

SAFEGUARD SCIENTIFICS INC

FORM 8-K (Current report filing)

Filed 10/05/04 for the Period Ending 10/01/04

Address	435 DEVON PARK DR BLDG 800 WAYNE, PA 19087
Telephone	6102930600
CIK	0000086115
Symbol	SFE
SIC Code	6799 - Investors, Not Elsewhere Classified
Industry	Misc. Financial Services
Sector	Financial
Fiscal Year	12/31

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported)

October 1, 2004

Safeguard Scientifics, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania

(State or Other Jurisdiction of Incorporation)

1-5620

23-1609753

(Commission File Number)

(IRS Employer Identification No.)

800 The Safeguard Building
435 Devon Park Drive
Wayne, PA

19087

(Address of Principal Executive Offices)

(Zip Code)

610-293-0600

(Registrant's Telephone Number, Including Area Code)

Not applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

TABLE OF CONTENTS

ITEM 1.01. Entry into a Material Definitive Agreement.

ITEM 2.01. Completion of Acquisition or Disposition of Assets.

ITEM 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

ITEM 2.04. Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement.

ITEM 9.01. Financial Statements and Exhibits

SIGNATURES

Exhibit Index

LETTER OF CREDIT ISSUED TO W.P. CAREY

PRESS RELEASE OF SAFEGUARD, INC. DATED OCTOBER 1, 2004

COPY OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

ITEM 1.01 . Entry into a Material Definitive Agreement.

The disclosure set forth under Item 2.03 of this Current Report on Form 8-K is incorporated by reference herein.

ITEM 2.01 . Completion of Acquisition or Disposition of Assets.

Pursuant to the Agreement and Plan of Merger, dated as of May 27, 2004 (the “Merger Agreement”), among CompuCom Systems, Inc. (“CompuCom”), CHR Holding Corporation (“Parent”) and CHR Merger Corporation (“Merger Subsidiary”), on October 1, 2004, Merger Subsidiary was merged into CompuCom, each outstanding share of CompuCom’s common stock was converted into the right to receive \$4.60 in cash, without interest, and each outstanding share of CompuCom’s series B convertible preferred stock was converted into the right to receive \$10.00 per share in cash (\$15 million in the aggregate), plus accrued and unpaid dividends, without interest. Upon consummation of the CompuCom merger, CompuCom became a wholly owned subsidiary of Parent, which in turn is an affiliate of Platinum Equity, LLC (“Platinum”). Safeguard is not affiliated with Platinum or any of Platinum’s affiliates.

In connection with the CompuCom merger, on October 1, 2004, Safeguard disposed of its equity interest in CompuCom, consisting of 24,540,881 shares of CompuCom common stock and 1,500,000 shares of CompuCom preferred stock. Safeguard received approximately \$128 million in gross cash proceeds for its common and preferred CompuCom shares. In addition to these proceeds, Safeguard will receive approximately \$2 million from Warren V. Musser as a result of the disposition by Mr. Musser in the CompuCom Merger of 443,283 shares of CompuCom common stock held by him which were pledged to Safeguard as collateral for a loan Safeguard made in 2001 to Mr. Musser.

We attached as exhibits to our Current Report on Form 8-K filed May 28, 2004, the Merger Agreement and the Principal Stockholder Agreement, dated as of May 27, 2004, among Safeguard Scientifics, Inc., CHR Holding Corporation and CHR Merger Corporation. The description of the transaction is qualified in its entirety by reference to these documents.

ITEM 2.03 . Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

In connection with the consummation of the CompuCom merger, Safeguard has provided to the landlord under CompuCom’s Dallas headquarters lease, Comp Delaware, L.P., a subsidiary of W.P. Carey, a letter of credit, which will expire on March 19, 2019, in an amount equal to \$6,336,198. CompuCom will reimburse Safeguard for all fees and expenses incurred, which may not exceed 1.5% of the aggregate principal amount of the Safeguard letter of credit per annum, in order to obtain and maintain this letter of credit.

ITEM 2.04 . Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement.

In connection with the consummation of the CompuCom merger:

Table of Contents

- (a) within 10 business days of October 1, 2004, Safeguard will utilize approximately \$17.4 million of the proceeds received by Safeguard to escrow interest payments through March 15, 2009, on Safeguard's 2.625% convertible senior debentures with a stated maturity of 2024 pursuant to the terms of the 2024 debentures; and
- (b) within 12 months of October 1, 2004, Safeguard will utilize approximately \$54.8 million of the proceeds received by Safeguard to retire Safeguard's 5% convertible subordinated notes due 2006 pursuant to the terms of the 2024 debentures.

ITEM 9.01. **Financial Statements and Exhibits**

- (a) Financial Statements of Businesses Acquired.

None.

- (b) Pro Forma Financial Information.

Safeguard incorporates herein by reference "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, NOTE 18. PROPOSED SALE OF COMPUCOM" contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed on August 6, 2004.

- (c) Exhibits

10.1 Letter of Credit issued to W.P. Carey

99.1 Press Release of Safeguard Scientifics, Inc. dated October 1, 2004.

99.2 Copy of "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, NOTE 18. PROPOSED SALE OF COMPUCOM" contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed on August 6, 2004.

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 hereunto duly authorized.

Safeguard Scientifics, Inc.

Dated: October 4, 2004

By: /s/ CHRISTOPHER J. DAVIS
Christopher J. Davis
Executive Vice President and
Chief Administrative & Financial Officer

Table of Contents

Exhibit Index

- 10.1 Letter of Credit issued to W.P. Carey
- 99.1 Press Release of Safeguard Scientifics, Inc. dated October 1, 2004.
- 99.2 Copy of “NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, NOTE 18. PROPOSED SALE OF COMPUCOM” contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, filed on August 6, 2004.

COMERICA

Letter of Credit Division

TELEX NO.: 3774155	COMERICA BANK
FAX NO.: 415-896-2982	INTERNATIONAL TRADE SERVICES
SWIFT: MNBDUS6S	201 SPEAR ST., SUITE 200
	SAN FRANCISCO, CA 94105

LETTER OF CREDIT**IRREVOCABLE LETTER OF CREDIT**

Comp Delaware LP
c/o W. P. Carey & Co.
50 Rockefeller Plaza, 2nd Floor
New York, NY 10020
Attn: Director, Asset Management

Ladies and Gentlemen:

At the request and on the instructions of our customer, Safeguard Delaware, Inc. (the "Applicant"), we hereby establish in your favor this Irrevocable Letter of Credit No. 595705-41 (the "Letter of Credit") in the maximum available amount of \$6,336,198.00 (Six Million Three Hundred Thirty-Six Thousand One Hundred Ninety Eight and 00/100 U.S. Dollars) (the "Maximum Amount"). This Letter of Credit is effective immediately and shall have a minimum term of one year from the date hereof (the "Initial Term"). This Letter of Credit shall expire on September 30, 2005, unless automatically extended pursuant to the following sentence. This Letter of Credit shall be automatically extended for an additional period of one (1) year from the present, or any future expiration date, but not beyond March 19, 2019 (the "Expiration Date"), unless we send you written notice at the above address by certified mail, return receipt requested, or nationally recognized overnight courier at least thirty (30) days prior to the then applicable expiration date that the Letter of Credit will not be extended by us. Notwithstanding any extension provided for above, this Letter of Credit will not be extended beyond March 19, 2019, and shall expire on, the Expiration Date. At least thirty (30) days prior to the Expiration Date, we will send you written notice at the above address by certified mail, return receipt requested, or nationally recognized overnight courier of the expiration of this Letter of Credit.

Funds under this Letter of Credit will be made available to you against receipt by us of (1) a sight draft in the form of Annex A attached hereto and (2) your drawing certificate in the form of Annex B attached hereto, in each case appropriately completed and purportedly signed by one of your authorized officers.

Presentation of any such sight draft and drawing certificate shall be made at our office located at 201 Spear Street, Suite 200, San Francisco, CA 94105, Attention: International Trade Services, telecopy number (415) 896-2982, during our banking hours of 8:00 a.m. Pacific Standard Time to 3:00 p.m. Pacific Standard Time.

If a sight draft and drawing certificate are presented hereunder by sight as permitted hereunder by 11:00 a.m., Pacific Standard Time, and provided that such sight draft and drawing certificate conform to the terms and conditions of this Letter of Credit, payment shall be made to

COMERICA

Letter of Credit Division

you, or to your designee, of the amount specified, in immediately available funds, not later than 3:00 p.m., Pacific Standard Time, on the next business day. If a sight draft and a drawing certificate are presented by you hereunder after the time specified above, and provided that such sight draft and drawing certificate conform to the terms and conditions of this Letter of Credit, payment shall be made to you, or to your designee, of the amount specified, in immediately available funds, not later than 3:00 p.m., Pacific Standard Time, on the second business day. If a demand for payment made by you hereunder does not, in any instance, conform to the terms and conditions of this Letter of Credit, we shall send you notice within one business day that the demand for payment was not effected in accordance with the terms and conditions of this Letter of Credit, stating the reasons therefor and that we will upon your instructions hold any documents at your disposal or return the same to you. Upon being notified that the demand for payment was not effected in conformity with this Letter of Credit, you may attempt to correct any such non-conforming demand for payment to the extent that you are entitled to do so and within the validity of this Letter of Credit

Partial drawings are allowed under this Letter of Credit. Any drawing under this Letter of Credit will be paid from our general funds and not from funds or collateral deposited with or for our account by the Applicant, or pledged with or for our account by the Applicant.

This Letter of Credit is transferable and notwithstanding Article 48 of the Uniform Customs (as defined below), this Letter of Credit may be successively transferred. Transfer of this Letter of Credit to a transferee shall be effected only upon the presentation to us of the original of this Letter of Credit accompanied by a certificate in the form of Annex C. Upon such presentation we shall transfer the same to your transferee or, if so requested by your transferee, issue a letter of credit to your transferee with provisions consistent with, and substantially the same as, this Letter of Credit. Our transfer charges, if any, are for the account of Applicant.

Upon our honoring any presentation made under this Letter of Credit, the amount available under this Letter of Credit shall be reduced by an amount equal to the amount paid in respect to such presentation. In no case shall the amount paid under this Letter of Credit exceed, in the aggregate, the Maximum Amount.

This Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 (the "Uniform Customs"), which is incorporated into the text of this Letter of Credit by this reference. This Letter of Credit shall be deemed to be issued under the laws of the State of New York and shall be governed by and construed in accordance with the laws of the State of New York with respect to matters not governed by the Uniform Customs and matters on which the Uniform Customs and the laws of the State of New York are inconsistent.

Very truly yours,

COMERICA BANK

By: /s/ Danita D. Cherry

Name: DANITA D. CHERRY

Title: VICE PRESIDENT

COMERICA

Letter of Credit Division

ANNEX A

SIGHT DRAFT

[Date]

At Sight

Pay to the order of [BENEFICIARY] the sum of _____ and ____/100 Dollars (\$ _____
_) drawn on Comerica Bank, as issuer of its Irrevocable Letter of Credit No. 595705-41 dated October 1, 2004.

[BENEFICIARY]

By:

Name:

Title:

COMERICA

Letter of Credit Division

ANNEX B

DRAWING CERTIFICATE

[Date]

Comerica Bank
201 Spear Street, Suite 200
San Francisco, CA 94105
Attention: International Trade Services

Re: Irrevocable Letter of Credit No. 595705-41 (the "Letter of Credit") For the Account of Safeguard Delaware, Inc. (the "Applicant")

Ladies and Gentlemen:

The undersigned, _____ (the "Beneficiary") hereby certifies that:

1. The Beneficiary is entitled to draw the Letter of Credit by reason of the following condition (mark only one):

_____ An Event of Default, as defined in under the Lease Agreement dated March 31, 1999 by and between CompuCom Systems, Inc., as tenant, and Comp Delaware LP, as landlord, for the property located at 7171 Forest Lane, Dallas TX, as amended by that certain First Amendment to Lease Agreement dated May 27, 2004 (the "Lease") has occurred and is continuing.

_____ We have received notice that the Letter of Credit will not be renewed for an additional one-year term.

2. Please direct payment under the Letter of Credit by wire transfer to:

[Depository Bank]
[Depository Bank Address]
ABA No. _____
Acct. No. _____

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Certificate.

[BENEFICIARY]

By: _____
Name: _____
Title: _____

cc: Safeguard Delaware, Inc. c/o Safeguard Scientifics, Inc., ATTN: Chief Financial Officer,
800 The Safeguard Building, 435 Devon Park Drive, Wayne, PA 19087
[TENANT — at Tenant's notice address in Lease]

COMERICA

Letter of Credit Division

ANNEX C

NOTICE OF TRANSFER

[Date]

Comerica Bank
201 Spear Street, Suite 200
San Francisco, CA 94105
Attention: International Trade Services

Re: Irrevocable Letter of Credit No. 595705-41 (the "Letter of Credit") For the Account of Safeguard Delaware, Inc. (the "Applicant")

Ladies and Gentlemen:

You are hereby directed to transfer and endorse the Letter of Credit to _____ (the "Transferee") or to issue in accordance with the terms of the Letter of Credit, a new letter of credit to the Transferee having the same terms as the Letter of Credit.

We submit herewith for endorsement or cancellation the original of the Letter of Credit.

Very truly yours,

[BENEFICIARY]

By: _____

Name: _____

Title: _____



CONTACT:

Janine Dusossoit
Vice President, Investor Relations
Safeguard Scientifics, Inc.
(610) 293-0600

FOR IMMEDIATE RELEASE

**SAFEGUARD SCIENTIFICS COMPLETES SALE OF
INTEREST IN COMPUCOM SYSTEMS, INC.**

Wayne, PA, October 1, 2004 – Safeguard Scientifics, Inc. (NYSE: SFE), a leading developer of companies in the information technology and life sciences sectors, announced today that it has completed the sale of its 51% interest in CompuCom Systems, Inc. (NASDAQ: CMPC) to an affiliate of Platinum Equity, LLC. The proposed sale of CompuCom to Platinum Equity was announced May 28, 2004, and was approved by shareholders of Safeguard and CompuCom on September 9, 2004.

Anthony L. Craig, President and Chief Executive Officer of Safeguard, said, “Completion of this transaction is a milestone event in executing our newly refined strategy. The proceeds from this transaction strengthen our balance sheet and give Safeguard further flexibility to fund the growth of our companies and to acquire additional companies in the information technology and life sciences sectors.”

As previously disclosed, Safeguard’s gross cash proceeds of approximately \$128 million will be used as described below. Within 10 business days of the closing, Safeguard will utilize approximately \$17.4 million of the proceeds to escrow interest payments through March 15,

800 The Safeguard Building • 435 Devon Park Drive • Wayne, PA 19087-1945
Phone (610) 293-0600 • Fax (610) 293-0601 • Toll Free (877) 506-7371
<http://www.safeguard.com>

2009, on Safeguard's 2.625% convertible senior debentures with a stated maturity of 2024, pursuant to the terms of the 2024 debentures. Within 12 months of the closing, Safeguard will utilize approximately \$54.8 million of the proceeds to retire Safeguard's 5% convertible subordinated notes due 2006, pursuant to the terms of the 2024 debentures. The remaining cash, approximately \$55.8 million, will be used to fund future growth initiatives and for general corporate purposes including the payment of expenses related to this transaction.

Safeguard will make available additional information regarding the transaction when it announces its third quarter results on or about October 28, 2004.

About Safeguard

Safeguard Scientifics, Inc. (NYSE: SFE) is a committed strategic growth partner for companies in the time-to-volume stage of development. Focused primarily on the information technology and life sciences sectors, Safeguard acquires controlling interests in companies and provides them a wide range of operating and managerial expertise to drive their successful growth to become market leaders. For more information about Safeguard and its strategy, visit www.safeguard.com.

###

800 The Safeguard Building • 435 Devon Park Drive • Wayne, PA 19087-1945
Phone (610) 293-0600 • Fax (610) 293-0601 • Toll Free (877) 506-7371
<http://www.safeguard.com>

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

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

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
	<hr/>
	\$ (23.3)
	<hr/>

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.

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

Unaudited Pro Forma Condensed Consolidated Balance Sheet
June 30, 2004

	<u>As Reported</u> <u>June 30, 2004</u>	<u>Deconsolidate</u> <u>CompuCom ⁽¹⁾</u>	<u>Proposed</u> <u>Transaction</u>	<u>Pro Forma</u> <u>June 30, 2004</u>
(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

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

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.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
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.