

SAFEGUARD SCIENTIFICS INC

FORM 8-K (Current report filing)

Filed 12/17/10 for the Period Ending 12/16/10

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| 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 |

**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): December 16, 2010

Safeguard Scientifics, Inc .

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction
of incorporation)

1-5620

(Commission File Number)

23-1609753

(IRS Employer Identification
No.)

**435 Devon Park Drive,
Building 800, Wayne, PA**

(Address of principal executive offices)

19087

(Zip Code)

Registrant's telephone number, including area code: **610-293-0600**

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:

- 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))
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Item 2.01 Completion of Acquisition or Disposition of Assets .

On December 16, 2010, General Electric Company, a New York corporation (“Parent”), through its indirect wholly owned subsidiary, Crane Merger Sub, Inc., a Delaware corporation (“Merger Sub”) concluded its previously announced cash tender offer to acquire the issued and outstanding shares of stock of Clariant, Inc. (“Clariant”) (the “Offer”). The Offer was made pursuant to an Agreement and Plan of Merger dated as of October 22, 2010, among Parent, Merger Sub and Clariant (“Merger Agreement”). The Company, through its wholly owned subsidiary, Safeguard Delaware, Inc. (hereinafter collectively referred to as “Safeguard”) tendered its 30,158,127 shares of Clariant common stock in the Offer and in exchange will receive, in the aggregate, approximately \$150.8 million.

Under the terms of the Merger Agreement, Merger Sub will now be merged with and into Clariant (the “Merger”), with Clariant surviving the Merger as a wholly owned indirect subsidiary of Parent. In connection with the Merger, the outstanding warrants held by Safeguard to purchase an additional 729,167 common shares at various prices will be converted into the right to receive the excess of the \$5 per common share Offer price over the exercise price per share of such warrants. Safeguard anticipates receiving additional proceeds of approximately \$2.6 million as a result the Merger.

On December 17, 2010, the Company issued a press release, a copy of which is filed as Exhibit 99.1 to this Current Report on Form 8-K, concerning the completion of th Offer.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

In connection with the consummation of the Offer (as defined above), the Compensation Committee of the Company’s Board of Directors granted bonuses in the amounts set forth below to certain of the Company’s Named Executive Officers and to certain other employees of the Company in recognition of their work and efforts on behalf of the Company relating to Clariant over the course of the Company’s ownership of its interests in Clariant. The payment of the bonuses is contingent on the actual receipt by the Company of the proceeds resulting from the Offer as described above. It is presently contemplated that those proceeds will be received, and the bonuses will be paid, by December 31, 2010. The bonuses payable to the Company’s Named Executive Officers are as follows: Peter Boni, President and Chief Executive Officer - \$175,000; James Datin, Executive Vice President and Managing Director- Life Sciences - \$175,000; Brian Sisko, Senior Vice President and General Counsel - \$125,000; and Stephen Zarrilli, Senior Vice President and Chief Financial Officer - \$125,000.

Item 9.01 Financial Statements and Exhibits .

(b) Pro Forma Financial Information

The unaudited pro forma financial information required by this Item 9.01(b) is filed as Exhibit 99.2 to this Current Report on Form 8-K.

(d) Exhibits

- 99.1 Press Release dated December 17, 2010
 - 99.2 Unaudited pro forma financial information
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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 hereunto duly authorized.

Safeguard Scientifics, Inc.

Dated: December 17, 2010

By: /s/ BRIAN J. SSKO

Brian J. Sisko

Senior Vice President and General Counsel

Exhibit Index

- 99.1 Press Release dated December 17, 2010
- 99.2 Unaudited pro forma financial information

Safeguard Scientifics Realizes \$144 Million in Net Proceeds from Completion of Tender Offer for Clariant by GE Healthcare

Sale of Diagnostic Services Provider Represents 3x Return;

Proceeds Strengthen Balance Sheet and Substantially Increase Cash Balance

WAYNE, Pa.--(BUSINESS WIRE)--December 17, 2010--Safeguard Scientifics, Inc. (NYSE: SFE), a holding company that builds value in growth-stage life sciences and technology companies, today announced that its net proceeds from the successful completion of GE Healthcare's public tender offer for all outstanding shares of partner company Clariant, Inc. (Nasdaq: CLRT) will be approximately \$144 million. The taxable gain on the transaction will be offset by tax loss carry forwards. The net proceeds represent a 3x cash-on-cash return on Safeguard's remaining cost basis in its holdings in Clariant. Proceeds from the Clariant transaction substantially increase Safeguard's cash balance from \$55.2 million at September 30, 2010. Upon completion of the final merger stage of the transaction, Safeguard will receive additional proceeds of \$2.6 million related to Clariant warrants it holds.

As previously disclosed on October 22, GE Healthcare announced a definitive agreement to acquire Clariant via a public tender offer for all outstanding common and preferred shares of Clariant at a price of \$5.00 per common share and \$20.00 per preferred share, valuing Clariant at \$587 million. The transaction represented a 35.9% premium to Clariant's stock price of \$3.68 per share at close of business on October 19 and a 5.8x multiple of the last twelve months sales as of June 30, 2010. Safeguard owned approximately 26% of Clariant outstanding shares on a fully-diluted, as-converted basis.

"Today, Safeguard is stronger, leaner and better positioned to execute our strategic game plan than at any time over the last five years," said Peter J. Boni, President and CEO of Safeguard Scientifics. "As a result of the Clariant transaction, Safeguard has substantial cash on our balance sheet which improves our debt-to-equity ratio to 1-to-3. We plan to use that cash to redeploy capital into new, high-growth, high-value opportunities, our current partner companies, as well as other opportunities to expand the Safeguard platform and drive value for our shareholders. As a result of our momentum, Safeguard continues to be regarded as an innovator in the development of life sciences and technology businesses, a catalyst for value creation and a preferred source of capital for entrepreneurs."

Clariant was founded in 1996 to develop and manufacture digital microscopes to analyze tissue and blood samples, aiding in the diagnoses of diseases and medical conditions. Beginning in late 2004, under the leadership of new CEO Ron Andrews and with direction from Safeguard's current management team, Clariant changed its focus from equipment sales to cancer diagnostic services. By 2010, the repositioning resulted in a tenfold increase in Clariant revenues and a \$476 million increase – or 5x – in market capitalization, based on the acquisition price.

"Clariant's growth over the past five years illustrates the power of Safeguard's platform to provide capital as well as strategic and operational support to its partner companies. This philosophy is the foundation from which we create and build value for both our partner companies and our shareholders," said James A. Datin, EVP and Managing Director of the Life Sciences Group at Safeguard, and Chairman of the Board at Clariant.

Throughout Clariant's transformation, Safeguard worked actively to support Clariant's growth with initial and follow-on rounds of equity capital, mezzanine debt facilities, line of credit guarantees, executive management recruitment, sales and marketing expansion, facilities project management, strategic communications and partnerships.

In addition, Safeguard facilitated a private placement of \$40 million in Clariant convertible preferred stock by Oak Investment Partners in early 2009. The transaction allowed Clariant to retire all of its outstanding debt except for receivable financing, reduce annual interest expense and fees, add working capital to drive growth, and propel the company toward net income. The effect of the private placement, combined with a subsequent public sale of a portion of Safeguard's holdings in Clariant for net proceeds of \$61.3 million, reduced Safeguard's stake in Clariant to approximately 28% of outstanding shares on an as-converted basis, down from 60% at year-end 2008. "Partnering with the Safeguard team helped Clariant accelerate its growth, maintain a clear strategic vision and operating focus, and ultimately realize the value we created together," concluded Ron Andrews, CEO and Vice Chairman of Clariant.

About Safeguard Scientifics

Founded in 1953 and based in Wayne, PA, Safeguard Scientifics, Inc. (NYSE: SFE) provides growth capital for entrepreneurial and innovative life sciences and technology companies. Safeguard targets life sciences companies in Molecular and Point-of-Care Diagnostics, Medical Devices, Regenerative Medicine and Specialty Pharmaceuticals, and technology companies in Internet / New Media, Financial Services IT and Healthcare IT with capital requirements of up to \$25 million. Safeguard participates in expansion financings, corporate spin-outs, management buyouts, recapitalizations, industry consolidations and early-stage financings. For more information, please visit our website at www.safeguard.com, our blog at blog.safeguard.com or you can follow us on Twitter @Safeguard.

Forward-looking Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to risks and uncertainties. The risks and uncertainties that could cause actual results to differ materially, include, among others, managing rapidly changing technologies, limited access to capital, competition, the ability to attract and retain qualified employees, the ability to execute our strategy, the uncertainty of the future performance of our companies, acquisitions and dispositions of companies, the inability to manage growth, compliance with government regulations and legal liabilities, additional financing requirements, the effect of economic conditions in the business sectors in which our companies operate, and other uncertainties described in the Company's filings with the Securities and Exchange Commission. Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. The Company does not assume any obligation to update any forward-looking statements or other information contained in this news release.

CONTACT:

Safeguard Scientifics, Inc.

John E. Shave, 610-975-4952

Vice President, Business Development and Corporate Communications

Pro Forma Financial Information

On December 17, 2010, Safeguard Scientifics, Inc. (“Safeguard” or the “Company”) tendered its 30,158,127 shares of Clariant Inc. common stock in a cash tender offer for a purchase price of \$5.00 per share in cash. Upon completion of the merger of Clariant with and into the acquiring company, Safeguard will receive additional proceeds of \$2.6 million related to Clariant warrants it holds. The tender and subsequent merger are herein collectively referred to as “the Transaction.” The unaudited pro forma consolidated statements of operations give effect to the Transaction as if it had been consummated on January 1, 2009. The unaudited pro forma consolidated balance sheet gives effect to the Transaction as if it had been consummated on September 30, 2010.

The Company’s historical consolidated financial statements included the accounts of Clariant through May 14, 2009, the date of its deconsolidation. The Company recognized an unrealized gain on deconsolidation of \$106.0 million. The Company elected to apply the fair value option to account for its retained interest in Clariant. Unrealized gains and losses on the mark-to-market of its holdings in Clariant and realized gains and losses on the sale of any of its holdings in Clariant were recognized in other income (loss), net in the consolidated statements of operations for all periods subsequent to the date that Clariant was deconsolidated. In August 2009, the Company sold a portion of its holdings in Clariant (the “August 2009 Sale”) and recognized a net loss of \$7.3 million based on the net proceeds received compared to the fair value at the end of the previous quarter.

In order to provide a more meaningful presentation of how the Company’s historical financial statements might have been impacted by the disposition of its Clariant holdings, the unaudited pro forma financial information presented herein gives effect to both the Transaction and the August 2009 Sale. The unaudited pro forma consolidated statement of operations for the year ended December 31, 2009 eliminates the results of operations of Clariant from January 1, 2009 through its deconsolidation date, eliminates the gain on deconsolidation, eliminates the loss on sale and eliminates the net gain on the mark-to-market of Clariant since all of these items are non-recurring and relate to the Company’s holdings in Clariant, the sale of which requires the presentation of the pro forma financial statements.

The unaudited pro forma financial information described above should be read in conjunction with the historical consolidated financial statements of the Company and the related notes thereto. The unaudited pro forma financial statements are not necessarily indicative of the financial position or results of operations that may have actually occurred had the Transaction taken place on the dates noted, or the future financial position or operating results of the Company.

Safeguard Scientifics, Inc.
Unaudited Pro Forma Consolidated Balance Sheet
September 30, 2010

| | <u>As Reported</u> | <u>Adjustments for Disposition of Clariant (1)</u> | <u>Pro Forma</u> |
|--|--------------------------------------|--|-------------------|
| | (In thousands except per share data) | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 28,806 | \$ 146,489 (2) | \$ 175,295 |
| Cash held in escrow | 6,434 | - | 6,434 |
| Marketable securities | 26,394 | - | 26,394 |
| Restricted cash equivalents | 4,893 | - | 4,893 |
| Prepaid expenses and other current assets | 667 | - | 667 |
| Total current assets | <u>67,194</u> | <u>146,489</u> | <u>213,683</u> |
| Property and equipment, net | 282 | - | 282 |
| Ownership interests in and advances to partner companies | 181,597 | (103,532) (3) | 78,065 |
| Available-for-sales securities | 20,870 | - | 20,870 |
| Long-term restricted cash equivalents | 11,881 | - | 11,881 |
| Other | 777 | - | 777 |
| Total Assets | <u>\$ 282,601</u> | <u>\$ 42,957</u> | <u>\$ 325,558</u> |
| Current Liabilities: | | | |
| Convertible senior debentures - current | \$ 31,289 | \$ - | \$ 31,289 |
| Accounts payable | 204 | - | 204 |
| Accrued compensation and benefits | 3,077 | - | 3,077 |
| Accrued expenses and other current liabilities | 2,684 | - | 2,684 |
| Total current liabilities | <u>37,254</u> | <u>-</u> | <u>37,254</u> |
| Other long-term liabilities | 5,183 | - | 5,183 |
| Convertible senior debentures - non-current | 44,486 | - | 44,486 |
| Commitments and contingencies | | | |
| Equity: | | | |
| Preferred stock, \$0.10 par value; 1,000 shares authorized | - | - | - |
| Common stock, \$0.10 par value; 83,333 shares authorized; 20,593 and 20,420 shares issued and outstanding in 2010 and 2009, respectively | 2,059 | - | 2,059 |
| Additional paid-in capital | 805,550 | - | 805,550 |
| Accumulated deficit | (620,170) | 42,957 (4) | (577,213) |
| Accumulated other comprehensive income | 8,239 | - | 8,239 |
| Total equity | <u>195,678</u> | <u>42,957</u> | <u>238,635</u> |
| Total Liabilities and Equity | <u>\$ 282,601</u> | <u>\$ 42,957</u> | <u>\$ 325,558</u> |

Notes to Unaudited Pro Forma Consolidated Balance Sheet (in thousands except per share data):

(1) The unaudited pro forma consolidated balance sheet gives effect to the transaction assuming the sale of Clariant shares occurred on September 30, 2010.

(2) Net proceeds to the Company from the sale of Clariant were calculated as follows:

| | |
|--|-------------------|
| Proceeds from sale of 30,158 shares at \$5.00 per share | \$ 150,791 |
| Proceeds from intrinsic value of warrants to acquire Clariant stock at various strike prices | 2,598 |
| Transaction costs, including payment of retention bonuses to Clariant officers | (6,900) |
| | <u>\$ 146,489</u> |

(3) Represents the fair value of the Company's interest in Clariant as of September 30, 2010.

(4) Reflects the non-recurring net gain on sale, calculated as the excess of the estimated net proceeds of \$146,489 over the fair value of the Company's interest in Clariant as of September 30, 2010 of \$103,532.



Safeguard Scientifics, Inc.
Unaudited Pro Forma Consolidated Statement of Operations
For the Nine Months Ended September 30, 2010

| | As Reported | Adjustments for Disposition of Clariant (1) | Pro Forma |
|--|---|--|------------------|
| | (In thousands except per share data) | | |
| Revenue | \$ - | \$ - | \$ - |
| Operating Expenses: | | | |
| Cost of sales | - | - | - |
| Selling, general & administrative | 13,999 | - | 13,999 |
| Total operating expenses | 13,999 | - | 13,999 |
| Operating loss | (13,999) | - | (13,999) |
| Other income (loss), net | 11,255 | (22,394) (3) | (11,139) |
| Interest income | 516 | - | 516 |
| Interest expense | (4,061) | - | (4,061) |
| Equity loss | (11,965) | - | (11,965) |
| Net loss from continuing operations before income taxes | (18,254) | (22,394) | (40,648) |
| Income tax (expense) benefit | - | - | - |
| Net loss from continuing operations | \$ (18,254) | \$ (22,394) | \$ (40,648) |
| Net loss from continuing operations attributable to Safeguard Scientifics, Inc. | \$ (18,254) | \$ (22,394) | \$ (40,648) |
| Basic and diluted net loss per share attributable to Safeguard Scientifics, Inc. common shareholders | \$ (0.89) | | \$ (1.98) |
| Average shares used in computing basic and diluted net loss per share | 20,502 | | 20,502 |

Safeguard Scientifics, Inc.
Unaudited Pro Forma Consolidated Statement of Operations
For the Year Ended December 31, 2009

| | As Reported | Adjustments for Disposition of Clariant (1) | Pro Forma |
|--|---|--|------------------|
| | (In thousands except per share data) | | |
| Revenue | \$ 34,839 | \$ (34,839) (2) | \$ - |
| Operating Expenses: | | | |
| Cost of sales | 13,811 | (13,811) (2) | - |
| Selling, general & administrative | 37,214 | (19,407) (2) | 17,807 |
| Total operating expenses | 51,025 | (33,218) | 17,807 |
| Operating loss | (16,186) | (1,621) | (17,807) |
| Other income (loss), net | 108,881 | (118,155) (3)(4)(5) | (9,274) |
| Interest income | 480 | (4) (2) | 476 |
| Interest expense | (3,164) | 275 (2) | (2,889) |
| Equity loss | (23,227) | - | (23,227) |
| Net income (loss) from continuing operations before income taxes | 66,784 | (119,505) | (52,721) |
| Income tax benefit | 14 | - | 14 |
| Net income (loss) from continuing operations | \$ 66,798 | \$ (119,505) | \$ (52,707) |
| Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. | \$ 66,240 | \$ (119,505) | \$ (53,265) |
| Basic net income (loss) per share attributable to Safeguard Scientifics, Inc. common shareholders | \$ 3.26 | | \$ (2.62) |
| Diluted net income (loss) per share attributable to Safeguard Scientifics, Inc. common shareholders | \$ 3.08 | | \$ (2.62) |
| Average shares used in computing net income (loss) per share: | | | |
| Basic | 20,308 | | 20,308 |
| Diluted | 22,383 | | 20,308 |

Notes to Unaudited Pro Forma Consolidated Statements of Operations (in thousands except per share data):

- (1) The unaudited pro forma consolidated statements of operations give effect to the transaction assuming the sale of Clariant shares occurred on January 1, 2009.
- (2) Reflects the elimination of the operations of Clariant which were consolidated through May 14, 2009.
- (3) Reflects the elimination of the unrealized net gain on the mark-to-market of Safeguard Scientifics' interest in Clariant, which was accounted for under the Fair Value Method subsequent to its deconsolidation on May 14, 2009.
- (4) Reflects the elimination of the \$105,991 unrealized gain on the deconsolidation of Clariant.
- (5) Reflects the elimination of the \$7,338 loss on the sale of 18,400 shares of Clariant during 2009.