrative committee comprised of Company employees appointed by the Committee.

(b) *Committee Authority.* The Committee shall have the sole authority to (i) determine the individuals to whom Grants shall be made under the Plan, (ii) determine the type, size and terms of the Grants to be made to each such individual, (iii) determine the time when the grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, and (iv) amend the terms of any previously issued Grant, subject to the provisions of Section 21 below, and (v) deal with any other matters arising under the Plan.

(c) *Committee Determinations.* The Committee shall have full power and express discretionary authority to administer and interpret the Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee's interpretations of the Plan and all determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all persons having any interest in the Plan or in any awards granted hereunder. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

4. Grants

(a) *In General* . Grants under the Plan may consist of grants of Stock Appreciation Rights as described in Section 7, Incentive Stock Options and Nonqualified Stock Options as described in Section 8, Stock Units as described in Section 9, Performance Units as described in Section 10, Stock Awards as described in Section 11, Dividend Equivalents as described in Section 12 and Other Stock-Based Awards as described in Section 13. All Grants shall be made conditional upon the Participant's acknowledgement, in writing or by acceptance of the Grant, that all decisions and determinations of the Committee shall be final and binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under such Grant. Grants under a particular Section of the Plan need not be uniform as among the Participants. Notwithstanding any provision of the Plan to the contrary, Grants to Participants, if made, will be made contingent upon, and subject to, shareholder approval of the Plan at the 2004 shareholders' meeting.

5. Shares Subject to the Plan

(a) *Shares Authorized.* The total aggregate number of shares of Stock that may be issued or transferred under the Plan is 6,000,000 shares. The shares may be authorized but unissued shares of Stock or reacquired shares of Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Options granted under the Plan terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised or if any Stock Appreciation Rights, Stock Awards, Stock Units, Performance Units, Dividend Equivalents or Other Stock-Based Awards are forfeited or terminated, the shares subject to such Grants shall again be available for purposes of the Plan. Shares of Stock surrendered in payment of the Option Price of an Option or any withholding taxes, shall again be available for issuance or transfer under the Plan. To the extent that any Grants are paid in cash, and not in shares of Stock, any shares previously reserved for issuance or transfer under the Plan with respect to such Grants shall again be available for issuance or transfer under the Plan.

(b) *Individual Limits* . Grants under the Plan may be expressed in cash, in shares of Stock or in a combination of the two, as the Committee determines. The maximum aggregate number of shares of Stock that shall be subject to Grants made under the Plan to any individual during any calendar year shall be 1,500,000 shares, subject to adjustment as described below. A Participant may not accrue Dividend Equivalents during any calendar year in excess of $500,000. To the extent that Grants made under the Plan are expressed in dollar amounts, the maximum amount payable to any individual during any calendar year shall be $1,000,000.

(c) *Adjustments.* If there is any change in the number or kind of shares of Stock outstanding (i) by reason of a stock dividend, spinoff, recapitalization, stock split or combination or exchange of shares, (ii) by reason of a merger, reorganization or consolidation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other extraordinary or unusual event affecting the outstanding Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Stock is substantially reduced as a result of a spinoff or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Stock available for issuance under the Plan, the maximum number of shares of Stock for which any individual may receive Grants in any year, the number of shares covered by outstanding Grants, the kind of shares to be issued or transferred under the Plan, and the price per share or the applicable market value of such Grants may be appropriately adjusted by the Committee to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under such Grants; provided, however, that any fractional shares resulting from such adjustment shall be eliminated by rounding any portion of a share equal to .5 or greater up, and any portion of a share equal to less than .5 down, in each case to the nearest whole number. Any adjustments determined by the Committee shall be final, binding and conclusive.

6. Eligibility for Participation

(a) *Eligible Persons* . All Employees, including Employees who are officers or members of the Board, and all Nonemployee Directors shall be eligible to participate in the Plan. Advisors who perform services at the Company's request ("Key Advisors") shall be eligible to participate in the Plan.

(b) *Selection of Participants* . The Committee shall select the eligible parties to receive Grants and shall determine the number of shares of Stock subject to each Grant.

7. Stock Appreciation Rights

(a) *General Requirements.* The Committee may grant Stock Appreciation Rights ("SARs") to a Participant separately or in tandem with any Option (for all or a portion of the applicable Option). Tandem SARs may be granted either at the time the Option is granted or at any time thereafter while the Option remains outstanding; provided, however, that, in the case of an Incentive Stock Option, SARs may be granted only at the time of the Grant of the Incentive Stock Option. The Committee shall establish the base amount of the SAR at the time the SAR is granted. Unless the Committee determines otherwise, the base amount of each SAR shall be equal to the per share Exercise Price of the related Option or, if there is no related Option, the Fair Market Value of a share of Stock as of the date of Grant of the SAR.

(b) *Tandem SARs* . In the case of tandem SARs, the number of SARs granted to a Participant that shall be exercisable during a specified period shall not exceed the number of shares of Company Stock that the Participant may purchase upon the exercise of the related Option during such period. Upon the exercise of an Option, the SARs relating to the Stock purchased pursuant to such Option shall terminate. Upon the exercise of SARs, the related Option shall terminate to the extent of an equal number of shares of Company Stock.

(c) *Exercisability.* A SAR shall be exercisable during the period specified by the Committee in the Grant Instrument and shall be subject to such vesting and other restrictions as may be specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding SARs at any time for any reason. SARs may only be exercised while the Participant is employed by, or providing service to, the Company or during the applicable period after termination of employment. A tandem SAR shall be exercisable only during the period when the Option to which it is related is also exercisable. No SAR may be exercised for cash by an officer or director of the Company or any of its subsidiaries who is subject to Section 16 of the Exchange Act, except in accordance with Rule 16b-3 under the Exchange Act.

(d) *Value of SARs* . When a Participant exercises SARs, the Participant shall receive in settlement of such SARs an amount equal to the value of the stock appreciation for the number of SARs exercised, payable in cash, Stock or a combination thereof, as determined by the Committee. The stock appreciation for a SAR is the amount by which the Fair Market Value of the underlying Stock on the date of exercise of the SAR exceeds the base amount of the SAR as described in Subsection (a).

(e) *Form of Payment.* The Committee shall determine whether the appreciation in a SAR shall be paid in the form of cash, shares of Stock, or a combination of the two, in such proportion as the Committee deems appropriate. For purposes of calculating the number of shares of Stock to be received, shares of Stock shall be valued at their Fair Market Value on the date of exercise of the SAR. If shares of Stock are to be received upon exercise of a SAR, cash shall be delivered in lieu of any fractional share.

8. Options

(a) *General Requirements.* The Committee may grant Options to an Employee or Nonemployee Director or Key Advisor upon such terms and conditions as the Committee deems appropriate under this Section 8. The Committee may grant Dividend Equivalents with respect to Options.

(b) *Number of Shares.* The Committee shall determine the number of shares of Stock that will be subject to each Grant of Options.

(c) *Type of Option and Price.*

(i) The Committee may grant Incentive Stock Options or Nonqualified Stock Options, or any combination of Incentive Stock Options and Nonqualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or its parents or subsidiaries, as defined in Code Section 424. Nonqualified Stock Options may be granted to Employees, Nonemployee Directors and Key Advisors.

(ii) The Option Price shall be determined by the Committee and may be equal to or greater than the Fair Market Value on the Date of Grant; provided, however, that an Incentive Stock Option may not be granted to an Employee who, at the Date of Grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company, as defined in Code Section 424, unless the Option Price per share is not less than 110% of the Fair Market Value on the Date of Grant.

(d) *Option Term* . The Committee shall determine the term of each Option. The term of an Option shall not exceed ten years from the Date of Grant. However, an Incentive Stock Option that is granted to an Employee who, at the Date of Grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company, or any parent or subsidiary of the Company, as defined in Code Section 424, may not have a term that exceeds five years from the Date of Grant.

(e) *Exercisability of Options.* Options shall become exercisable in accordance with such terms and conditions, as may be determined by the Committee and specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding Options at any time for any reason. With the consent of the Committee, an Option may be exercised at a time prior to the time at which the Option would otherwise be fully exercisable, in which event the Participant shall receive shares of restricted stock (or be granted interests in restricted shares in a book entry system) on such terms and conditions as shall be determined by the Committee.

(f) *Termination of Employment or Service* . Except as provided in the Grant Instrument, or as otherwise may be determined by the Committee in its discretion, an Option may only be exercised while the Participant is employed by, or providing service to, the Company. The Committee shall specify in the Grant Instrument under what circumstances and during what time periods a Participant may exercise an Option.

(g) *Exercise of Options* . A Participant may exercise an Option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company or its designated agent. The Participant shall pay the Option Price and any withholding taxes for the Option:

(i) in cash,

(ii) with the approval of the Committee, by delivering shares of Stock owned by the Participant (including Stock acquired in connection with the exercise of an Option, subject to such restrictions as the Committee deems appropriate) and having a Fair Market Value on the date of exercise equal to the Option Price, or by attestation (on a form prescribed by the Committee) to ownership of shares of Stock having a Fair Market Value on the date of exercise equal to the Option Price,

(iii) in cash, provided the payment is made in accordance with procedures permitted by Regulation T of the Federal Reserve Board and such procedures do not violate applicable law, as determined by the Committee in its sole discretion, or

(iv) by such other method as the Committee may approve.

Shares of Stock used to exercise an Option shall have been held by the Participant for the requisite period of time to avoid adverse accounting consequences to the Company with respect to the Option. Payment for the shares pursuant to the Option, and any required withholding taxes, must be received by the time specified by the Committee depending on the type of payment being made.

(h) *Limits on Incentive Stock Options* . Each Incentive Stock Option shall provide that if the aggregate Fair Market Value on the Date of Grant with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year, under the Plan or any other stock option plan of the Company or a parent or subsidiary, exceeds $100,000, then the Option, as to the excess, shall be treated as a Nonqualified Stock Option. An Incentive Stock Option shall not be granted to any person who is not an employee of the Company or a parent or subsidiary, as defined in Code Section 424.

9. <u>Stock Units</u>

(a) *General Requirements.* The Committee may grant Stock Units to an Employee, Nonemployee Director or Key Advisor, upon such terms and conditions as the

Committee deems appropriate under this Section 9. Each Stock Unit shall represent the right of the Participant to receive a share of Stock or an amount based on the value of a share of Stock. All Stock Units shall be credited to accounts on the Company's records for purposes of the Plan.

(b) *Terms of Stock Units.* The Committee may grant Stock Units that are payable if specified performance goals or other conditions are met, or under other circumstances. Stock Units may be paid at the end of a specified period, or payment may be deferred to a date authorized by the Committee. The Committee shall determine the number of Stock Units to be granted and the requirements applicable to such Stock Units. The Committee may grant Dividend Equivalents with respect to Stock Units.

(c) *Payment With Respect to Stock Units.* Payment with respect to Stock Units shall be made in cash, in Stock, or in a combination of the two, as determined by the Committee.

(d) *Requirement of Employment, Service or Other Action.* If a Participant ceases to be employed by, or providing service to the Company, or if other conditions established by the Committee are not met, the Participant's unvested or contingent Stock Units shall be forfeited. The Committee may grant Stock Units contingent upon the Participant's taking certain specified actions as the Committee sees fit, including, but not limited to, deferral of compensation by the Participant. The Committee may provide for complete or partial exceptions to this requirement as it deems appropriate.

10. Performance Units

(a) *General Requirements.* The Committee may grant Performance Units to an Employee or Nonemployee Director, upon such terms and conditions as the Committee deems appropriate under this Section 10. Each Performance Unit shall represent the right of the Participant to receive a share of Stock or an amount based on the value of a share of Stock, if specified performance goals are met. All Performance Units shall be credited to accounts on the Company's records for purposes of the Plan.

(b) *Terms of Performance Units.* The Committee shall establish the performance goals and other conditions for payment of Performance Units. Performance Units may be paid at the end of a specified performance or other period, or payment may be deferred to a date authorized by the Committee. The Committee shall determine the number of Performance Units to be granted and the requirement applicable to such Performance Units. The Committee may grant Dividend Equivalents with respect to Performance Units.

(c) *Requirement of Employment or Service.* If a Participant ceases to be employed by, or providing service to the Company, or if other conditions established by the Committee are not met, the Participant's Performance Units shall be forfeited. The Committee may provide for complete or partial exceptions to this requirement as it deems appropriate.

11. Stock Awards

(a) *General Requirements*. The Committee may issue or transfer shares of Stock to an Employee or Nonemployee Director under a Stock Award, upon such terms and conditions as the Committee deems appropriate under this Section 11. Shares of Stock issued or transferred pursuant to Stock Awards may be issued or transferred for consideration or for no consideration (except as required by applicable law), and subject to restrictions or no restrictions, as determined by the Committee. The Committee may establish conditions under which restrictions on Stock Awards shall lapse over a period of time or according to such other criteria as the Committee deems appropriate, including restrictions based upon the achievement of specific performance goals.

(b) *Number of Shares*. The Committee shall determine the number of shares of Stock to be issued or transferred pursuant to a Stock Award and any restrictions applicable to such shares.

(c) *Requirement of Employment or Service*. If the Participant ceases to be employed by, or providing service to, the Company, or if other specified conditions are not met, the Stock Award shall terminate as to all shares covered by the Grant as to which the restrictions have not lapsed, and those shares of stock must be immediately returned to the Company. The Committee may provide for complete or partial exceptions to this requirement as it deems appropriate.

(d) *Restrictions on Transfer* . During the restriction period, a Participant may not sell, assign, transfer, pledge or otherwise dispose of the shares of a Stock Award except under death as described in Section 17. Each certificate for a share of a Stock Award shall contain a legend giving appropriate notice of the restrictions in the Grant. The Participant shall be entitled to have the legend removed from the stock certificate covering any shares as to which restrictions have lapsed. The Committee may determine that the Company will not issue certificates for Stock Awards until all restrictions on such shares have lapsed, or that the Company will retain possession of certificates for shares of Stock Awards until all restrictions on such shares have lapsed. Alternatively, the Participant’s rights in the Stock Award shall be appropriately reflected in a book entry system maintained by the Company, and a stock certificate shall be issuable at the end of the restriction period.

(e) *Right to Vote and to Receive Dividends* . The Committee shall determine to what extent, and under what conditions, the Participant shall have the right to vote shares of Stock Awards and to receive any dividends or other distributions paid on such shares, during the restriction period. The Committee may determine that a Participant’s entitlement to dividends or other distributions with respect to a Stock Award shall be subject to achievement of performance goals or other conditions.

12. Dividend Equivalents

The Committee may grant Dividend Equivalents in connection with Grants under the Plan, under such terms and conditions as the Committee deems appropriate under this Section

12. Dividend Equivalents may be paid to Participants currently or may be deferred. All Dividend Equivalents may be paid to Participants currently or may be deferred. All Dividend Equivalents that are not paid currently shall be credited to accounts on the Company's records for purposes of the Plan. Dividend Equivalents may be accrued as a cash obligation, or may be converted to Stock Units for the Participant. The Committee shall determine whether any deferred Dividend Equivalents will accrue interest. The Committee may provide that a Participant may use Dividend Equivalents to pay the Option Price. The Committee may also provide that Dividend Equivalents shall be payable based on the achievement of specific performance goals. Dividend Equivalents may be payable in cash or shares of Stock or in a combination of two, as determined by the Committee.

13. Other Stock-Based Grants

The Committee may grant other awards that are based on, measured by or payable in Stock to Employees or Nonemployee Directors, on such terms and conditions as the Committee deems appropriate under this Section 13. Other Stock-Based Awards may be granted subject to achievement of performance goals or other conditions and may be payable in Stock or cash, or in a combination of the two, as determined by the Committee. The Committee may grant Dividend Equivalents with respect to Other Stock-Based Awards.

14. Qualified Performance-Based Compensation

(a) *Designation as Qualified Performance-Based Compensation.* The Committee may determine that Stock Units, Performance Units, Stock Awards, Stock Appreciation Rights, Dividend Equivalents or Other Stock-Based Awards granted to an Employee shall be considered "qualified performance-based compensation" under Code Section 162(m). The provisions of this Section 14 shall apply to any such Grants that are to be considered "qualified performance-based compensation" under Code Section 162(m). To the extent that Grants under this Plan designated as "qualified performance-based compensation under Code Section 162(m) are made, no such Grant may be made as an alternative to another Grant that is not designated as qualified performance based compensation but instead must be separate and apart from all other Grants made.

(b) *Performance Goals.* When Grants that are to be considered "qualified performance-based compensation" are granted, the Committee shall establish in writing

(i) the objective performance goals that must be met,

(ii) the period during which performance will be measured,

(iii) the maximum amounts that may be paid if the performance goals are met, and

(iv) any other conditions that the Committee deems appropriate and consistent with the Plan and the requirements of Code Section 162 for "qualified performance-based compensation." The performance goals shall satisfy the requirements for "qualified performance-based compensation," including the requirement that the achievement of the goals be substantially uncertain at the time they are established and that the performance goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goals have been met. The Committee shall not have discretion to increase the amount of compensation that is payable upon achievement of the designated performance goals, but the Committee may reduce the amount of compensation that is payable upon achievement of the designated performance goals.

(c) *Criteria Used for Objective Performance Goals* . In setting the performance goals for Grants designated as "qualified performance-based compensation" pursuant to this Section 14, the Committee shall use objectively determinable performance goals based on one or more of the following objective criteria, either in absolute terms or in comparison to publicly available industry standards or indices: earnings, revenue, operating margins and statistics, operating or net cash flows, financial return and leverage ratios, total shareholder returns, market share, or strategic business criteria consisting of one or more penetration goals, geographic business expansion goals, cost targets, customer satisfaction goals, product development goals, goals relating to acquisitions or divestitures, or any other objective measure derived from any of the foregoing criteria. In addition, in setting the performance goals for Grants not designated as "qualified performance-based compensation" for purposes of Code Section 162(m), the Committee may use such other goals as are developed in the Company's operating plan for the Performance Period. The performance goals may relate to the Participant's business unit or the performance of the Company as a whole, or any combination of the foregoing. Performance goals need not be uniform as among Participants.

(d) *Timing of Establishment of Goals.* The Committee shall establish the performance goals in writing either before the beginning of the performance period or during a period ending no later than the earlier of (i) 90 days after the beginning of the performance period or (ii) the date on which 25% of the performance period has been completed, or such other date as may be required or permitted under applicable regulations under Code Section 162(m).

(e) *Announcement of Results* . The Committee shall certify and announce the results for the performance period to all Participants after the Company announces the Company's financial results for the performance period. If and to the extent that the Committee does not certify that the performance goals have been met, the applicable Grants for the performance period shall be forfeited or shall not be paid as applicable.

(f) *Death, Disability or Other Circumstances.* The Committee may provide that Grants shall be payable or restrictions shall lapse, in whole or in part, in the event of the Participant's death or disability during the Performance Period, a Change of Control or under other circumstances consistent with the Treasury regulations and rulings under Code Section 162(m).

15. Deferrals

The Committee may permit or require a Participant to defer receipt of the payment of cash or the delivery of shares that would otherwise be due to the Participant in connection with any Grant. If any such deferral election is permitted or required, the Committee shall establish rules and procedures for such deferrals as it shall determine in its sole discretion.

16. Withholding of Taxes

(a) *Required Withholding* . All Grants under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Company may require that the Participant or other person receiving or exercising Grants pay to the Company the amount of any federal, state or local taxes that the Company is required to withhold with respect to such Grants, or the Company may deduct from other wages paid by the Company the amount of any withholding taxes due with respect to such Grants.

(b) *Share Withholding* . At the Company's election, or if the Committee so permits, with respect to a Participant, the Company's tax withholding obligation with respect to Grants paid in Stock may be satisfied by having shares withheld, at the time such Grants become taxable, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities, provided, however, that at the Company's sole discretion, a Participant may be permitted to tender other shares of Stock to the Company to supplement such withholding, but only if such action is not in violation of applicable law and does not result in materially disadvantageous tax, accounting or financial results to the Company. If the Committee permits a Participant to elect share withholding, the Participant's election must be in a form and manner prescribed by the Committee and may be subject to the prior approval of the Committee.

17. Transferability of Options

The transferability of options granted under the Plan shall be governed by the following provisions:

(a) *Incentive Stock Options* . Unless otherwise specifically determined by the Committee, during the lifetime of the Participant, Incentive Stock Options shall be exercisable only by the Participant and shall not be assignable or transferable other than by will or the laws of inheritance following the Participant's death.

(b) *Nonqualified Stock Options — Limited Transferability* . Except for the specially transferable Nonqualified Stock Options described in subparagraph (c) below, or except as otherwise specifically determined by the Committee, Nonqualified Stock Options shall be subject to the same limitation on transfer as Incentive Stock Options, except that the Committee may structure one or more Nonqualified Stock Options so that the option may be assigned in whole or in part during the Participant's lifetime to one or more family members of the Participant or to a trust established exclusively for one or more such family members, to the extent such assignment is in connection with the Participant's estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Committee may deem appropriate.

(c) *Specially Transferable Nonqualified Stock Options* . The Committee may, in its sole discretion, structure one or more Nonqualified Stock Options, either at the time of the initial grant or through subsequent amendment, so that those options will be transferable to a third party for consideration payable in cash, securities or other property, subject to the following limitations: (i) each such option may be transferred only to the extent that option is at the time exercisable for vested shares, (ii) such option may only be transferred to a third party approved by the Committee, (iii) the period during which the option may in fact be transferable may be limited to one or more periods designated by the Committee, (iv) the Committee may structure the option so that restrictions upon subsequent transferability may become applicable following the initial transfer of that option to a third party, (v) the term of such option may be limited to a fixed period, whether or not the Participant continues in service, where such period varies in duration than the maximum term in effect for the option in the absence of such transfer, and (vi) the share reserve under the Plan shall be reduced immediately upon the transfer, whether or not the transferred option is in fact exercised. The Committee shall have complete discretion (subject to the express limitations of the Plan) to establish the remaining terms and provisions of each such specially transferable option, including appropriate anti-dilution provisions and reorganization/recapitalization adjustments, so as to facilitate the marketability of the option and conform such option to the typical terms and provisions in effect for similar securities traded in the open market.

Notwithstanding the foregoing, the Participant may designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Participant’s death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Participant’s death.

18. Consequences of a Change of Control

(a) *Notice and Acceleration.* Upon a Change of Control, unless the Committee determines otherwise, (i) the Company shall provide each Participant who holds outstanding Grants with written notice of the Change of Control, (ii) all outstanding Options shall automatically accelerate and become fully exercisable, (iii) the restrictions and conditions on all outstanding Stock Awards shall immediately lapse, (iv) all Stock Units and Performance Units shall become payable in cash or in stock in an amount not less than the Fair Market Value of the Stock or the Stock to which the units relate, as determined by the Committee, and (v) Dividend Equivalents and Other Stock-Based Awards shall become payable in full in cash or in stock, in amounts determined by the Committee.

(b) *Assumption of Grants.* Upon a Change of Control where the Company is not the surviving corporation (or survives only as a subsidiary of another corporation), unless the Committee determines otherwise, all outstanding Options and SARs that are not exercised shall be assumed by, or replaced with comparable options by, the surviving corporation (or a parent or subsidiary of the surviving corporation), and other Grants that remain outstanding shall be converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation).

(c) *Other Alternatives.* Notwithstanding the foregoing, subject to subsection (d) below, in the event of a Change of Control, the Committee may take any of the following actions with respect to any or all outstanding Grants, without the consent of any Participant: (i) the Committee may require that Participants surrender their outstanding Options in exchange for a payment by the Company, in cash or Stock as determined by the Committee, in an amount equal to the amount by which the then Fair Market Value subject to the Participant's unexercised Options exceeds the Option Price, if any, or (ii) after giving Participants an opportunity to exercise their outstanding Options, the Committee may terminate any or all unexercised Options, at such time as the Committee deems appropriate, and (iii) with respect to Participants holding Stock Units, Performance Units, Dividend Equivalents or Other Stock-Based Awards, the Committee may determine that such Participants shall receive a payment in settlement of such Stock Units, Performance Units, Dividend Equivalents or other Stock-Based Awards, in such amount and form as may be determined by the Committee; provided, that the payment amount shall deliver an equivalent value for such settled Award. Such surrender, termination or settlement shall take place as of the date of the Change of Control or such other date as the Committee may specify.

(d) *Committee* . The Committee making the determinations under this Section 18 following a change of control must be comprised of the same members as those members of the Committee immediately before the Change of Control. If the Committee members do not meet this requirement, the automatic provisions of subsections (a) and (b) shall apply, and the Committee shall not have discretion to vary them.

19. Other Transactions

The Committee may provide in a Grant Instrument that a sale or other transaction involving a Subsidiary or other business unit of the Company shall be considered a Change of Control for purposes of a Grant or the Committee may establish other positions that shall be applicable in the event of a specified transaction.

20. Requirements for Issuance or Transfer of Shares

No Stock shall be issued or transferred in connection with any Grant hereunder unless and until all legal requirements applicable to the issuance of such Stock have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any Grant made to any Participant hereunder on such Participant's undertaking in writing to comply with such restrictions on the Participant's subsequent disposition of such shares of Stock as the Committee shall deem necessary or advisable, and certificates representing such shares may be legended to reflect any such restrictions. Certificates representing shares of Stock issued or transferred under the Plan will be subject to such stop-transfer orders and other restrictions as may be required by applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon.

21. Amendment and Termination of the Plan

(a) *Amendment.* The Board may amend or terminate the Plan at any time; provided, however, that the Board shall not amend the Plan without approval of the shareholders of the Company if such approval is required in order to comply with the Code or applicable laws, or to comply with applicable stock exchange requirements. No amendment or termination of this Plan shall, without the consent of the Participant, impair any rights or obligations under any Grant previously made to the Participant, unless such right has been reserved in the Plan or the Grant Instrument, or except as provided in Section 23(b) below.

(b) *No Repricing Without Shareholder Approval* . Notwithstanding anything in the Plan to the contrary, the Committee may not reprice Options, nor may the Board amend the Plan to permit repricing of Options, unless the shareholders of the Company provide prior approval for such repricing. The term "repricing" shall have the meaning given that term in Section 303A(8) of the New York Stock Exchange Listed Company Manual, as in effect from time to time, or any other substantially equivalent successor rule.

(c) *Shareholder Approval for "Qualified Performance-Based Compensation* ." If Grants denominated as "qualified performance-based compensation" are awarded under Section 14 above, the Plan must be reapproved by the Company's shareholders no later than the first shareholders' meeting that occurs in the fifth year following the year in which the shareholders previously approved the provisions of Section 14, if additional Grants are to be made under Section 14 and if required by Section 162(m) of the Code or the regulations thereunder. Any such reapproval shall not affect outstanding grants made within the five-year period following the year in which the previous approval was obtained.

(d) *Termination of Plan* . The Plan shall terminate on the day immediately preceding the tenth anniversary of its effective date, unless the Plan is terminated earlier by the Board or is extended by the Board with the approval of the shareholders. The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant.

22. Effective Date of the Plan

The Plan shall be effective as of April 6, 2004, subject to approval by the shareholders of the Company.

23. Miscellaneous

(a) *Grants in Connection with Corporate Transactions and Otherwise* . Nothing contained in this Plan shall be construed to (i) limit the right of the Committee to make Grants under this Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become Employees, or for other proper corporate purposes, or (ii) limit the right of the Company to grant stock options or make other awards outside of this Plan. Without limiting the foregoing, the Committee may make a Grant to an employee of another corporation who becomes an Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a grant made by such corporation. The terms and conditions of the substitute Grants may vary from the terms and conditions required by the Plan and from those of the substituted stock incentives. The Committee shall prescribe the provisions of the substitute Grants.

(b) *Compliance with Law* . The Plan, the exercise of Options and the obligations of the Company to issue or transfer shares of Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency as may be required. With respect to persons subject to Section 16 of the Exchange Act, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3 or its successors under the Exchange Act. In addition, it is the intent of the Company that the Plan and applicable Grants comply with the applicable provisions of Code Section 162(m) and Code Section 422. To the extent that any legal requirement of Section 16 of the Exchange Act or Code Section 162(m) or 422 as set forth in the Plan ceases to be required under Section 16 of the Exchange Act or Code Section 162(m) or 422, that Plan provision shall cease to apply. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payments to Participants. The Committee may, in its sole discretion, agree to limit its authority under this Section.

(c) *Effect of Revisions to Accounting Standards or Applicable Law* . In the event of revisions to accounting standards applicable to the Company or to applicable law, which revisions are viewed by the Committee as resulting in a material detriment to the Company, the Committee shall have the discretion to modify any Grant, Grant Instrument or related right or document issued under this Plan but only to the extent such modification does not result in a material detriment to the Participant.

(d) *Enforceability.* The Plan shall be binding upon and enforceable against the Company and its successors and assigns.

(e) *Funding the Plan* . This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under this Plant.

(f) *Rights of Participants* . Nothing in this Plan shall entitle any Employee, Nonemployee Director or other person to any claim or right to receive a Grant under this Plan. Neither this Plan nor any action taken hereunder shall be construed as giving any individual any rights to be retained by or in the employment or service of the Company.

(g) *No Fractional Shares* . No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Grant. The Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise limited.

(h) *Employees Subject to Taxation Outside the United States* . With respect to Participants who are subject to taxation in countries other than the United States, the Committee may make Grants on such terms and conditions as the Committee deems appropriate to comply with the laws of the applicable countries, and the Committee may create such produces addendum and subplans and make such modifications as may be necessary or advisable to comply with such laws.

(i) *Governing Law* . The validity, construction, interpretation and effect of the Plan and Grant Instruments issued under the Plan shall be governed and construed by and determined in accordance with the laws of the Commonwealth of Pennsylvania without giving effect to the conflict of laws provisions thereof.

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[i] Adopted by the Board of Directors on April 6, 2004. Approved by the shareholders on June 11, 2004.

Exhibit 10.2

EXHIBIT A

FIRST AMENDMENT TO

SAFEGUARD SCIENTIFICS, INC.

1999 EQUITY COMPENSATION PLAN

Effective as of July 28, 2004, the Safeguard Scientifics, Inc. 1999 Equity Compensation Plan is amended as set forth herein.

1. Section 12 of the Plan entitled “Loan Provisions” is hereby deleted in its entirety.

Amended by the Board of Directors on July 28, 2004.

/s/ Christopher J. Davis
Christopher J. Davis
Executive Vice President and Chief Administrative
and Financial Officer

Dated: July 28, 2004

EXHIBIT A

SECOND AMENDMENT TO

SAFEGUARD SCIENTIFICS, INC.

2001 ASSOCIATES EQUITY COMPENSATION PLAN

Effective as of July 28, 2004, the Safeguard Scientifics, Inc. 2001 Associates Equity Compensation Plan is amended as set forth herein.

1. Section 12 of the Plan entitled “Loan Provisions” is hereby deleted in its entirety.

Amended by the Board of Directors on July 28, 2004.

/s/ Christopher J. Davis
Christopher J. Davis
Executive Vice President and Chief Administrative
and Financial Officer

Dated: July 28, 2004

Exhibit 31

CERTIFICATION

I, Anthony L. Craig, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Safeguard Scientifics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

SAFEGUARD SCIENTIFICS, INC.

Date: August 6, 2004

ANTHONY L. CRAIG

Anthony L. Craig
Chief Executive Officer

CERTIFICATION

I, Christopher J. Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Safeguard Scientifics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

SAFEGUARD SCIENTIFICS, INC.

Date: August 6, 2004

CHRISTOPHER J. DAVIS

Christopher J. Davis
Chief Financial Officer

Exhibit 32

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Safeguard Scientifics, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Anthony L. Craig, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, (15 U.S.C. 78m(a)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

SAFEGUARD SCIENTIFICS, INC.

Date: August 6, 2004

ANTHONY L. CRAIG

ANTHONY L. CRAIG
Chief Executive Officer

In connection with the Quarterly Report of Safeguard Scientifics, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Christopher J. Davis, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, (15 U.S.C. 78m(a)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

SAFEGUARD SCIENTIFICS, INC.

Date: August 6, 2004

CHRISTOPHER J. DAVIS

Christopher J. Davis
Executive Vice President and Chief Administrative and Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Safeguard Scientifics, Inc. and will be retained by Safeguard Scientifics, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.