SAFEGUARD SCIENTIFICS INC

FORM 10-Q
(Quarterly Report)

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Address	435 DEVON PARK DR BLDG 800 WAYNE, PA 19087
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Industry	Misc. Financial Services
Sector	Financial
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 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 Rule 12b-2 of the Exchange Act).

Yes ☑ No ☐

Number of shares outstanding as of November 2, 2004
Common Stock 119,816,882

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

	September 30, 2004	December 31, 2003
	(in thousands except per share data) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 149,660	$ 136,715
Restricted cash	605	1,069
Short-term investments	15,476	7,081
Accounts receivable, less allowances ($1,140 - 2004; $1,016 – 2003)	30,867	33,363
Prepaid expenses and other current assets	7,468	7,278
Current assets of discontinued operations	297,866	333,150
Total current assets	501,942	518,656
Property and equipment, net	17,521	14,873
Ownership interests in and advances to companies	35,537	53,119
Available-for-sale securities	6,471	—
Intangible assets, net	7,856	10,017
Goodwill	91,819	90,763
Note receivable — related party	6,981	11,946
Other	12,548	7,884
Non-current assets of discontinued operations	87,256	129,228
Total Assets	$ 767,931	$ 836,486
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Convertible subordinated notes	$ 54,763	$ —
Current maturities of other long-term debt	4,221	11,530
Accounts payable	5,671	3,836
Accrued compensation and benefits	13,242	14,470
Accrued expenses	15,737	14,850
Deferred revenue	8,842	9,607
Current liabilities of discontinued operations	138,439	186,166
Total current liabilities	240,915	240,459
Long-term debt	12,127	2,537
Minority interest	21,247	14,557
Other long-term liabilities	12,651	13,152
Convertible subordinated notes	—	200,000
Convertible senior debentures	150,000	—
Non-current liabilities of discontinued operations	120,771	129,610
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; 119,817 and 119,450 shares issued and outstanding in 2004 and 2003	11,982	11,945
Additional paid-in capital	741,792	736,704
Accumulated deficit	(546,416)	(510,198)
Accumulated other comprehensive income (loss)	6,257	(39)
Treasury stock, at cost (53 shares-2003)	—	(191)
Unamortized deferred compensation	(3,395)	(2,050)
Total shareholders' equity	210,220	236,171
Total Liabilities and Shareholders' Equity	$ 767,931	$ 836,486

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands except per share data) (unaudited)			
Revenue				
Product sales	$ 1,697	$ 4,773	$ 5,776	$ 12,739
Service sales	33,266	38,308	108,073	112,228
Total revenue	34,963	43,081	113,849	124,967
Operating Expenses				
Cost of sales-product	588	822	2,070	5,786
Cost of sales-service	24,664	23,552	72,798	69,304
Selling and service	11,713	13,248	39,029	41,712
General and administrative	13,274	12,247	40,792	43,712
Amortization of intangibles	1,089	1,801	3,781	5,388
Total operating expenses	51,328	51,670	158,470	165,902
Operating loss	(16,365)	(8,589)	(44,621)	(40,935)
Other income (loss), net	(921)	31,205	39,556	48,277
Impairment – related party	—	—	—	(659)
Interest income	582	605	1,556	1,838
Interest and financing expense	(2,208)	(3,082)	(7,886)	(9,180)
Income (loss) from continuing operations before income taxes, minority interest and equity loss	(18,912)	20,139	(11,395)	(659)
Income tax benefit (expense)	72	(163)	(57)	(285)
Minority interest	2,543	604	5,885	4,906
Equity loss	(2,772)	(3,613)	(9,073)	(9,772)
Net income (loss) from continuing operations	(19,069)	16,967	(14,640)	(5,810)
Discontinued operations, net of income taxes	(54)	1,275	(21,578)	5,363
Net Income (Loss)	$ (19,123)	$ 18,242	$ (36,218)	$ (447)
Basic Income (Loss) Per Share:				
Income (loss) from continuing operations	$ (0.16)	$ 0.14	$ (0.12)	$ (0.05)
Income (loss) from discontinued operations	—	0.01	(0.18)	0.05
Net income (loss)	$ (0.16)	$ 0.15	$ (0.30)	$ —
Diluted Income (Loss) Per Share:				
Income (loss) from continuing operations	$ (0.16)	$ 0.14	$ (0.12)	$ (0.05)
Income (loss) from discontinued operations	—	0.01	(0.18)	0.03
Net income (loss)	$ (0.16)	$ 0.15	$ (0.30)	$ (0.02)
Shares used in computing basic income (loss) per share	119,572	118,580	119,464	118,365
Shares used in computing diluted income (loss) per share	119,572	120,622	119,464	118,365

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2004	2003
	(in thousands) (unaudited)	
Net cash used by operating activities of continuing operations	$ (33,214)	$ (37,699)
Cash flows from investing activities of continuing operations		
Proceeds from sales of available-for-sale and trading securities	14,784	38,981
Proceeds from sales of and distributions from companies and funds	39,085	38,666
Advances to companies	(1,015)	(139)
Repayment of advances to companies and funds	400	753
Acquisitions of ownership interests in companies, funds and subsidiaries, net of cash acquired	(5,564)	(14,327)
Repayments of advances to related party	4,965	1,668
Increase in restricted cash and short-term investments	(19,581)	(13,073)
Decrease in restricted cash and short-term investments	11,650	20,585
Capital expenditures	(8,652)	(4,970)
Capitalized software costs	(4,300)	(926)
Other, net	(432)	8
Net cash provided by investing activities of continuing operations	31,340	67,226
Cash flows from financing activities of continuing operations		
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 subordinated notes	(913)	—
Borrowings on revolving credit facilities	50,463	80,927
Repayments on revolving credit facilities	(46,974)	(78,296)
Borrowings on term debt	1,628	3,390
Repayments on term debt	(1,647)	(1,614)
Issuance of Company common stock	1,281	235
Issuance of subsidiary common stock	13,731	31
Offering costs on issuance of subsidiary common stock	(1,589)	(31)
Repurchase of subsidiary preferred stock	(206)	—
Net cash provided by financing activities of continuing operations	15,725	4,642
Net Cash provided by continuing operations	13,851	34,169
Net Cash used for discontinued operations	(906)	—
Net Increase in Cash and Cash Equivalents	12,945	34,169
Cash and Cash Equivalents at beginning of period	136,715	126,740
Cash and Cash Equivalents at end of period	$ 149,660	$160,909

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 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 included elsewhere in this Form 10-Q and included together with the Company's Consolidated Financial Statements and Notes thereto included in the Company's 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"). 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 third quarter ended on October 2, 2004 and September 27, 2003, each a period of 13 weeks. The 2004 year-to-date period is 40 weeks versus 39 weeks in 2003.

CompuCom Systems, Inc., previously a majority-owned subsidiary, is accounted for as a discontinued operation (see Note 4). Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of this business have been segregated from those of continuing operations for all periods presented.

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

For the three months ended September 30,

2004	2003
ChromaVision Medical Systems	ChromaVision Medical Systems
Mantas	Mantas
Pacific Title and Art Studio	Pacific Title and Art Studio
	SOTAS (merged with Mantas in October 2003)
	Tangram Enterprise Solutions

For the nine months ended September 30,

2004	2003
ChromaVision Medical Systems	Agari Mediaware (Through June 2003)
Mantas	ChromaVision Medical Systems
Pacific Title and Art Studio	Mantas
Tangram Enterprise Solutions [(1)]	Pacific Title and Art Studio
	Protura Wireless (Through June 2003)
	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 (Loss), Net on the Consolidated Statements of Operations for the nine months ended September 30, 2004.

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

The Company's Consolidated Balance Sheets also include the following majority-owned subsidiaries at September 30, 2004 and December 31, 2003:

September 30, 2004	December 31, 2003
ChromaVision Medical Systems	ChromaVision Medical Systems
Mantas	Mantas
Pacific Title and Art Studio	Pacific Title and Art Studio
	Tangram Enterprise Solutions

3. RECLASSIFICATIONS

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

4. DISCONTINUED OPERATIONS

During the third quarter of 2004, the Company's shareholders approved the sale of the Company's interest in CompuCom Systems, Inc. The Company met the criteria of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", as of September 30, 2004. Accordingly, CompuCom's net assets have been classified as held for sale and their results of operation and cash flows are presented as a discontinued operation as of September 30, 2004 and for the three and nine months then ended. All prior periods presented have been reclassified to conform to this presentation. See Note 20 for a discussion of the sale of CompuCom, which closed on October 1, 2004.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company completes an impairment review of goodwill annually, or more frequently if events or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

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

	Alliance	ChromaVision	Mantas	Pacific Title	Other Companies	Total
Balance at December 31, 2003	$53,307	$13,891	$22,150	$—	$ 1,415	$90,763
Additions	—	4,664	—	97	—	4,761
Purchase Price Adjustments	—	—	(2,290)	—	—	(2,290)
Deconsolidation	—	—	—	—	(1,415)	(1,415)
Balance at September 30, 2004	$53,307	$18,555	$19,860	$97	$ —	$91,819

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

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:

		September 30, 2004		
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Net
			(in thousands) (unaudited)	
Customer-related	7 years	$ 3,633	$ 934	$2,699
Technology-related	4 - 10 years	11,420	6,263	5,157
Total		$15,053	$7,197	$7,856

		December 31, 2003		
	Amortization Period	Gross Carrying Value	Accumulated Amortization	Net
			(in thousands)	
Customer-related	7 years	$ 3,633	$ 543	$ 3,090
Technology-related	4 - 17 years	11,547	4,620	6,927
Total		$15,180	$5,163	$10,017

Amortization expense related to intangible assets was $0.8 million and $2.4 million for the three and nine months ended September 30, 2004, respectively and $0.7 million and $2.0 million for the three and nine months ended September 30, 2003, respectively. The following table provides estimated future amortization expense related to intangible assets:

	Total
	(in thousands) (unaudited)
Remainder of 2004	$ 817
2005	3,272
2006	1,686
2007	711
2008 and thereafter	1,370
	$7,856

6. NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (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 measurement and recognition guidance is delayed until the final issuance of FSP EITF 03-01-a. The disclosure requirements are effective 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.

In September 2004, the FASB Task Force reached a consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share." The Task Force ruled that all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer's share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the market conditions have been met. The effective date of the consensus has not been determined and will coincide with the effective date of the proposed Statement that revises SFAS 128. The Company has outstanding convertible debt as discussed in Note 9, which could be considered dilutive in periods in which the Company reports net income.

7. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources. Excluding net income (loss), the Company's sources of comprehensive income (loss) 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 income (loss) of unrealized gains or losses that were included in comprehensive income (loss) in prior periods.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)			
Net Income (Loss) from Continuing Operations	$(19,069)	$ 16,967	$(14,640)	$ (5,810)
Other Comprehensive Income (Loss), Before Taxes:				
Foreign currency translation adjustments	(52)	50	(175)	(89)
Unrealized holding gains (losses) in available-for-sale securities	(7,993)	922	6,471	12,909
Reclassification adjustments	—	(12,735)	—	(16,789)
Related Tax (Expense) Benefit:				
Unrealized holding gains in available-for-sale securities	—	—	—	(61)
Reclassification adjustments	—	—	—	1,419
Other Comprehensive Income (Loss) from continuing operations	(8,045)	(11,763)	6,296	(2,611)
Comprehensive Income (Loss) from continuing operations	(27,114)	5,204	(8,344)	(8,421)
Income (Loss) from discontinued operations	(54)	1,275	(21,578)	5,363
Comprehensive Income (Loss)	$(27,168)	$ 6,479	$(29,922)	$ (3,058)

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

The components of accumulated other comprehensive income (loss) are as follows:

	September 30, 2004	December 31, 2003
	(in thousands) (unaudited)	
Net unrealized holding gains	$6,471	$ —
Cumulative foreign currency translation adjustment	(214)	(39)
	$6,257	$(39)

8. 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 September 30, 2004 and December 31, 2003.

	September 30, 2004	December 31, 2003
	(in thousands) (unaudited)	
Equity Method		
Public Companies	$ —	$ 9,354
Non-Public Companies	291	934
Private Equity Funds	23,792	27,279
	24,083	37,567
Cost Method		
Non-Public Companies	9,418	12,618
Private Equity Funds	2,036	2,934
	$35,537	$53,119

During the three months ended June 30, 2004, eMerge was reclassified to the cost method of accounting because the Company's ownership level decreased as did the Company's ability to exercise significant influence over eMerge. The Company accounts for its investment in eMerge as an available-for-sale security under SFAS 115, as eMerge's common stock is publicly traded.

9. DEBT

In September 2004, the Company increased its revolving credit facility that provides for borrowings and issuances of letters of credit and guarantees from $25 million to $55 million. The amended agreement provides the Company with a $45 million revolving line and a $10 million letter of credit facility. 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 (4.75% at September 30, 2004) for outstanding borrowings. The credit facility is subject to an unused commitment fee of 0.0125%, 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 security interest in accounts held by the Company at the bank equal to any amounts outstanding under the facility. As of September 30, 2004, the Company had outstanding guarantees related to three strategic companies' credit facilities, which allowed for total borrowings of up to $28 million ($8 million was outstanding as of September 30, 2004). As of September 30, 2004, there was $27 million available to the Company under the Company's credit facility.

Four consolidated companies maintain separate revolving credit facilities which provide for aggregate borrowings of $30 million, of which $28 million is guaranteed by the Company under its credit facility. One of the revolving credit facilities totaling $20 million matures in February 2006, the $5 million facility matures in March 2005 and the $3 million facility matures in February 2005. A $2 million facility expired in September 2004. As of September 30, 2004, outstanding

borrowings under these facilities were $8.4 million. These obligations bear interest at variable rates ranging between the prime rate minus 0.5% and the prime rate plus 1.25%.

Debt as of September 30, 2004 also included mortgage obligations ($3.4 million), term loans ($2.4 million), and capital lease obligations ($2.1 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): $ 0.7 – 2004; $ 4.2 – 2005; $ 8.2 – 2006; and $ 3.2 – 2007.

10. 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 convertible into the Company's common stock subject to adjustment under certain conditions at the conversion rate of $24.1135 of principal amount per share at September 30, 2004. As of September 30, 2004, the Company has repurchased $145.2 million of face value of the 2006 Notes for $146.1 million, including transaction costs. The Company recorded $1.4 million of expense for the nine months ended September 30, 2004, which is included in Other Income, Net on the Consolidated Statements of Operations, in relation to the acceleration of deferred debt costs associated with the 2006 Notes. As of September 30, 2004, the outstanding balance of the 2006 Notes is $54.8 million. On October 12, 2004, the Company gave notice that on November 12, 2004, it will redeem the remaining $54.8 million of its outstanding 5% convertible subordinated notes due 2006. See Note 20.

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, 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 face 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 September 30, 2004 was $7.2174 of principal amount per share.

As required by the terms of the 2024 Notes, after completing the sale of CompuCom, the Company escrowed $16.7 million on October 8, 2004 for interest payments through March 15, 2009 on the 2024 Notes. See Note 20.

11. 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. 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.

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

Stock Options

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.

Option activity is summarized below:

	Shares	Weighted Average Exercise Price
	(In thousands)	
Outstanding at December 31, 2003	10,319	$ 8.10
Options granted	205	2.23
Options exercised	(365)	3.50
Options canceled/forfeited	(1,213)	16.54
Outstanding at September 30, 2004	8,946	$ 7.01
Shares available for future grant	9,580	

The following summarizes information about the Company's stock options outstanding at September 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	1,281	6.0	$ 1.37	637	$ 1.36
1.89 - 2.62	1,611	5.5	2.14	684	2.13
3.36 - 4.79	1,786	5.8	3.74	901	3.89
5.28 - 7.68	1,839	4.2	5.34	1,763	5.34
8.83 - 12.35	1,945	2.2	11.82	1,945	11.82
13.29 - 30.47	243	3.2	27.01	243	27.01
45.47 - 50.98	241	3.3	47.52	241	47.52
$ 1.25 - 50.98	8,946		$ 7.01	6,414	$ 8.77

Total compensation expense for restricted stock issuances was approximately $0.1 million and $0.4 million for the three and nine months ended September 30, 2004 and $0.5 million and $1.6 million for the three and nine months ended September 30, 2003, respectively. Unamortized compensation expense related to restricted stock issuances at September 30, 2004 is $0.5 million.

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. Total compensation expense for deferred stock

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units was $0.7 million and $2.0 million for the three and nine months ended September 30, 2004, respectively, and $0.3 million and $0.5 million for the three and nine months ended September 30, 2003, respectively. Unamortized compensation expense related to deferred stock units at September 30, 2004 is $2.0 million.

Total unamortized deferred compensation related to stock awards by subsidiaries was $0.9 million at September 30, 2004.

Pro Forma Disclosures

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". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002 and, as such have been incorporated below.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2004	2003	2004	2003
		(in thousands, except per share data)			
Consolidated net income (loss) from continuing operations	As Reported	$(19,069)	$16,967	$(14,640)	$ (5,810)
Deduct: Total stock based employee compensation expense from continuing operations determined under fair value based method for all awards, net of related tax effects		(1,093)	(1,392)	(3,914)	(6,910)
Consolidated net income (loss) from continuing operations	Pro forma	(20,162)	15,575	(18,554)	(12,720)
Income (loss) from discontinued operations	As Reported	(54)	1,275	(21,578)	5,363
Deduct: Total stock based employee compensation expense from discontinued operations determined under fair value based method for all awards, net of related tax effects		—	(208)	(277)	(749)
	Pro forma	$(20,216)	$16,642	$(40,409)	$ (8,106)
Income (Loss) Per Share					
Basic from continuing operations	As Reported	$ (0.16)	$ 0.14	$ (0.12)	$ (0.05)
Basic from discontinued operations	As Reported	$ —	$ 0.01	$ (0.18)	$ 0.05
		$ (0.16)	$ 0.15	$ (0.30)	$ —
Basic from continuing operations	Pro forma	$ (0.17)	$ 0.13	$ (0.16)	$ (0.11)
Basic from discontinued operations	Pro forma	$ —	$ 0.01	$ (0.18)	$ 0.04
		$ (0.17)	$ 0.14	$ (0.34)	$ (0.07)
Diluted from continuing operations	As Reported	$ (0.16)	$ 0.14	$ (0.12)	$ (0.05)
Diluted from discontinued operations	As Reported	$ —	$ 0.01	$ (0.18)	$ 0.03
		$ (0.16)	$ 0.15	$ (0.30)	$ (0.02)
Diluted from continuing operations	Pro forma	$ (0.17)	$ 0.13	$ (0.16)	$ (0.11)
Diluted from discontinued operations	Pro forma	$ —	$ 0.01	$ (0.18)	$ 0.03

	$ (0.17)	$ 0.14	$ (0.34)	$ (0.08)
Per share weighted average fair value of stock options issued on date of grant	$ 1.46	$ N/A	$ 1.65	$ 1.04

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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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 nine months ended September 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	Nine Months Ended	
	September 30,	September 30,	
	2004	2004	2003
Company			
Dividend yield	0%	0%	0%
Expected volatility	95%	95%	95%
Average expected option life	5 years	5 years	5 years
Risk-free interest rate	3.5%	3.5%	2.5%

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Subsidiaries and Equity Method Companies				
Dividend yield	0%	0%	0%	0%
Expected volatility	70%	70% to 287%	70% to 109%	0% to 287%
Average expected option life	5 years	3 to 5 years	4 to 5 years	3 to 8 years
Risk-free interest rate	3.9%	1.9% to 3.4%	2.5% to 3.9%	1.9% to 3.7%

No stock options were granted by the Company during the three months ended September 30, 2003.

12. OTHER INCOME (LOSS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Gain on sale of companies and funds, net	$ 70	$32,359	$44,486	$49,447
Gain (loss) on trading securities	—	(509)	(396)	301
Impairment charges	(1,700)	(1,351)	(3,197)	(1,840)
Other	709	706	(1,337)	369
	$ (921)	$31,205	$39,556	$48,277

Gain on sale of companies and funds for the three months ended September 30, 2003 of $32.4 million includes $17.3 million related to the sale of Kanbay and $12.7 million related to the third quarter sales of our Internet Capital Group shares. Total net cash proceeds for gains on sale of companies and funds was $0.2 million and $39.8 million for the three months ended September 30, 2004 and 2003, respectively.

Gain on sale of companies and funds for the nine months ended September 30, 2004 of $44.5 million includes a gain of $31.7 million related to the sale of our interest in Sanchez for cash and shares of Fidelity National Financial in the second quarter of 2004. During the first quarter of 2004, we recorded a gain of $8.5 million related to our sale of Tangram for shares of Opsware. Also included in gain on sale of companies and funds in 2004 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. Total net cash proceeds for gains on sales of companies and funds was $37.5 million and $69.6 million for the nine months ended September 30, 2004 and 2003, respectively.

Gain on sale of companies and funds for the nine months ended September 30, 2003 of $49.5 million includes $5.9 million relating to the sale of DocuCorp, $19.2 million relating to the sales of all of our shares of Internet Capital Group, and $17.3 million relating to the sale of Kanbay. Also included is 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 company.

Gain (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 nine months ended September 30, 2004 was $14.8 million. Gain (loss) on trading securities in 2003 primarily reflects the adjustment to fair value of our holdings in VerticalNet, 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.

13. INCOME TAXES

The Company’s consolidated income tax expense from continuing operations recorded for the nine months ended September 30, 2004 was $0.1 million, net of a decrease in the valuation allowance of $16.5 million for the nine months ended September 30, 2004.

At September 30, 2004, the Company and its subsidiaries consolidated for tax purposes had federal net operating loss carryforwards of approximately $195 million and federal capital loss carryforwards of approximately $140 million. The net operating loss carryforwards expire in various amounts from 2004 to 2024. The capital loss carryforwards expire in various amounts from 2006 to 2008. Limitations on utilization of both the net operating loss and capital loss carryforwards may apply.

SAFEGUARD SCIENTIFICS, INC.
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14. NET INCOME (LOSS) PER SHARE

The calculations of net income (loss) per share were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands except per share data) (unaudited)			
Basic:				
Net income (loss) from continuing operations	$ (19,069)	$ 16,967	$ (14,640)	$ (5,810)
Net income (loss) from discontinued operations	(54)	1,275	(21,578)	5,363
Net Income (Loss)	$ (19,123)	$ 18,242	$ (36,218)	$ (447)
Average common shares outstanding	119,572	118,580	119,464	118,365
Income (loss) from continuing operations	$ (0.16)	$ 0.14	$ (0.12)	$ (0.05)
Income (loss) from discontinued operations	—	0.01	(0.18)	0.05
Net income (loss) per share	$ (0.16)	$ 0.15	$ (0.30)	$ —
Diluted:				
Net income (loss) from continuing operations	$ (19,069)	$ 16,967	$ (14,640)	$ (5,810)
Effect of public holdings	—	—	—	(1)
Adjusted net income (loss) from continuing operations	$ (19,069)	$ 16,967	$ (14,640)	$ (5,811)
Average common shares outstanding	119,572	120,622	119,464	118,365
Diluted income (loss) per share from continuing operations	$ (0.16)	$ 0.14	$ (0.12)	$ (0.05)
Net income (loss)	$ (19,123)	$ 18,242	$ (36,218)	$ (447)
Effect of public holdings	(408)	(438)	—	(1,584)
Adjusted net income (loss)	$ (19,531)	$ 17,804	$ (36,218)	$ (2,031)
Average common shares outstanding	119,572	120,622	119,464	118,365
Diluted income (loss) per share	$ (0.16)	$ 0.15	$ (0.30)	$ (0.02)

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

The following dilutive securities were not included in the computation of dilutive net loss per share as their effect would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands)			
Stock Options	375	—	1,221	691
Restricted Stock and Deferred Stock Units	83	—	285	495
Non Vested Restricted Stock	175	696	218	942
Convertible Subordinated Notes	2,271	8,294	4,205	8,294
Convertible Senior Debentures	1,083	—	893	—

15. 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 $60.0 million at September 30, 2004 and $64.0 million at December 31, 2003.

As discussed in Note 20, CompuCom's net assets have been classified as held for sale and their results of operations and cash flows are presented as a discontinued operation as of September 30, 2004. All prior periods have been reclassified to conform to this presentation.

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

Parent Company Balance Sheets

	September 30, 2004	December 31, 2003
	(in thousands) (unaudited)	
Assets		
Cash and cash equivalents	$127,432	$122,965
Restricted cash	555	1,019
Short-term investments	15,476	7,081
Other current assets	25,275	23,967
Asset held-for-sale	125,912	146,602
Total current assets	294,650	301,634
Ownership interests in and advances to companies	86,706	102,534
Goodwill	53,307	53,307
Other	23,806	20,111
Total Assets	$458,469	$477,586
Liabilities and Shareholders' Equity		
Convertible subordinated notes	$ 54,763	$ —
Current maturities of other long term debt	504	8,491
Other current liabilities	20,892	20,113
Total current liabilities	76,159	28,604
Long-term debt	9,892	281
Other long-term liabilities	12,198	12,530
Convertible subordinated notes	—	200,000
Convertible senior debentures	150,000	—
Shareholders' equity	210,220	236,171
Total Liabilities and Shareholders' Equity	$458,469	$477,586

Parent Company Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$ 21,776	$22,319	$ 69,073	$ 67,725
Operating expenses:				
Cost of sales	15,218	15,116	47,694	46,199
Selling	3,131	2,960	10,393	9,716
General and administrative	10,251	8,328	28,594	31,296
Amortization of intangibles	771	641	2,392	2,159
Total operating expenses	29,371	27,045	89,073	89,370
Operating Income (Loss)	(7,595)	(4,726)	(20,000)	(21,645)
Other income (loss), net	(521)	31,205	39,556	48,277
Impairment – related party	—	—	—	(659)
Interest, net	(1,500)	(2,134)	(5,954)	(6,479)
Income (loss) from continuing operations before income taxes and equity loss	(9,616)	24,345	13,602	19,494

Income taxes	—	1	—	—
Equity loss	(9,453)	(7,379)	(28,242)	(25,304)
Net income (loss) from continuing operations	(19,069)	16,967	(14,640)	(5,810)
Equity income (loss) attributable to discontinued operations	(54)	1,275	(21,578)	5,363
Net income (loss)	$(19,123)	$18,242	$(36,218)	$ (447)

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

Parent Company Statements of Cash Flows

	Nine Months Ended September 30,	
	2004	2003
	(in thousands) (unaudited)	
Net cash used by operating activities of continuing operations	$ (20,724)	$ (22,375)
Cash flows from investing activities of continuing operations		
Proceeds from sales of available-for-sale and trading securities	14,784	38,981
Proceeds from sales of and distributions from companies and funds	39,085	38,666
Advances to companies	(1,015)	(139)
Repayment of advances to companies	400	1,403
Acquisitions of ownership interests in companies, funds and subsidiaries, net of cash acquired	(26,055)	(27,892)
Capital expenditures	(804)	(500)
Repayments of advances to related party	4,965	1,668
Increase in restricted cash and short-term investments	(24,082)	(13,073)
Decrease in restricted cash and short-term investments	16,150	20,585
Other, net	769	8
Net cash provided by investing activities of continuing operations	24,197	59,707
Cash flows from financing activities of continuing operations		
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	45,995	74,379
Repayments on revolving credit facilities	(43,967)	(73,216)
Repayments on term debt	(404)	(964)
Issuance of Company common stock, net	1,281	235
Issuance of subsidiary common stock, net	163	—
Repurchase of subsidiary preferred stock, net	(206)	—
Net cash provided by financing activities of continuing operations	1,900	434
Net cash provided by continuing operations	5,373	37,766
Net cash used for discontinued operations	(906)	—
Net Increase in Cash and Cash Equivalents	4,467	37,766
Cash and Cash Equivalents at beginning of period	122,965	112,714
Cash and Cash Equivalents at end of period	$ 127,432	$150,480

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

16. OPERATING SEGMENTS

The Company previously reported the following operating segments: i) CompuCom, ii) Strategic Companies, iii) Non-Strategic Companies. As a result of the sale of the Company's interest in CompuCom, which accounted for approximately 90% of consolidated revenues in the last three years, the Company re-evaluated its operating segments in accordance with FAS 131, "Disclosures About Segments of an Enterprise and Related Information."

The Company now presents each of its four consolidated companies as separate segments – Alliance, ChromaVision, Mantas and Pacific Title. The results of operations of the Company's other Companies, in which the Company has less than a majority interest, as well as the Company's ownership in funds, will be reported in the "Other Companies" segment.

All prior periods have been reclassified to reflect the expanded segments presentation.

Management evaluates segment performance based on segment revenue, operating income (loss) and income (loss) before income taxes, which reflects the portion of income (loss) allocated to minority shareholders.

Other Items includes certain corporate expenses, which are not identifiable to the operations of the Company's operating business segments. Other Items primarily consists of general and administrative expenses related to employee compensation, insurance and professional fees including legal, finance and consulting. Other Items also includes interest income, interest expense and income taxes, which are reviewed by management independent of segment results.

The following tables reflect the Company's consolidated operating data by reportable segments. Each segment includes the results of the consolidated companies and records the Company's 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 in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its subsidiaries and between the Company's subsidiaries.

Segment assets included in Other Items include primarily cash and cash equivalents of $126.8 million and $122.6 million at September 30, 2004 and December 31, 2003, respectively.

Revenue is attributed to geographic areas based on where the services are performed or the customer's shipped to location. A majority of the Company's revenue is generated in the United States.

As of September 30, 2004 and December 31, 2003, the Company's assets were primarily located in the United States.

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The following represents the segment data from continuing operations:

	For the Three Months Ended September 30, 2004							
	(in thousands) (unaudited)							
	Alliance	ChromaVision	Mantas	Pacific Title	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenues	$21,749	$ 2,564	$ 5,988	$ 4,635	$ —	$ 34,936	$ 27	$ 34,963
Operating loss	$ (1,314)	$ (5,700)	$ (2,817)	$ (1,311)	$ —	$ (11,142)	$ (5,223)	$ (16,365)
Net loss	$ (1,393)	$ (3,374)	$ (2,865)	$ (1,098)	$ (4,000)	$ (12,730)	$ (6,339)	$ (19,069)
Segment Assets								
September 30, 2004	$78,501	$46,386	$37,836	$17,547	$35,537	$215,807	$167,002	$382,809
December 31, 2003	$78,851	$28,271	$41,280	$15,845	$61,010	$225,257	$148,851	$374,108

	For the Three Months Ended September 30, 2003							
	(in thousands) (unaudited)							
	Alliance	ChromaVision	Mantas	Pacific Title	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenues	$21,744	$ 3,079	$ 7,155	$7,796	$ 3,237	$43,011	$ 70	$43,081
Operating income (loss)	$ 244	$(2,522)	$(3,942)	$1,783	$ 305	$ (4,132)	$(4,457)	$ (8,589)
Net income (loss)	$ 212	$(1,661)	$(3,636)	$1,834	$27,129	$23,878	$(6,911)	$16,967

	For the Nine Months Ended September 30, 2004							
	(in thousands) (unaudited)							
	Alliance	ChromaVision	Mantas	Pacific Title	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenues	$69,008	$ 6,886	$ 17,116	$19,496	$ 1,278	$113,784	$ 65	$113,849
Operating income (loss)	$ (3,571)	$(14,896)	$(11,332)	$ 947	$ (1,396)	$ (30,248)	$(14,373)	$ (44,621)
Net income (loss)	$ (3,783)	$ (9,220)	$(11,704)	$ 870	$31,571	$ 7,734	$(22,374)	$ (14,640)

	For the Nine Months Ended September 30, 2003							
	(in thousands)(unaudited)							
	Alliance	ChromaVision	Mantas	Pacific Title	Other Companies	Total Segments	Other Items	Total Continuing Operations
Revenues	$65,461	$ 8,786	$ 16,103	$24,702	$ 9,671	$124,723	$ 244	$124,967
Operating income (loss)	$ (2,083)	$(8,035)	$(16,256)	$ 5,055	$ (2,350)	$ (23,669)	$(17,266)	$ (40,935)
Net income (loss)	$ (2,236)	$(5,418)	$(13,253)	$ 4,337	$35,699	$ 19,129	$(24,939)	$ (5,810)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Other Items				
Corporate operations	$(6,411)	$(6,748)	$(22,317)	$(24,654)
Income tax benefit (expense)	72	(163)	(57)	(285)
	$(6,339)	$(6,911)	$(22,374)	$(24,939)

17. BUSINESS COMBINATIONS

Acquisitions by the Company

In September 2004, the Company acquired additional shares of Pacific Title from minority interest shareholders for a total of $0.4 million. As a result of these purchases of additional shares, the Company increased its ownership in Pacific Title to 86%.

In the third quarter of 2004, the Company acquired additional shares of Mantas for a total of $8 million. As a result of these purchases of additional shares, the Company increased its ownership in Mantas to 87%.

In February 2004, the Company acquired additional shares of ChromaVision Medical Systems for $5 million. In March 2004, ChromaVision entered into a securities purchase agreement with a limited number of accredited investors pursuant to which ChromaVision agreed to issue shares of common stock and warrants to purchase an additional 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. The Company's ownership in ChromaVision was 57% 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.

These transactions were accounted for as purchases and, accordingly, the Consolidated Financial Statements reflect the operations of these companies from the respective acquisition dates.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Pro Forma Financial Information

The following unaudited pro forma financial information presents the combined results of operations of the Company as if the acquisitions 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 September 30,	Nine Months Ended September 30,
	2003	2003
	(in thousands) (unaudited)	(in thousands) (unaudited)
Total revenues from continuing operations	$43,081	$124,967
Net income (loss) from continuing operations	$16,927	$ (8,486)
Diluted income (loss) per share from continuing operations	$ 0.14	$ (0.07)

The effect of the 2004 acquisitions did not have a material impact on the financial results for the three and nine months ended September 30, 2004.

18. RELATED PARTY TRANSACTIONS

In October 2000, the Company guaranteed certain margin loans advanced by a third party to Mr. 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 the Company 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. The Company 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 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's carrying value of the loan at September 30, 2004 is $7.0 million. The Company will continue to evaluate the value of the collateral to the carrying value of the note on a quarterly basis.

19. 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. On August 10, 2004, the Court entered an order staying all proceedings in the Mandell action pending the Court's ruling on defendants' summary judgment motion in the consolidated action, or until such later time as the Court may order. 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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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 putative 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 to expedite. On September 13, 2004, plaintiffs filed a Second Amended Complaint alleging substantially similar claims. On November 5, 2004, Defendants filed motions to dismiss the Second Amendment 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 $33 million at September 30, 2004, of which $29 million relates to guarantees of the Company consolidated companies (and $28 million of which is guaranteed under the Company's revolving credit facility (See Note 9)). A total of $10 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 September 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.

Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner to the certain private equity funds (the "clawback"). Assuming the funds in which we are a general partner are liquidated or dissolved on September 30, 2004 and assuming for these purposes the only distributions from the funds are equal to the carrying value of the funds on the September 30, 2004 financial statements, the maximum clawback we would be required to return for our general partner interest is approximately $7 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 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 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. The related current liability of $0.6 million is included in Accrued Expenses and the long-term portion of $4.2 million is included in Other Long-Term Liabilities on the Consolidated Balance Sheet at September 30, 2004.

The Company has retention agreements with certain executive officers. The maximum aggregate cash exposure under the agreements is $8.0 million at September 30, 2004.

20. SUBSEQUENT EVENTS

Sale of CompuCom

On October 1, 2004, the Company completed the sale of its interest in CompuCom, consisting of 24.5 million shares of common stock and 1.5 million shares of preferred stock. The Company received approximately $128 million in gross cash proceeds for its common and preferred shares. The Company also received $1.2 million in cash proceeds from a portion of the shares of CompuCom held as collateral against Mr. Musser's note receivable. The Company expects to receive an additional $0.8 million in cash proceeds for the remaining shares held as collateral during the fourth quarter of 2004.

The Company expects to record a gain of approximately $1.5 million in the fourth quarter of 2004.

In connection with the sale:

- The Company has provided to the landlord under CompuCom's Dallas headquarters lease, a letter of credit, which will expire on March 19, 2019, in an amount to $6.3 million. CompuCom agreed to reimburse the Company 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.

- On October 8, 2004, the Company utilized approximately $16.7 million of the proceeds to escrow interest payments due through March 15, 2009, on the Company's 2.625% convertible senior debentures with a stated maturity of 2024 pursuant to the terms of the 2024 debentures.

- On October 12, 2004, the Company gave notice that, on November 12, 2004, it will redeem the remaining $54.8 million of 5% convertible subordinated notes due June 15, 2006.

Results of the discontinued operation are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands,) (unaudited)			
Revenue	$ 294,272	$ 330,659	$ 936,238	$ 1,038,684
Operating Expenses	(290,796)	(327,086)	(927,161)	(1,023,912)
Impairment	—	—	(42,719)	—
Other	(1,112)	(71)	(1,405)	(242)
Income (Loss) before Income Taxes and Minority Interest	2,364	3,502	(35,047)	14,530
Income Tax (Expense) Benefit	(1,020)	(897)	3,024	(3,632)
Income (Loss) before Minority Interest	1,344	2,605	(32,023)	10,898
Minority Interest	(1,398)	(1,330)	10,445	(5,535)
Net Income (Loss) from Discontinued Operations	$ (54)	$ 1,275	$ (21,578)	$ 5,363

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In connection with this transaction, in the second quarter of 2004, a possible impairment of the carrying value of goodwill was indicated as the Company's estimated net proceeds from the transaction were 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 in the second quarter of 2004.

The results from discontinued operations exclude the future operating results and any future gains or losses from the sale of CompuCom.

The assets and liabilities of discontinued operations are as follows:

	September 30, 2004	December 31, 2003
	(in thousands) (unaudited)	
Cash	$142,715	$ 81,145
Accounts receivable, less allowances	134,028	212,141
Inventory	17,905	35,612
Other current assets	3,218	4,252
Total current assets	297,866	333,150
Property and equipment, net	17,525	19,134
Goodwill	62,170	104,889
Other assets	7,561	5,205
Total non-current assets	87,256	129,228
Total Assets	$385,122	$462,378
Accounts payable	$ 90,927	$105,007
Accrued expenses	43,430	76,237
Deferred revenue	4,082	4,922
Total current liabilities	138,439	186,166
Minority interest	120,771	129,610
Total non-current liabilities	120,771	129,610
Carrying value of CompuCom	$125,912	$146,602

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Other

On October 21, 2004, the Company announced that it had signed a definitive agreement to acquire the business and substantially all of the assets of Laureate Pharma L.P. for approximately $29.5 million in cash. Laureate Pharma is a privately held bioprocessing and drug delivery services company dedicated to supporting the development and commercialization of new pharmaceuticals and diagnostics. The transaction, which is subject to standard closing conditions, is expected to close in the fourth quarter of 2004.

In October 2004, Alliance Consulting acquired 100% of the issued and outstanding stock of Mensamind, Inc. for approximately $4 million comprised of cash and the issuance of stock options. Mensamind provides IT consulting services.

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.

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

We seek to create long-term shareholder value by taking controlling interests primarily in information technology and 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 and 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 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 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 a sale of an entire company or sales of our interest 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.

We focus our resources on the operations of our majority-owned companies in order to assist them in increasing market penetration, growing revenue, improving cash flow and creating long-term value growth. We see growing market opportunities for companies that operate in the following two categories:

- Information Technology (which we previously referred to as "Business Decision Solutions"). Companies focused on developing complex information technology, software and service solutions that deliver specialized information that becomes the basis for business decision-making. Our companies specialize in the financial services, healthcare, life sciences, telecommunications and retail industries and include a full service information technology services and consulting company; and

- Life Sciences. Companies focused on drug formulation or delivery techniques, specialty pharmaceuticals, diagnostics or bioinformatics.

Many of our companies that we account for under the equity method or consolidation method are technology-related companies that 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. We also 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 accounted subsidiaries and our consolidated 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 or equity or debt interests in our subsidiaries. These transactions have resulted in significant volatility in our financial results, which we expect will continue.

Discontinued Operations

During the third quarter of 2004, our shareholders approved the sale of our interest in CompuCom Systems, Inc. Having met the criteria of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", CompuCom's net assets have been classified as held for sale and their results of operation and cash flows are presented as a discontinued operation as of September 30, 2004. All prior periods presented have been reclassified to conform to this presentation.

On October 1, 2004, we completed the sale of our interest in CompuCom, consisting of 24.5 million shares of common stock and 1.5 million shares of preferred stock. We received approximately $128 million in gross cash proceeds for our common and preferred shares. The Company expects to record a gain of approximately $1.5 million in the fourth quarter of 2004 related to the sale of CompuCom.

During the three and nine months ended September 30, 2004, we recorded losses from discontinued operations of $0.1 million and $21.6 million respectively, related to our share of CompuCom's losses, net of minority interest, and an impairment charge we recorded to reduce our carrying value in CompuCom to its estimated fair value in the second quarter of 2004. During the three and nine months ended September 30, 2003, we recorded income from discontinued operations of $1.3 million and $5.4 million respectively, related to our share of CompuCom's income, net of minority interest.

Critical Accounting Policies and Estimates

Accounting policies, methods and estimates are an integral part of consolidated financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly important because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates.

While there are a number of accounting policies, methods and estimates affecting our financial statements, areas that are particularly significant include the following:

- Revenue recognition
- Allowance for doubtful accounts
- Recoverability of goodwill
- Recoverability of intangible assets, net
- Recoverability of ownership interests in and advances to companies
- Recoverability of notes receivable — related party
- Income taxes
- Commitments and contingencies

Revenue Recognition

During 2004 and 2003, our revenue from continuing operations was primarily attributable to Alliance, ChromaVision, Mantas and Pacific Title.

Alliance generates revenue primarily from consulting services. Revenue is generally recognized upon the performance of services. Certain services are performed under fixed-price service contracts related to discrete projects. Revenue from these contracts are recognized using the proportional performance method, primarily based on the percentage that earned revenue to date compares to the estimated total revenue after giving effect to the most recent estimates of total revenue. Losses expected to be incurred on jobs in process are charged to income in the period such losses become known.

ChromaVision places most of its instruments 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. Under this pricing model, ChromaVision owns most of the ACIS® instruments that are engaged in service and, accordingly, all related depreciation and maintenance and service costs are expensed as incurred. For those instruments that are sold, ChromaVision recognizes and defers revenue using the residual method pursuant to the requirements of Statement of Position No. 97-2, "Software Revenue Recognition" (SOP 97-2), as amended by Statement of Position No. 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to

Certain Arrangements." At the outset of the arrangement with the customer, ChromaVision defers revenue for the fair value of its undelivered elements (e.g., maintenance) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (e.g., software license) when the basic criteria in SOP 97-2 have been met. Maintenance revenue is recognized ratably over the term of the maintenance contract, typically twelve months. Revenue on product sales is recognized upon acceptance by the customer subsequent to a testing and evaluation period. Laboratory revenue is recognized at the time of completion of services at amounts equal to the anticipated collections of amounts to be billed to Medicare, third party insurance payors, and patients. Because of the requirements and nuances of billing for laboratory services, ChromaVision may invoice these parties' amounts that are greater than those allowable for payment, however, only the expected payment from these parties is recorded as revenue.

Mantas recognizes revenue from software licenses, post contract customer support (PCS) and related consulting services. Revenue from software license agreements and product sales are recognized upon delivery, provided that all of the following conditions are met: a non-cancelable license agreement has been signed; the software has been delivered; no significant production, modification or customization of the software is required; the vendor's fee is fixed or determinable; and collection of the resulting receivable is deemed probable. In software arrangements that include rights to software products, hardware products, specified upgrades, PCS, and/or other services, Mantas allocates the total arrangement fee among each deliverable based on vendor-specific objective evidence. Revenue from maintenance agreements is recognized ratably over the term of the maintenance period, which is generally one year. Consulting and training services provided by Mantas that are not considered essential to the functionality of the software products are recognized as the respective services are performed.

For Mantas' software transactions that include significant production, development or customization, revenue is recognized using the percentage of completion method. Mantas measures progress toward completion by a reference to total costs incurred compared to total costs expected to be incurred in completing the development effort. Mantas' revenue calculated using the percentage completion method is limited by the existence of customer acceptance provisions of contractually defined milestones and corresponding customer rights to refund for certain portions of the fee. In cases where acceptance provisions exist, Mantas defers revenue recognition until Mantas has evidence that the acceptance provisions have been met. When current cost estimates indicate a loss is expected to be incurred, the entire loss is recorded in the period in which it is identified.

Pacific Title's revenue is primarily derived from providing film titles, end credits, 2D and 2D special effects, film scanning and recording, and related post-production services to the motion picture and television industry. Revenue is recognized on a percentage of completion basis based on costs incurred to total estimated costs to be incurred. Any anticipated losses on contracts are expensed when identified. Pacific Title also generated revenue from manufacturing, installing and selling large format film projector systems through June 2003. Revenue for projector systems was recognized when persuasive evidence of an arrangement existed, delivery and customer acceptance had occurred, the sales price was fixed and determinable and collectibility was reasonably assured.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an estimate prepared by management based on identification of the collectibility of specific accounts and the overall condition of the receivable portfolios. We specifically analyze trade receivables, historical bad debts, customer credits, customer concentrations, customer credit-worthiness, current economic trends, and changes in customer payment terms, when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Likewise, should we determine that we would be able to realize more of our receivables in the future than previously estimated, an adjustment to the allowance would increase income in the period such determination was made. The allowance for doubtful accounts is reviewed on a quarterly basis and adjustments are recorded as deemed necessary.

Recoverability of Goodwill

We conduct a review for impairment at least annually on goodwill. Additionally, on an interim basis, we assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that we consider important which could trigger an impairment review include significant underperformance relative to historical or expected future operating results, significant changes in the manner or use of the

acquired assets or the strategy for the overall business, significant negative industry or economic trends or a decline in its stock price for a sustained period.

We test for impairment at a level referred to as a reporting unit. If we determine that the fair value of a reporting unit is less than its carrying value, we assess the recoverability of these assets. To determine fair value, we may use a number of valuation methods including quoted market prices, discounted cash flows and revenue and acquisition multiples. Depending on the complexity of the valuation and the significance of the carrying value of the goodwill to the financial statements, we may engage an outside valuation firm to assist us in determining fair value. As an overall check on the reasonableness of the fair values attributed to our reporting units, we will consider comparing and contrasting the aggregate fair values for all reporting units with our average total market capitalization for a reasonable period of time.

The carrying value of goodwill at September 30, 2004 was $92 million.

We operate in an industry which is rapidly evolving and extremely competitive. It is reasonably possible that our accounting estimates with respect to the ultimate recoverability of the carrying value of goodwill could change in the near term and that the effect of such changes on our Consolidated Financial Statements could be material. While we believe that the current recorded carrying values of our companies are not impaired, there can be no assurance that a significant write-down or write-off will not be required in the future.

Recoverability of Intangible Assets, net

We test intangible assets for recoverability whenever events or changes in circumstances indicate that we may not be able to recover the asset's carrying amount. When events or changes in circumstances indicate an impairment may exist, we evaluate the recoverability by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset cover the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to recover the carrying value, we measure any impairment loss as the excess of the carrying amount of the asset over its fair value.

The carrying value of net intangible assets at September 30, 2004 was $8 million.

Recoverability of Ownership Interests In and Advances to Companies

On a continuous basis, but no less frequently than at the end of each quarterly period, we evaluate the carrying value of our companies for possible impairment based on achievement of business plan objectives and milestones, the fair value of each company relative to its carrying value, the financial condition and prospects of the company and other relevant factors. The business plan objectives and milestones we consider include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. We then determine whether there has been an other than temporary decline in the carrying value of our ownership interest in the company. Impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

The fair value of privately held companies is generally determined based on the value at which independent third parties have invested or have committed to invest in these companies, or the value negotiated with the company's founders. The fair value of our ownership interests in private equity funds is generally determined based on the value of our pro rata portion of the funds' net assets.

The new cost basis of a company is not written-up if circumstances suggest the value of the company has subsequently recovered.

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

Recoverability of Notes Receivable — Related Party

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. On a quarterly basis, we assess the recoverability of the loan, by reviewing the fair value of the collateral supporting the loan and estimating future cash flows discounted at the loan's effective rate. We do not accrue interest when a note is considered impaired. All cash receipts from impaired notes are applied to reduce the principal amount of such note until the principal has been fully recovered, and is recognized as interest income thereafter.

As of September 30, 2004, the value of the collateral pledged by Mr. Musser to secure the loan had an approximate value of $10.7 million compared to the loan's carrying value of $7.0 million. The collateral pledged includes $2.5 million of publicly traded securities and $8.2 million of real estate. The publicly traded securities are valued using quoted market prices. The value of the real estate is based on an appraisal done by an independent real estate appraisal firm. We will continue to evaluate the value of the collateral to the carrying value of the note on a quarterly basis.

Income Taxes

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

Commitments and Contingencies

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

Net Results of Operations

We previously reported the following operating segments: i) CompuCom, ii) Strategic Companies, and iii) Non-Strategic Companies. As a result of the sale of our interest in CompuCom, which accounted for approximately 90% of our revenues in the last three years, we re-evaluated our operating segments in accordance with FAS 131, "Disclosures About Segments of an Enterprise and Related Information."

We now present each of our four consolidated companies as separate segments – Alliance, ChromaVision, Mantas and Pacific Title. The results of operations of our other companies, in which we have less than a majority interest, as well as our ownership in funds, will be reported in a segment called "Other Companies" segment.

All prior periods have been reclassified to reflect the expanded segment presentation.

Management evaluates segment performance based on segment revenue, operating income (loss) and income (loss) before income taxes, which reflects the portion of income (loss) allocated to minority shareholders.

Other Items includes certain corporate expenses which are not identifiable to the operations of the Company's operating business segments. Other Items primarily consists of general and administrative expenses related to employee compensation, insurance and professional fees including legal, finance and consulting. Other also includes interest income, interest expense and income taxes, which are reviewed by management independent of segment results.

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 in consolidation. Accordingly, segment results reported by us exclude the effect of transactions between us and our subsidiaries and between our subsidiaries.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Alliance	$ (1,393)	$ 212	$ (3,783)	$ (2,236)
ChromaVision	(3,374)	(1,661)	(9,220)	(5,418)
Mantas	(2,865)	(3,636)	(11,704)	(13,253)
Pacific Title	(1,098)	1,834	870	4,337
Other companies	(4,000)	27,129	31,571	35,699
Total segments	(12,730)	23,878	7,734	19,129
Other Items:				
Corporate operations	(6,411)	(6,748)	(22,317)	(24,654)
Income tax benefit (expense)	72	(163)	(57)	(285)
Net Income (loss) from continuing operations	$(19,069)	$16,967	$(14,640)	$ (5,810)

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.

Alliance, ChromaVision and Mantas incurred losses in 2004 and may need additional capital to fund their operations. If we decide not to provide sufficient capital resources to allow them to reach a positive cash flow position, and they are unable to raise capital from outside resources, they may need to scale back their operations. If these companies meet their 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.

Alliance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$21,749	$21,744	$69,008	$65,461
Operating expenses	23,063	21,500	72,579	67,544
Operating income (loss)	(1,314)	244	(3,571)	(2,083)
Interest, net	(85)	(31)	(225)	(158)
Minority interest	6	(1)	13	5
Net income (loss) before income taxes	$ (1,393)	$ 212	$ (3,783)	$ (2,236)

Alliance Consulting provides custom software solutions and IT consulting services to clients in the Fortune 2000 market. Alliance's business-driven solutions encompass strategic IT and business intelligence consulting, application outsourcing, data warehouse integration, custom application development and packaged software integration. Alliance has expertise in the pharmaceutical, healthcare and financial services sectors and draws on the skills of more than 500 employees and independent contractors.

Alliance recognizes revenue upon the performance of services. Contracts for services are typically for one year or less. Alliances' revenue potential is largely dependent upon spending for IT services and its ability to compete with both on-shore and off-shore providers. In October 2004, Alliance announced the acquisition of Mensamind, an Indian software development company. This acquisition of offshore capabilities should enhance Alliance's offerings and its ability to compete.

Alliance is a wholly owned subsidiary.

Revenue

Quarter 2004 vs. 2003 Revenue for the three months ended September 30, 2004 remained constant as compared to the prior year period. Alliance's revenue continues to be impacted by general economic uncertainty causing many clients to delay project starts or award projects in multiple stages versus one large project.

Year-to-date 2004 vs. 2003. Revenue increased $3.5 million or 5.4% for the nine months ended September 30, 2004 as compared to the prior year period. Although Alliance has seen an increase in revenue since the prior year period, the market is still difficult for IT projects. Clients are delaying projects, or are awarding projects in multiple stages versus one large project.

Operating Income (Loss)

Quarter 2004 vs. 2003. Operating loss increased $1.6 million for the three months ended September 30, 2004 as compared to the prior year period. Alliance attributes this increase to non-cash compensation costs of $0.2 million related to certain executives and $0.6 million of costs related to developing its off-shore capabilities to enhance its flexibility in customizing solutions offered to its clients. The remainder of the increase is due to employee-related costs related to new business development activities.

Year-to-date 2004 vs. 2003. Operating loss increased $1.5 million for the nine months ended September 30, 2004 as compared to the prior year period. Alliance attributes the change to $1.0 million of costs in 2004 related to developing its off-shore capabilities to enhance its flexibility in customizing solutions offered to its clients. An additional $0.5 million is related to non-cash compensation costs to certain executives and $0.6 million related to severance for the former CEO. An additional $0.4 million is due to amortization of intangibles related to the acquisition of Alliance in 2002. The remainder of the increased expenses is due to employee-related costs related to business development activities and the enhancement of the Senior Management team. These increased expenses were partially offset by a $2.1 million increase in gross profit as a result of improved utilization during the 2004 period.

ChromaVision

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$ 2,564	$ 3,079	$ 6,886	$ 8,786
Total operating expenses	8,264	5,601	21,782	16,821
Operating loss	(5,700)	(2,522)	(14,896)	(8,035)
Interest, net	9	(11)	(60)	1
Minority interest	2,317	872	5,736	2,616
Net loss before income taxes	$(3,374)	$(1,661)	$ (9,220)	$ (5,418)

ChromaVision is an advanced diagnostics technology and services company focused on improving the quality of patient care while reducing medical costs and speeding the discovery of new drugs to treat cancer. ChromaVision develops, manufactures and markets a versatile automated microscope system called ACIS® with the ability to detect, count and classify cells to assist pathologists in making critical medical decisions.

ChromaVision recently began providing stain and scan only services to pathologists for analysis in their offices using the ACIS® software. Upon licensure, ChromaVision will also be providing comprehensive laboratory services ranging from in-house pathology testing using the ACIS® to other cutting-edge diagnostic technologies that assist physicians in managing cancer.

Revenue is recognized based on the greater of actual usage fees or the minimum monthly rental fee for the ACIS® 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. Lab revenue is recognized at the time of completion of the services.

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.

As of September 30, 2004, we own a 57% voting interest in ChromaVision.

Revenue

Quarter 2004 vs. 2003. Revenue declined $0.5 million or 16.7% for the three months ended September 30, 2004 as compared to the prior year period. ChromaVision attributes the decline primarily to pricing concessions offered to customers in response to lower reimbursement from Medicare to ChromaVision's customers. Also impacting the decline in revenue was the termination of ChromaVision's contract with their largest customer, US Labs. This contract ended July 1, 2004 so that ChromaVision could provide the lab services to customers directly. Partially offsetting these declines was an increase in system sale revenue and the addition of lab services revenue. In the second quarter of 2004, ChromaVision began offering lab services, which contributed $0.8 million of revenue in the third quarter. The increase in system sales of $0.2 million is due to the sale of three systems sold in 2004 as compare to two systems sold in 2003.

Year-to-date 2004 vs. 2003. Revenue declined $1.9 million or 21.6% for the nine months ended September 30, 2004 as compared to the prior year period. ChromaVision attributes the decline primarily to pricing concessions offered to customers in response to lower reimbursement from Medicare to ChromaVision's customers. Also impacting the decline in revenue was the termination of ChromaVision's contract with their largest customer, US Labs. Partially offsetting these declines was an increase in system sale revenue and the addition of lab services revenue. In the second quarter of 2004, ChromaVision began offering lab services, which contributed $1.0 million of revenue during the nine months ended September 30, 2004. The increase in systems sales of $0.9 million is due to the sale of eleven systems sold in 2004 as compared to four systems sold in 2003.

ChromaVision anticipates that the average monthly ACIS® system revenue will remain at approximately the current level of 2004 and that most, if not all, of the negative impact from reimbursement changes has been reflected in the current revenue amounts. ACIS® systems revenue per unit is expected to continue to decline because of competitive pricing pressures.

Operating Loss

Quarter 2004 vs. 2003. Operating loss increased $3.2 million for the three months ended September 30, 2004 as compared to the prior year period. ChromaVision attributes this increase primarily to costs associated with establishing its new laboratory services and lab service direct costs of approximately $1.0 million. The decline is also due to reduced margins for ACIS® systems and increased legal costs in 2004.

Year-to-date 2004 vs. 2003. Operating loss increased $6.9 million for the nine months ended September 30, 2004 as compared to the prior year period. ChromaVision attributes this increase primarily to costs associated with establishing its new laboratory services and lab service direct costs of approximately $2.6 million. The decline is also due to reduced margins for ACIS® systems, increased non-cash compensation charges, lab branding and legal and professional fees surrounding various corporate matters.

Net Loss Before Taxes

Quarter 2004 vs. 2003. Net loss before income taxes increased $1.7 million for the three months ended September 30, 2004 as compared to the prior year period. The change is due to the increased operating loss as discussed above, partially offset by an increase in the amount of losses allocated to minority interest.

Year-to-date 2004 vs. 2003. Net loss before taxes increased $3.8 million for the nine months ended September 30, 2004 as compared to the prior year period The change is due to the increased operating loss as discussed above, partially offset by an increase in the amount of losses allocated to minority interest.

Mantas

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$ 5,988	$ 7,155	$ 17,116	$ 16,103
Total operating expenses	8,805	11,097	28,448	32,359
Operating loss	(2,817)	(3,942)	(11,332)	(16,256)
Other income, net	1	258	1	203
Interest, net	(49)	(69)	(65)	(1)
Minority interest	—	117	(308)	2,801
Net loss before income taxes	$(2,865)	$ (3,636)	$(11,704)	$(13,253)

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.

For comparative purposes, the operating results of SOTAS, Inc., have been combined with the operating results of Mantas for all periods presented.

As of September 30, 2004, we own an 87% voting interest in Mantas.

Revenue

Quarter 2004 vs. 2003. Revenue decreased $1.2 million or 16.3% for the three months ended September 30, 2004 as compared to the prior year period. Mantas attributes this decline to a decrease in new sales from the telecommunications industry and the timing of software license revenues within the year.

Year-to-date 2004 vs. 2003. Revenue increased $1.0 million or 6.3% for the nine months ended September 30, 2004 as compared to the prior year period. Mantas attributes this increase to continued sales growth in the financial services industry, partially offset by continued weakness in the telecommunications market.

Operating Loss

Quarter 2004 vs. 2003. Operating loss decreased $1.1 million or 28.5% for the three months ended September 30, 2004 as compared to the prior year period. The decline in operating loss relates to cost savings realized from the elimination of certain management expenses following the merger with SOTAS in October 2003 as well as targeted cost reductions undertaken in 2004. In addition, Mantas has realized improved margins on its services revenues.

Year-to-date 2004 vs. 2003. Operating loss declined $4.9 million or 30.3% for the nine months ended September 30, 2004 as compared to the prior year period. The decline in operating loss relates to cost savings realized from the elimination of certain management expenses following the merger with SOTAS in October 2003 as well as targeted cost reductions undertaken in 2004. In addition, Mantas has realized improved margins on its services revenues.

Net Income (Loss) before Income Taxes

Quarter 2004 vs. 2003. Net loss before income taxes decreased $0.8 million for the three months ended September 30, 2004 as compared to the prior year period. The improved results are due to cost savings and cost reduction initiatives described above.

Year-to-date 2004 vs. 2003. Net loss before income taxes decreased $1.5 million for the three months ended September 30, 2004 as compared to the prior year period. The improved results are due to cost savings and cost reduction initiatives described above, partially offset by a reduction in the amount of losses allocated to minority interest. The amount of minority interest related to Mantas has been reduced to zero, and as a result, we now record 100% of Mantas' losses in our consolidated operating results.

Pacific Title

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$ 4,635	$7,796	$19,496	$24,702
Total operating expenses	5,946	6,013	18,549	19,647
Operating income (loss)	(1,311)	1,783	947	5,055
Other income, net	—	394	95	—
Interest, net	(7)	(16)	(32)	(44)
Minority interest	220	(327)	(140)	(674)
Net income (loss) before taxes	$(1,098)	$1,834	$ 870	$ 4,337

Pacific Title's revenue is primarily derived from providing film titles, end credits, 2D and 2D special effects, film scanning and recording, and related post-production services to the motion picture and television industry. In 2003, Pacific Title sold large format film projectors, however, it exited this business in the second quarter of 2003. Revenue is recognized on a percentage of completion basis based on costs incurred to total estimated costs to be incurred. Any anticipated losses on contracts are expensed when identified. Pacific Title also generated revenue from manufacturing, installing and selling large format film projector systems through June 2003. Revenue for projector systems was recognized when persuasive evidence of an arrangement existed, delivery and customer acceptance had occurred, the sales price was fixed and determinable and collectibility was reasonably assured.

As of September 30, 2004, we own an 86% voting interest in Pacific Title.

Revenue

Quarter 2004 vs. 2003. Revenue decreased $3.2 million or 40.5% for the three months ended September 30, 2004 as compared to the prior year period. For the current quarter, Pacific Title experienced an industry wide seasonal decline in after summer post-production services to the movie industry than in the third quarter of 2003.

Year-to-date 2004 vs. 2003. Revenue decreased $5.2 million or 21.1% for the nine months ended September 30, 2004 as compared to the prior year period. Pacific Title attributes $4.1 million of this decline to the sales of large format projectors in 2003, which they no longer sell. The remaining $1.1 million decrease in revenue is attributable to the decline in the third quarter as discussed above.

Operating Income (Loss)

Quarter 2004 vs. 2003. Operating loss increased $3.1 million for the three months ended September 30, 2004 as compared to the prior year period. The increased loss is due to the decline in revenues discussed above, while operating expenses remained substantially the same.

Year-to-date 2004 vs. 2003. Operating income decreased $4.1 million for the nine months ended September 30, 2004 as compared to the prior year period. The increased loss is due to the $5.2 million decline in revenues discussed above, without a corresponding decrease in operating expenses due to increases related to payroll and associated expenses of $0.9 million, deferred compensation expense of $0.6 million, equipment lease expense of $0.4 million and depreciation expense of $0.4 million.

Net Income (Loss) Before Taxes

Quarter 2004 vs. 2003. Net loss before taxes was $1.1 million for the three months ended September 30, 2004 versus $1.8 million of net income before taxes in the prior period. The change is due to the increased operating loss described above.

Year-to-date 2004 vs. 2003. Net income before taxes decreased $3.5 million for the nine months ended September 30, 2004 as compared to the prior year period. The change is due to the reduced operating income described above.

Other Companies

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Revenue	$ —	$ 3,237	$ 1,278	$ 9,671
Total operating expenses	—	2,932	2,674	12,021
Operating income (loss)	—	305	(1,396)	(2,350)
Other income (loss), net	(1,630)	30,498	40,939	47,909
Interest, net	—	(22)	(10)	(287)
Minority interest	—	(57)	584	158
Equity loss	(2,370)	(3,595)	(8,546)	(9,731)
	$(4,000)	$27,129	$31,571	$35,699

Revenue for the Other Companies segment is primarily derived from Tangram 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 Other Companies segment also included the management fees generated by a management company of a private equity fund through August 2003 when it was sold. In 2003, this segment also included the operating results of Agari Mediaware, which was shut down in July 2003.

Revenue .

Quarter 2004 vs. 2003. Revenue decreased $3.2 million for the three months ended September 30, 2004 as compared to the prior year period. A total of $2.7 million of the total decline in revenue relates to the sale in February 2004

of Tangram. Also contributing to the decline is $0.5 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 $8.4 million for the nine months ended September 30, 2004 as compared to the prior year period. A total of $6.3 million of the total decline in revenue relates to the sale in February 2004 of Tangram. Also contributing to the decline is $2.0 million related to the sale of our interest in a management company of a private equity fund in August 2003.

Operating Income (Loss)

Quarter 2004 vs. 2003. Operating income declined $0.3 million for the three months ended September 30, 2004 as compared to the prior year period. A total of $0.2 million of the decline is related to operations at Tangram, which was sold in February 2004 and $0.1 million related to a management company of a private equity fund, which was sold in August of 2003.

Year-to-Date 2004 vs. 2003. Operating loss decreased $1.0 million for the nine months ended September 30, 2004 as compared to the prior year period. A total of $2.1 million and $0.5 million of the decline relates to operations at Agari Mediaware, and Protura Wireless which were shut down in July 2003. Partially offsetting the decline was an increase of $1.5 million at Tangram, which was sold in February 2004.

Other Income (Loss), Net.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
Gain on sale of companies and funds, net	$ 70	$32,359	$44,486	$49,447
Gain (loss) on trading securities	—	(509)	(396)	301
Impairment charges	(1,700)	(1,351)	(3,197)	(1,840)
Other	—	(1)	46	1
	$(1,630)	$30,498	$40,939	$47,909

Quarter 2004 vs. 2003 . Gain on sale of companies and funds for the three months ended September 30, 2003 of $32.4 million includes $17.3 million related to the sale of Kanbay and $12.7 million related to the third quarter sales of our Internet Capital Group shares. Total net cash proceeds for gains on sale of companies and funds was $0.2 million and $39.8 million for the three months ended September 30, 2004 and 2003, respectively.

Year-to-Date 2004 vs. 2003. Gain on sale of companies and funds for the nine months ended September 30, 2004 of $44.5 million includes a gain of $31.7 million related to the sale of our interest in Sanchez for cash and shares of Fidelity National Financial (“FNF”) in the second quarter of 2004. During the first quarter of 2004, we recorded a gain of $8.5 million related to our sale of Tangram for shares of Opsware. Also included in gain on sale of companies and funds 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. Total net cash proceeds for gains on sales of companies and funds was $37.5 million and $69.6 million for the nine months ended September 30, 2004 and 2003, respectively.

Gain on sale of companies and funds for the nine months ended September 30, 2003 of $49.4 million includes $5.9 million relating to the sale of DocuCorp, $19.2 million relating to the sales of all of our shares of Internet Capital Group, and $17.3 million relating to the sale of Kanbay. Also included is 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 company.

Gain (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 nine months ended September 30, 2004 was $14.8 million. Gain (loss) on trading securities in 2003 primarily reflect the adjustment to fair value of our holdings in VerticalNet, 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. 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.

Corporate Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands) (unaudited)		(in thousands) (unaudited)	
General and administrative costs, net	$(4,657)	$(3,645)	$(12,321)	$(15,159)
Stock-based compensation	(566)	(812)	(2,052)	(2,107)
Interest income	520	569	1,410	1,760
Interest expense	(2,014)	(2,897)	(7,348)	(8,613)
Impairment-Related Party	—	—	—	(659)
Other	306	37	(2,006)	124
	$(6,411)	$(6,748)	$(22,317)	$(24,654)

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 increase of $1.0 million for the three months ended September 30, 2004 as compared to the prior year period is primarily due to increased professional fees including those related to compliance initiatives. The $2.8 million decline in general and administrative costs for the nine months ended September 30, 2004 as compared to the prior year period is mainly attributable to severance costs included in the 2003 period and the reduction in the use of outside consulting services.

Stock Based Compensation. Stock based compensation consists primarily of expense related to grants of restricted stock and deferred stock units to employees. This expense decreased for the three and nine months ended September 30, 2004 versus the same period in the prior year due to a decrease in amortization as more restricted stock vested in the 2003 periods.

Interest Income. Interest income remained constant for the three months ended September 30, 2004 as compared to the prior year period and decreased $0.4 million for the nine months ended September 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 notes due 2006 and the $150 million, 2.625% convertible senior debentures with a stated maturity of 2024. Interest expense decreased $0.9 million and $1.3 million for the three and nine months ended September 30, 2004 when compared to the same prior year period due to the purchases we 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 $1.0 million and $2.4 million for the three and nine months ended September 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.

Other. Included in this category are costs associated with the repurchases of our 2006 Notes in the first and second quarter of 2004, including $1.4 million related to the acceleration of the amortization relative to deferred issuance costs and $0.9 million related to the commissions and premiums paid.

Income Taxes

Our consolidated income tax expense recorded for the nine months ended September 30, 2004, was $0.1 million, net of a decrease in the valuation allowance of $16.5 million for the nine months ended September 30, 2004. The tax expense 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.

Liquidity and Capital Resources

We funded our operations with proceeds from sales of and distributions from companies, funds, and trading securities. Other sources of liquidity which have been utilized by Safeguard in prior periods include sales of available-for-sale securities, Safeguard equity and issuance of Safeguard debt. 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 September 30, 2004 at the parent company level, we had $127.4 million of cash and cash equivalents, $0.6 million of restricted cash and $15.5 million of short-term investments, for a total of $143.5 million. In addition, our majority-owned subsidiaries had cash and cash equivalents of $22.3 million.

Proceeds from sales of and distributions from companies and funds were $0.7 million and $39.1 million for the three and nine months ended September 30, 2004, primarily related to the sale of Sanchez in April 2004. Proceeds from sales of available-for-sale and trading securities were $14.8 million for the nine months ended September 30, 2004, primarily attributable to sales of FNF and Opsware common shares. Proceeds from sales of and distributions from companies and funds were $31 million and $39 million for the three and nine months ended September 30, 2003. Proceeds from sales of available-for-sale and trading securities were $17 million and $39 million for the three and nine months ended September 30, 2003.

In September 2004, we increased our revolving credit facility that provides for borrowings, issuances of letters of credit and guarantees from $25 million to $55 million. The amended agreement provides Safeguard with a $45 million revolving line and a $10 million letter of credit facility. 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 for outstanding borrowings. 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. This facility provides us additional flexibility to implement our strategy and support our companies. As of September 30, 2004, we provided guarantees related to three strategic companies' credit facilities that allowed for borrowing of up to $28 million of which $8 million was outstanding. As of September 30, 2004, there was $27 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 carrying value of the loan at September 30, 2004 was $7.0 million and the value of the underlying collateral was $10.7 million.

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 $33 million at September 30, 2004, a total of $28 million relates to guarantees of our consolidated companies under our credit facility. A total of $8 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 September 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 September 30, 2004 and assuming for these purposes the only distributions from the funds is equal to the carrying value of the funds on the September 30, 2004 financial statements, the maximum clawback we would be required to return for our general partner interest is approximately $7 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. The related current liability of $0.6 million is included in Accrued Expenses and the long-term portion of $4.2 million is included in Other Long-Term Liabilities on the Consolidated Balance Sheets at September 30, 2004.

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 September 30, 2004, we had repurchased $145.2 million of face value of the 2006 Notes for $146.1 million. As of September 30, 2004, the outstanding balance of the 2006 Notes is $54.8 million.

Interest on the 2024 Notes is payable semi-annually. At the note holders' option, 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 September 30, 2004 was $7.2174 of principal amount per share. The closing price of our common stock on September 30, 2004 was $1.87 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.

As a result of the sale CompuCom on October 1, 2004, we received approximately $128 million of gross cash proceeds. The Company also received $1.2 million in cash proceeds from a portion of the shares of CompuCom held as collateral against Mr. Musser's note receivable. The Company expects to receive an additional $0.8 million in cash proceeds for the remaining shares held as collateral during the fourth quarter of 2004.

On October 12, 2004, we gave notice that on November 12, 2004, we will redeem the remaining $54.8 million of its outstanding 5% convertible subordinated notes due 2006. In addition, on October 8, 2004, we escrowed $16.7 million for interest payments through March 15, 2009 on the 2024 Notes. The remaining proceeds will be used for general corporate purposes, including transaction costs, funding the growth of our companies and making new acquisitions.

Also in connection with the sale, we provided to the landlord under CompuCom's Dallas headquarters lease, a letter of credit, which will expire on March 19, 2019, in an amount to $6.3 million. CompuCom agreed to reimburse us 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.

On October 21, 2004, we announced that we had signed a definitive agreement to acquire the business and substantially all of the assets of Laureate Pharma L.P. for approximately $29.5 million in cash. The transaction, which is subject to standard closing conditions, is expected to close in the fourth quarter of 2004.

Based on the above discussion, we believe our cash and cash equivalents at September 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.

Alliance, which is included in the parent company, has an outstanding credit facility that provides for borrowings of up to $20 million as of September 30, 2004. The revolving credit facility matures in February 2006. As of September 30, 2004, outstanding borrowings under this facility were $6.7 million.

Analysis of Parent Company Cash Flows

Cash flow activity for the Parent Company was as follows:

	Nine Months Ended September 30,	
	2004	2003
	(in thousands) (unaudited)	
Net cash used by operating activities of continuing operations	$(20,724)	$(22,375)
Net cash provided by investing activities of continuing operations	24,197	59,707
Net cash provided by financing activities of continuing operations	1,900	434

Net cash used in operating activities decreased due primarily to working capital changes.

Cash provided by investing activities primarily reflects the proceeds from the sales of companies and private equity funds, partially offset by acquisition of ownership interests in companies from third parties. The decrease in cash provided is primarily due to a $24.2 million decline in proceeds from sales of available-for-sale and trading securities and increased investing in short-term investments during the nine months ended September 30, 2004 versus the 2003 period.

Cash provided by financing activities increased primarily due to proceeds from exercise of stock options. Included in financing activities in 2004 is $145 million of net proceeds received related to the 2024 Notes issued in February 2004, and $146 million which was used to redeem a portion of the 2006 Notes.

Net cash used for discontinued operations of $0.9 million represents payments by us related to the sale of our interest in CompuCom.

Other Consolidated Subsidiaries

Mantas, ChromaVision and Pacific Title have outstanding credit facilities that provide for borrowings of up to $10 million as of September 30, 2004. A revolving credit facility of $3 million matures in February 2005 and $5 million matures in March 2005. A revolving credit facility for $2 million expired in September 2004 and has not been renewed. As of September 30, 2004, there was a total of $1.8 million of outstanding borrowings under these facilities.

Consolidated Working Capital

Consolidated working capital decreased to $261 million at September 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.

Analysis of Consolidated Company Cash Flows

Cash flow activity was as follows:

	Nine Months Ended September 30,	
	2004	2003
	(in thousands) (unaudited)	
Net cash used by operating activities of continuing operations	$(33,214)	$(37,699)
Net cash provided by investing activities of continuing operations	31,340	67,226
Net cash provided by financing activities of continuing operations	15,725	4,642

Net cash used in operating activities decreased due to working capital changes, partially offset by the increased net loss in 2004 as compared to 2003.

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 decreased due to a $24.2 million decline in proceeds from available-for-sale and trading securities and a $15.4 million net increase in investing in restricted cash and short-term investments during the nine months ended September 30, 2004 versus the 2003 period. These decreases were partially offset by an $8.8 million decrease in acquisitions of ownership interests in companies, funds and subsidiaries and increased investing in short-term investments during the nine months ended September 30, 2004 versus the 2003 period.

Cash provided by financing activities increased $11.1 million primarily due to a net $12.1 million increase in issuance of subsidiary common stock to third parties by ChromaVision. Included in financing activities in 2004 is $145 million of net proceeds received related to the 2024 Notes issued in February 2004, and $146 million which was used to redeem a portion of the 2006 Notes.

Contractual Cash Obligations and Other Commercial Commitments

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

	Payments Due by Period				
	Total	Rest of 2004	2005 and 2006	2007 and 2008	Due after 2008
			(in millions) (unaudited)		
Contractual Cash Obligations					
Long-term debt and capital lease obligations (a)	$ 16.3	$ 0.7	$12.4	$ 3.2	$ —
Convertible subordinated notes (b)	54.8	54.8	—	—	—
Convertible senior debentures (c)	150.0	—	—	—	150.0
Operating leases	18.4	1.3	7.2	6.0	3.9
Funding commitments (d)	25.1	2.6	14.4	5.4	2.7
Potential clawback liabilities (e)	4.2	—	—	—	4.2
Other long-term obligations (f)	4.8	0.2	1.7	1.7	1.2
Total Contractual Cash Obligations	$273.6	$59.6	$35.7	$16.3	$162.0

	Amount of Commitment Expiration by Period				
	Total	2004	2005 and 2006	2007 and 2008	Due after 2008
			(in millions) (unaudited)		
Other Commitments					
Letters of credit	$1.0	$—	$1.0	$—	$—

(a) We have various forms of debt including lines of credit, term loans, equipment leases and mortgages. Of our total outstanding guarantees of $33 million, $10 million of outstanding debt associated with the guarantees is included on the Consolidated Balance Sheets at September 30, 2004. The remaining $23 million is not reflected on the Consolidated Balance Sheets or in the above table.

(b) On October 12, 2004, we gave notice that on November 12, 2004, we will redeem the remaining $54.8 million of its outstanding 5% convertible subordinated notes due 2006.

(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 September 30, 2004.

(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) 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 September 30, 2004 and the only value provided by the funds is the carrying values represented on the September 30, 2004 financial statements, the maximum clawback we would be required to return for our general partner interests is $7 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 retention agreements with certain executive officers at September 30, 2004. The maximum aggregate exposure under the agreements is $8.0 million at September 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.

Off-Balance Sheet Arrangements

We are not involved in any off-balance sheet arrangements that have or are reasonably likely to have a material future effect on our financial condition, results of operations, liquidity or capital expenditures.

Recent Accounting Pronouncements

See Note 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 sale of CompuCom in October 2004 described in this report will dramatically change our results for all future periods, as it represented approximately 90% of our revenues during the past three years;

- 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;

- 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;

- 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, the perceived value of our private company holdings 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 September 30, 2004, the fair market value of our holdings in public securities was approximately $35 million (excluding CompuCom which was sold on October 1, 2004). A 20% decrease in equity prices would result in an approximate $7 million decrease in the fair value of our publicly traded securities. At September 30, 2004, the value of the collateral securing the Musser loan, included $2.5 million of equity securities. A 20% decrease in the fair value of these securities would result in a charge of approximately $0.5 million.

The carrying values of financial instruments, including cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable and notes payable, approximate fair value because of the short maturity of these instruments.

At September 30, 2004, we had outstanding $54.8 million of fixed rate notes due in June 2006. Interest payments of $5 million each 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 September 30, 2004 of approximately $54.9 million.

Liabilities	2004	Fair Market Value
Convertible Subordinated Notes due by year (in millions)	$54.8	$54.9
Fixed Interest Rate	5%	5%
Interest Expense (in millions)	$ 4.6	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. 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. On October 8, 2004, the Company utilized approximately $16.7 million of the proceeds to escrow interest payments due through March 15, 2009, on the Company's 2.625% convertible senior debentures with a stated maturity of 2024 pursuant to the terms of the 2024 debentures.

Liabilities	2004	2005	2006	After 2006	Fair Market Value at 9/30/04
Convertible Senior Notes due by year (in millions)	—	—	—	$150.0	$104.1
Fixed Interest Rate	2.625%	2.625%	2.625%	2.625%	2.625%
Interest Expense (in millions)	$ 3.4	$ 3.9	$ 3.9	$ 67.7	N/A

We have historically had very low exposure to changes in foreign currency exchange rates, and as such, haven't used derivative financial instruments to manage foreign currency fluctuation risk.

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. On August 10, 2004, the Court entered an order staying all proceedings in the Mandell action pending the Court's ruling on defendants' summary judgment motion in the consolidated action, or until such later time as the Court may order. 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 putative 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. On September 13, 2004, plaintiffs filed a Second Amended Complaint alleging substantially similar claims. On November

5, 2004, Defendants filed motions to dismiss the Second Amendment 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
August 9, 2004 (1)	15,000	$1.86	N/A	N/A

(1) Open market purchase by an affiliated purchaser of the Registrant.

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

A Special Meeting of Shareholders was scheduled for August 19, 2004, to approve and adopt a plan of asset transfer consisting of the Principal Stockholder Agreement, dated as of May 27, 2004, between Safeguard Scientifics, Inc., CHR Holding Corporation and CHR Merger Corporation and the Agreement and Plan of Merger, dated as of May 27, 2004, between CompuCom Systems, Inc., CHR Holding Corporation and CHR Merger Corporation, which plan of asset transfer provided that Safeguard would (i) vote the CompuCom equity securities that it owns in favor of approval of the CompuCom merger and adoption of the merger agreement and (ii) comply with the other terms and conditions of the Principal Stockholder Agreement for which approval of Safeguard's shareholders is required under the Pennsylvania Business Corporation Law, as amended (the "CompuCom Merger Proposal").

On August 19, 2004, the shareholders of the Company, prior to the taking of any other action, including a vote on the CompuCom Merger Proposal, voted to adjourn the Special Meeting of Shareholders until September 9, 2004. The proposal to adjourn the Special Meeting of Shareholders until September 9, 2004, received the following votes:

60,299,813	VOTES FOR
1,553,049	VOTES AGAINST
689,769	ABSTENTIONS
57,194,169	BROKER NON-VOTE

On September 9, 2004, the shareholders of the Company voted on the CompuCom Merger Proposal. The proposal to approve the CompuCom Merger Proposal received the following votes:

63,425,402	VOTES FOR
2,307,800	VOTES AGAINST
710,766	ABSTENTIONS
53,292,832	BROKER NON-VOTE

Item 6. ***Exhibits***

Exhibits.

10.1	Employment Agreement between Safeguard Scientifics, Inc and Michael F. Cola
10.2	Employment Agreement between Safeguard Scientifics, Inc and Christopher J. Davis
10.3	Form of directors' stock option grant certificate under the 1999 and 2004 Equity Compensation Plans
10.4	Form of officers' stock option grant certificate under the 1999 and 2004 Equity Compensation Plans
10.5	Safeguard Scientifics, Inc. Group Stock Unit Award Program
10.6	Safeguard Scientifics, Inc. Group Deferred Stock Unit Program for Directors
10.7	Form of Restricted Stock Grant Agreement
10.8	Employment Agreement between Safeguard Scientifics, Inc. and Anthony A. Ibarguen
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934
31.2	Certification of 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

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: November 9, 2004

Anthony L. Craig

Anthony L. Craig
Chief Executive Officer and President

Date: November 9, 2004

Christopher J. Davis

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

EXHIBITS

10.1 Employment Agreement dated August 17, 2004 between Safeguard Scientifics, Inc and Michael F. Cola

10.2 Employment Agreement dated August 17, 2004 between Safeguard Scientifics, Inc and Christopher J. Davis

10.3 Form of directors' stock option grant certificate under the 1999 and 2004 Equity Compensation Plans

10.4 Form of officers' stock option grant certificate under the 1999 and 2004 Equity Compensation Plans

10.5 Safeguard Scientifics, Inc. Group Stock Unit Award Program

10.6 Safeguard Scientifics, Inc. Group Deferred Stock Unit Program for Directors

10.7 Form of Restricted Stock Grant Agreement

10.8 Employment Agreement between Safeguard Scientifics, Inc. and Anthony A. Ibarguen

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

31.2 Certification of 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

EXHIBIT 10.1

Safeguard Scientifics, Inc.
800 The Safeguard Building
435 Devon Park Drive
Wayne, PA 19087
(610) 293-0060
(610) 293-0601 (General Fax)

August 17, 2004

Michael F. Cola
1441 Horseshoe Trail
Chester Springs, PA 19425

Dear Mr. Cola:

You previously entered into a severance agreement with Safeguard Scientifics, Inc. ("Safeguard") on January 1, 2003 (the "Prior Agreement"). Safeguard considers it essential to the best interests of its stockholders to foster your continued employment with Safeguard and to offer you protection in the event of your severance, including following a change of control. Accordingly, the Board of Directors of Safeguard (the "Board") believes it is now appropriate to modify your Prior Agreement in certain respects and to reaffirm its obligation to you in this letter (the "New Agreement"). Accordingly, this New Agreement serves to amend and restate the Prior Agreement in its entirety.

Subject to the terms and conditions set forth below, in the event that (A) your employment with Safeguard is terminated by Safeguard without cause or by you for good reason within eighteen (18) months following a change of control of Safeguard ("Change of Control Termination") or (B) you are terminated for any reason other than for cause or resignation without good reason (such a termination, a "Severance Termination"), Safeguard shall provide you with the following benefits, which together with any benefits provided under the applicable terms of any other plan or program sponsored by the Safeguard, and applicable to you, shall be the only severance benefits or other payments in respect of your employment with Safeguard to which you shall be entitled. The benefits you receive under this New Agreement will be in respect of all salary, accrued vacation and other rights that you may have against Safeguard or its affiliates.

1. You will receive a payment in respect of your current year's bonus equal to the product of (i) your annual bonus (of at least $275,000), multiplied by (ii) Safeguard's percentage achievement of its annual Management Incentive Plan objectives as determined by the Compensation Committee as of the end of the calendar quarter closest to your date of termination, multiplied by (iii) a fraction, the numerator of which is the number of days in Safeguard's fiscal year elapsed at the time of the termination and the denominator of which is 365. Payment under this provision will be made within a

reasonable period of time after the end of the quarter for which the determination in (ii) is being made.

2. If (A) there is a Change of Control Termination or (B) a Severance Termination , you will receive a lump sum payment equal to the product of (i) 2 multiplied by (ii) the sum of your annual base salary (of at least $475,000) plus your annual bonus (of at least $275,000).

3. Except as provided below, you will only vest in your interests under and you will receive benefits in accordance with the terms and conditions set forth in Safeguard's various long term incentive plans.

4. You will receive up to twenty four (24) months continued coverage under Safeguard's medical and health plans and life insurance plans, which coverage shall run concurrent with the coverage provided under section 4980B of the Code; or as an alternative, at the discretion of the Board, the Board may elect to pay you in lieu of such coverage an amount equal to your cost of continuing such coverage. You should consult with Safeguard's Manager of Human Resources concerning the process for assuming ownership of and continued premium payments for any whole life policy at end of such twenty four (24) month period.

5. You will receive up to $20,000 as a reimbursement for documented outplacement services or office space which you secure.

6. You will be reimbursed promptly for all your reasonable and necessary business expenses incurred on behalf of Safeguard prior to your termination date in accordance with Safeguard's customary policies.

7. If you experience a Change of Control Termination as described above, you will become fully vested in all of your outstanding stock options and you may exercise those stock options during the thirty six (36) month period following your termination of employment (unless any of the options would by their terms expire sooner, in which case you may exercise such options at any time before their expiration) and you will become fully vested in all of your outstanding restricted stock awards and deferred stock units, if any.

8. If you experience a Severance Termination as described above, you will become fully vested in your outstanding stock options and you may exercise those stock options during the 36 month period following your termination of employment (unless any of the options would by their terms expire sooner, in which case you may exercise such options at any time before their expiration). In addition, upon such a termination, your restricted stock grants made before October, 2002 will become fully vested and the Board, in its discretion may accelerate the vesting of any restricted stock grants and deferred stock units, if any, made or credited after October, 2002.

All compensation and benefits described in this New Agreement will be offered in return for and contingent on your execution and non-revocation of a release and non-competition agreement substantially in the forms attached to this letter.

Upon your termination of employment with Safeguard in connection with a change of control, as discussed above, if it is determined that any payment or distribution by Safeguard of benefits provided under this New Agreement or any other benefits due upon a change of control (the "Change of Control Benefits") would constitute an "excess parachute payment" within the meaning of section 280G of the Code that would be subject to an excise tax under section 4999 of the Code (the "Excise Tax") the following provisions shall apply, unless provided otherwise in the applicable plan, program or agreement that provides change of control payments that are not paid pursuant to this New Agreement. If the aggregate present value to you of receiving the Change of Control Benefits and paying the Excise Tax is not greater than the aggregate present value to you of the Change of Control Benefits reduced to the safe harbor amount (as defined below), then Safeguard shall reduce the Change of Control Benefits such that the aggregate present value to you of receiving the Change of Control Benefits is equal to the safe harbor amount. Otherwise you shall receive the full amount of the Change of Control Benefits and you shall be responsible for payment of the Excise Tax. For purposes of this paragraph "present value" shall be determined in accordance with Section 280G(d)(4) of the Code and the term "safe harbor amount" shall mean an amount expressed in the present value that maximizes the aggregate present value of the Change of Control Benefits without causing any of the Change of Control Benefits to be subject to the deduction limitations set forth in Section 280G of the Code.

All determinations made pursuant to the foregoing paragraph shall be made by Safeguard's independent public accountant immediately prior to the change of control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to Safeguard and to you within ten days of the termination date. Any such determination by the Accounting Firm shall be binding upon you and Safeguard. You shall then, in your sole discretion, determine which and how much of the Change of Control Benefits shall be eliminated or reduced consistent with the requirements of the foregoing paragraph. All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by Safeguard.

Safeguard will pay you the lump sum payments described above within five business days of the date on which you have signed the release and non-competition agreement and such agreements have become effective and following any determination required by the preceding paragraph. Safeguard will prepare the final release (which will be substantially in the form attached as Exhibit A to this letter, but with such changes, if any, as recommended by Safeguard's counsel) and the final non-competition agreement (which will be substantially in the form attached as Exhibit B to this letter, but with such changes, if any, as recommended by Safeguard's counsel) within five business days of your termination of employment. You will have 21 days in which to consider the release although you may execute it sooner. Please note that the release has a rescission period of seven days after which it becomes effective if not revoked. All other payments will be made to you within five business days of the date on which they become due or, in the case of payments payable on notice from you, within five business days of such notice.

Safeguard will pay interest on late payments at the prime rate at Safeguard's agent bank plus 2 percent compounded monthly. In addition, Safeguard will pay all reasonable costs and expenses (including reasonable attorney's fees and all costs of arbitration) incurred by you to enforce the agreement set forth in this New Agreement or any obligation hereunder.

In this letter, the term "cause" means (a) your failure to adhere to any written Safeguard policy if you have been given a reasonable opportunity to comply with such policy or cure your failure to comply (which reasonable opportunity must be granted during the ten-day period preceding termination of this New Agreement); (b) your appropriation (or attempted appropriation) of a material business opportunity of Safeguard, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of Safeguard; (c) your misappropriation (or attempted misappropriation) of any Safeguard fund or property; or (d) your conviction of, or your entering a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime with respect to which imprisonment is a possible punishment.

In this letter, the term "good reason" means (i) your assignment (without your consent) to a position, title, responsibilities, or duties of a materially lesser status or degree of responsibility than your current position, responsibilities, or duties; provided, however, that a mere change in your area of responsibilities shall not constitute a material change if you are reasonably suited by your education and training for such responsibilities and you remain a member of the Safeguard Managing Directors Committee; (ii) a reduction of your base salary or target bonus opportunity (acknowledging that the payment of any bonus is subject to the discretion of the Compensation Committee of the Board); (iii) the relocation of Safeguard's principal executive offices to a location which is more than 30 miles away from the location of Safeguard's principal executive offices on the date of this New Agreement; or (iv) your assignment (without your consent) to be based anywhere other than Safeguard's principal executive offices. Notwithstanding the foregoing, good reason shall not exist if Safeguard cures such action or failure to act that constitutes good reason within a reasonable period of time (which reasonable period of time shall not be longer than 10 days) following the date you provide Safeguard with notice of your intended resignation for good reason.

A "change of control" shall be deemed to have occurred if (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than any Safeguard employee stock ownership plan or an equivalent retirement plan, becomes the beneficial owner (as such term is used in Section 13(d) of the Exchange Act), directly or indirectly, of securities of Safeguard representing 50% or more of the combined voting power of Safeguard's then outstanding voting securities, (ii) the Board ceases to consist of a majority of Continuing Directors (as defined below), (iii) the consummation of a sale of all or substantially all of Safeguard's assets or a liquidation (as measured by the fair value of the assets being sold compared to the fair value of all of Safeguard's assets), or (iv) a merger or other combination occurs such that a majority of the equity securities of the resultant entity after the transaction are not owned by those who owned a majority of the equity securities of Safeguard prior to the transaction. A "Continuing Director" shall mean a member of the Board of Directors who either (i) is a member of the board of

Directors at the date of this New Agreement or (ii) is nominated or appointed to serve as a Director by a majority of the then Continuing Directors.

The provisions set forth in this New Agreement will inure to the benefit of your personal representative, executors and heirs. In the event you die while any amount payable under the New Agreement remains unpaid, all such amounts will be paid in accordance with the terms and conditions of this letter.

No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and the Board of Safeguard or a duly authorized officer of Safeguard.

You will not be required to mitigate the amount of any payment provided for in this letter by seeking other employment or otherwise.

You acknowledge that the arrangements described in this New Agreement will be the only obligations of Safeguard or its affiliates in connection with any determination by Safeguard to terminate your employment with Safeguard. This New Agreement does not terminate, alter or affect your rights under any plan or program of Safeguard in which you may participate or under which you are due a benefit, except as explicitly set forth herein. Your participation in such plans or programs will be governed by the terms of such plans and programs.

The provisions set forth in this New Agreement will be construed and enforced in accordance with the law of the Commonwealth of Pennsylvania without regard to the conflicts of laws rules of any state.

Any controversy or claim arising out of or relating to this New Agreement, or the breach thereof, will be settled by arbitration in Philadelphia, Pennsylvania, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, using one arbitrator, and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction.

The obligations of Safeguard set forth herein are absolute and unconditional and will not be subject to any right of set-off, counterclaim, recoupment, defense or other right which Safeguard may have against you, subject to, in the event of your termination of employment, your execution of the relevant release and the non-competition agreement set forth in the forms attached to this New Agreement.

Safeguard may withhold applicable taxes and other legally required deductions from all payments to be made hereunder.

Safeguard’s obligations to make payments under this letter are unfunded and unsecured and will be paid out of the general assets of Safeguard.

The New Agreement, together with the Prior Agreement, where applicable, as discussed in the first paragraph of this letter, constitute the entire agreement and understanding with respect

to your severance arrangements, and supersede any and all prior agreements and understandings whether oral or written, relating thereto.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to us the enclosed copy of this letter which will then constitute our legally binding agreement on this subject.

Sincerely,

Safeguard Scientifics, Inc.

By: _____

Title

I agree to the terms and conditions of this letter.

_____

Michael F. Cola

EXHIBIT A

GENERAL RELEASE AND AGREEMENT

NOTICE :

Various state and federal laws, including the Civil Rights Act of 1964 and 1991 and the Age Discrimination in Employment Act, prohibit employment discrimination based on age, sex, race, color, national origin, religion, disability and veteran status. These laws are enforced through the Equal Employment Opportunity Commission (EEOC), the Department of Labor and state civil rights agencies.

If you sign this General Release and Agreement and accept the agreed-upon special severance allowance and other termination benefits described in the letter addressed to you which accompanies this release, you are giving up your right to file a lawsuit pursuant to the aforementioned federal, state and local laws in local, state or federal courts against Safeguard Scientifics, Inc. and its affiliates (the "Releasees") with respect to any claims relating to your employment or termination therefrom which arise up to the date this Agreement is executed.

By signing this General Release and Agreement you waive your right to recover any damages or other relief in any claim or suit brought by or though the Equal Employment Opportunity Commission or any other state or local agency on your behalf under and federal or state discrimination law, except where prohibited by law. You agree to release and discharge each Releasee not only from any and all claims which you could make on your own behalf, but also specifically waive any right to become, and promise not to become, a member of any class in any proceeding or case in which a claim or claims against a Releasee may arise, in whole or in part, from any event which occurred as of the date of this Agreement. You agree to pay for any legal fees or cost incurred by any Releasee as a result of any breach of the promises in this paragraph. The parties agree that if you, by no action of your own, become a mandatory member of any class from which you cannot, by operation of law or order of court, opt out, you shall not be required to pay for any legal fees or costs incurred by a Releasee as a result.

We encourage you to discuss the following release language with an attorney prior to executing this Agreement. In any event, you should thoroughly review and understand the effect of the agreement set forth below before acting on it. Therefore, please take this release home and consider it for up to twenty-one (21) days before you decide to sign it.

GENERAL RELEASE AND AGREEMENT

This GENERAL RELEASE AND AGREEMENT (hereinafter the "Agreement") is made and entered into as of this day of , 200_, by and between SAFEGUARD SCIENTIFICS, INC. ("Safeguard") and [Name of Managing Director] ("Employee").

1. Background. The parties hereto acknowledge that this Agreement is being entered into pursuant to the terms of the Letter Agreement, dated _____ between Safeguard and Employee (the "Letter Agreement"). As used in this Agreement, any reference to Safeguard shall include its predecessors and successors and, in their capacities as such, all of its present, past, and future directors, officers, employees, attorneys, insurers, agents and assigns, as well as all Safeguard affiliates, subdivisions and subsidiaries; and any reference to Employee shall include, in their capacities as such, his or her attorneys, heirs, administrators, representatives, agents and assigns.

2. Resignation from Boards. Employee shall, and hereby does resign from such Boards and officer positions with Safeguard and all affiliates and partner companies of Safeguard as such employee holds on the date hereof. In this regard, Employee agrees to pre-sign and deliver to Safeguard resignation letters acceptable to Safeguard in order to affect Employee's resignation from certain companies and entities, and Safeguard may submit other such letters from time to time, although nothing contained herein shall prohibit Employee from resigning from such boards and officer positions at an earlier time.

3. General Release.

(a) Employee, for and in consideration of the special severance allowance and other termination benefits offered to him by Safeguard specified in the Letter Agreement and intending to be legally bound, does hereby REMISE, RELEASE AND FOREVER DISCHARGE Safeguard, of and from any and all causes of actions, suits, debts, claims and demands whatsoever in law or in equity, which Employee ever had, now has, or hereafter may have or which Employee's heirs, executors or administrators may have, by reason of any matter, cause or thing whatsoever, from the beginning of Employee's employment with Safeguard to the date of this Agreement, and particularly, but without limitation, any claims arising from or relating in any way to Employee's employment or the termination of Employee's employment relationship with Safeguard, including, but not limited to, any claims arising under any federal, state, or local laws, including Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000e et seq., ("Title VII"), the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq. ("the ADEA"), the Americans with Disabilities Act, 42 U.S.C. § 12101 et seq. ("ADA"), Employee Retirement Income Security Act of 1974, as amended 29 U.S.C. § 301, et seq., as amended ("ERISA"), the Pennsylvania Wage Payment and Collection Law, Pa. Stat. Ann. tit. 43 §§ 260.1-260.11a ("WPCL"), the Pennsylvania Human Relations Act, 43 P.S. § 951 et seq. (the "PHRA"), and any and all other federal, state or local laws, regulations, ordinances or public policies and any common law claims now or hereafter recognized, including claims for wrongful discharge, slander and defamation, as well as all claims for counsel fees and costs.

(b) By signing this Agreement, Employee represents that Employee has not commenced any proceeding against Safeguard in any forum (administrative or judicial)

concerning Employee's employment or the termination thereof. Employee further acknowledges that Employee was given sufficient notice under the Worker Adjustment and Retraining Notification Act (the "WARN Act") and that the termination of Employee's employment does not give rise to any claim or right to notice, or pay or benefits in lieu of notice under the WARN Act. In the event any WARN Act issue does exist or arises in the future, Employee agrees and acknowledges that the payments and benefits set forth in this Agreement shall be applied to any compensation or benefits in lieu of notice required by the WARN Act, provided that any such offset shall not impair or affect the validity of any provision of this Agreement or the Letter Agreement.

(c) Employee agrees that in the event of a breach of any of the terms of this Agreement, Safeguard shall be entitled to recover attorneys' fees and costs in an action to prosecute such breach, in addition to compensatory damages, and may cease to make any payments then due under the Letter Agreement.

(d) Anything herein to the contrary notwithstanding, neither party is released from any obligations under the Letter Agreement and Employee acknowledges that Safeguard's obligations under the Letter Agreement and this Agreement are the only obligations of Safeguard or its affiliates in connection with the severance of Employee's service with Safeguard. This Agreement does not terminate, alter or affect Employee's rights under any plan or program of Safeguard in which Employee may participate and under which Employee is due a benefit, except as explicitly set forth herein. Employee's participation in such plans or programs will be governed by the terms of such plans and programs.

(e) Employee agrees and acknowledges that this Agreement is not and shall not be construed to be an admission by Safeguard of any violation of any federal, state or local statue, ordinance, regulation or of any duty owed by Safeguard to Employee.

4. Confidentiality; Non-Disparagement.

(a) Except to the extent required by law, including SEC disclosure requirements, Safeguard and Employee agree that the terms of this Agreement will be kept confidential by both parties, except that Employee may advise his family and confidential advisors, and Safeguard may advise those people needing to know to implement the above terms.

(b) Employee will not at any time knowingly reveal to any person or entity any of the trade secrets or confidential information of Safeguard or of any third party which Safeguard is under an obligation to keep confidential (including but not limited to trade secrets or confidential information respecting inventions, products, designs, methods, know-how, techniques, systems, processes, software programs, works of authorship, customer lists, projects, plans and proposals), and Employee shall keep secret all confidential matters relating to Safeguard and shall not use or attempt to use any such confidential information in any manner which injures or causes loss or may reasonably be calculated to injure or cause loss whether directly or indirectly to Safeguard. These restrictions contained in this sub-paragraph (b) shall not apply to: (i) information that at the time of disclosure is in the public domain through no fault of Employee's; (ii) information received from a third party outside of Safeguard that was disclosed without a breach of any confidentiality obligation; (iii) information approved for release by written authorization of

Safeguard; or (iv) information that may be required by law or an order of the court, agency or proceeding to be disclosed; provided, that Employee shall provide Safeguard notice of any such required disclosure once Employee has knowledge of it and will help Safeguard at Safeguard's expense to the extent reasonable to obtain an appropriate protective order.

(c) Employee represents that Employee has not taken, used or knowingly permitted to be used any notes, memorandum, reports, list, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of Safeguard or its partner companies or concerning any of its dealings or affairs otherwise than for the benefit of Safeguard. Employee shall not, after the termination of Employee's employment, use or knowingly permit to be used any such notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of Safeguard and that immediately upon the termination of Employee's employment, Employee shall deliver all of the foregoing, and all copies thereof, to Safeguard, at its main office.

(d) In accordance with normal ethical and professional standards, Safeguard and Employee agree that they shall not in any way engage in any conduct or make any statement that would defame or disparage the other, or make to, or solicit for, the media or others, any comments, statements (whether written or oral), and the like that may be considered to be derogatory or detrimental to the good name or business reputation of either party. It is understood and agreed that Safeguard's obligation under this paragraph extends only to the conduct of Safeguard's senior officers. The only exception to the foregoing shall be in those circumstances in which Employee or Safeguard is obligated to provide information in response to an investigation by a duly authorized governmental entity or in connection with legal proceedings.

5. Indemnity.

(a) This Agreement shall not release Safeguard or any of its insurance carriers from any obligation it or they might otherwise have to defend and/or indemnify Employee and hold harmless any other director or officer and Safeguard affirms its obligation to provide indemnification to Employee as a director, officer or former director or officer of Safeguard, as set forth in Safeguard's bylaws and charter documents in effect on January 1, 2003.

(b) Employee agrees that Employee will personally provide reasonable assistance and cooperation to Safeguard in activities related to the prosecution or defense of any pending or future lawsuits or claims involving Safeguard.

6. General.

(a) Employee acknowledges and agrees that he has twenty-one (21) days to consider this Agreement, and that Employee has been advised by Safeguard, in writing, to consult with his attorney before signing this Agreement, and that Employee had discussed this matter with his attorney before signing it. Employee further acknowledges that Safeguard has advised him that he may revoke this Agreement for a period of seven (7) calendar days after it has been executed,

with the understanding that Safeguard has no obligations under this Agreement until the seven (7) day period has passed. If the seventh day is a weekend or national holiday, Employee will have until the next business day to revoke. Any revocation must be in writing and received by Safeguard at its facility located at 800 The Safeguard Building, 435 Devon Park Drive, Wayne, PA 19087.

(b) Employee has carefully read and fully understands all of the provisions of the Notice and the Agreement which set forth the entire agreement between him and Safeguard, and he acknowledges that he has not relied upon any representation or statement, written or oral, not set forth in this document.

(c) This Agreement is made in the Commonwealth of Pennsylvania and shall be interpreted under the laws thereof. Its language shall be construed as a whole, to give effect to its fair meaning and to preserve its enforceability.

(d) Employee agrees that any breach of this Agreement by Employee will cause irreparable damage to Safeguard and that in the event of such breach Safeguard shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of Employee's obligations hereunder.

(e) No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and the Chief Executive Officer of Safeguard or another duly authorized officer of Safeguard.

(f) Any waiver by Safeguard of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

(g) Each covenant, paragraph and division of this Agreement is intended to be severable and distinct, and if any paragraph, subparagraph, provision or term of this Agreement is deemed to be unlawful or unenforceable, such a determination will not impair the legitimacy or enforceability of any other aspect of the Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

Date: _____ _____

[Name of Employee]

SAFEGUARD SCIENTIFICS, INC.

Date: _____

By: _____

Title

EXHIBIT B

NON-COMPETITION AGREEMENT

This NON-COMPETITION AGREEMENT (hereinafter the "Agreement") is made and entered into as of this day of , 200_, by and between SAFEGUARD SCIENTIFICS, INC. (the "Company") and [Name of Managing Director] ("Employee").

1. Background. The parties hereto acknowledge that this Agreement is being entered into pursuant to the terms of the Letter Agreement, dated between the Company and Employee (the "Letter Agreement"). As used in this Agreement, any reference to "Majority Subsidiary" shall mean any person or entity that at the date of this Agreement has a majority of its outstanding voting securities owned directly or indirectly by the Company; "Partner Company" shall mean any person or entity in which, at the date hereof, the Company has made, or is actively considering making, an equity or debt investment or acquisition.

2. Confidentiality and Non-Disclosure. (a) I will not reveal to any person or entity any of the trade secrets or confidential information of the Company or of any Partner Company (including but not limited to trade secrets or confidential information respecting inventions, products, designs, methods, know-how, techniques, systems, processes, software programs, works of authorship, customer lists, employee lists, customer lists, projects, plans and proposals) and I shall keep secret all matters entrusted to me and shall not use or attempt to use any such information in any manner which may injure or cause loss or may be calculated to injure or cause loss, whether directly or indirectly, to the Company. The above restrictions shall not apply to: (i) information that at the time of disclosure is in the public domain through no fault of mine; (ii) information received from a third party outside of the Company that was disclosed without a breach of any confidentiality obligation; (iii) information approved for release by written authorization of the Company; or (iv) information that may be required by law or an order of any court, agency or proceeding to be disclosed; provided, I shall provide the Company notice of any such required disclosure once I have knowledge of it and will help the Company to the extent reasonable to obtain an appropriate protective order.

(b) Upon termination of my employment, I shall not take, use or permit to be used any notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of the Company or any Partner Company concerning any of its dealings or affairs, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of the Company or the Partner Company, as appropriate, and that immediately upon the termination of my employment I shall deliver all of the foregoing, and all copies thereof, to the Company, at its main office.

3. Ownership of Inventions and Ideas. I acknowledge that the Company shall be the sole owner of all patents, patent applications, patent rights, formulas, copyrights, inventions, developments, discoveries, other improvements, data, documentation, drawings, charts, and other written, audio and/or visual materials relating to equipment, methods, products, processes, or programs in connection with or useful to the business of the Company or a Partner Company (collectively, the "Developments") which I, by myself or in conjunction with any other person,

conceived, made, acquired, acquired knowledge of, developed or created during the term of my employment with the Company, free and clear of any claims by me (or any successor or assignee of mine) of any kind or character whatsoever other than my rights under the Letter Agreement. I acknowledge that all copyrightable Developments shall be considered works made for hire under the Federal Copyright Act. I hereby assign and transfer my right, title and interest in and to all such Developments, and agree that I shall, at the request of the Company, execute or cooperate with the Company in any patent applications, execute such assignments, certificates or other instruments, and do any and all other acts, as the Company from time to time reasonably deems necessary or desirable to evidence, establish, maintain, perfect, protect, enforce or defend the Company's right, title and interest in or to any such Developments.

4. Non-Compete. Until the first anniversary of the date hereof (the "Restricted Period"), I agree that I will not:

(i) directly or indirectly solicit, entice or induce any customer of the Company or a Majority Subsidiary to become a customer of any other person, firm or corporation with respect to products and/or services then sold by the Company or to cease doing business with the Company, and I shall not approach any such person, firm or corporation for such purpose or authorize or knowingly approve the taking of such actions by any other person;

(ii) directly or indirectly solicit, recruit or hire any person who was an employee of the Company or a Majority Subsidiary on the date of my termination of employment to work for a third party other than the Company or such Majority Subsidiary or engage in any activity that would cause any employee to violate any agreement with the Company or such Majority Subsidiary; provided that I shall not be prohibited from soliciting any person who, at the time of solicitation, is no longer employed by the Company or a Majority Subsidiary and who was not induced to leave employment in violation of this sub-paragraph (ii); or

(iii) whether alone or as a partner, officer, director, consultant, agent, employee or stockholder of any company or other commercial enterprise, directly or indirectly engage in any business or other activity which is competitive in the same service areas with the products or services being manufactured, marketed, distributed, or provided by the Company or a Majority Subsidiary at the time of termination of my employment ("Competitive Activities"). The foregoing prohibition shall not prevent (i) my ownership of securities of a public company not in excess of five percent (5%) of any class of such securities, or (ii) my employment or engagement by a company or business organization which during the previous 12 months did not generate, or during the next 12 months does not seek to generate, more than 5% of its consolidated revenues from Competitive Activities, provided that my responsibilities for such company or business organization do not require me to engage in Competitive Activities or to violate sub-paragraphs (i) or (ii) of this Section.

5. Reasonable Restrictions. I agree that any breach of this Agreement by me will cause irreparable damage to the Company and that in the event of such breach the Company shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of my obligations hereunder. I hereby acknowledge that the type and periods of restriction imposed in the provisions of this Agreement

are fair and reasonable and are reasonably required for the protection of the Company and the goodwill associated with the business of the Company. I represent that my experience and capabilities are such that the restrictions contained herein will not prevent me from obtaining employment or otherwise earning a living at the same general economic benefit as reasonably required by me. I further agree that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

6. General. Any waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof. No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by me and an officer of the Company authorized to sign such writing by the Board of Directors of Safeguard. My obligations under this Agreement shall survive the termination of my employment regardless of the manner of such termination and shall be binding upon my heirs, executors, administrators and legal representatives. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. Any controversy or claim arising out of or relating to this agreement, or the breach thereof (other than a request for equitable relief) will be settled by arbitration in Philadelphia, Pennsylvania, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, using one arbitrator, and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

Date: _____ _____

[Name of Employee]

SAFEGUARD SCIENTIFICS, INC.

Date: _____

By: _____

Title

EXHIBIT 10.2

Safeguard Scientifics, Inc.
800 The Safeguard Building
435 Devon Park Drive
Wayne, PA 19087
(610) 293-0060
(610) 293-0601 (General Fax)

August 17, 2004

Christopher J. Davis
7 Melissa Way
Plymouth Meeting, PA 19462

Dear Mr. Davis:

You previously entered into a severance agreement with Safeguard Scientifics, Inc. ("Safeguard") on January 1, 2003 (the "Prior Agreement"). Safeguard considers it essential to the best interests of its stockholders to foster your continued employment with Safeguard and to offer you protection in the event of your severance, including following a change of control. Accordingly, the Board of Directors of Safeguard (the "Board") believes it is now appropriate to modify your Prior Agreement in certain respects and to reaffirm its obligation to you in this letter (the "New Agreement"). Accordingly, this New Agreement serves to amend and restate the Prior Agreement in its entirety.

Subject to the terms and conditions set forth below, in the event that (A) your employment with Safeguard is terminated by Safeguard without cause or by you for good reason within eighteen (18) months following a change of control of Safeguard ("Change of Control Termination") or (B) you are terminated for any reason other than for cause or resignation without good reason (such a termination, a "Severance Termination"), Safeguard shall provide you with the following benefits, which together with any benefits provided under the applicable terms of any other plan or program sponsored by the Safeguard, and applicable to you, shall be the only severance benefits or other payments in respect of your employment with Safeguard to which you shall be entitled. The benefits you receive under this New Agreement will be in respect of all salary, accrued vacation and other rights that you may have against Safeguard or its affiliates.

1. You will receive a payment in respect of your current year's bonus equal to the product of (i) your annual bonus (of at least $325,000), multiplied by (ii) Safeguard's percentage achievement of its annual Management Incentive Plan objectives as determined by the Compensation Committee as of the end of the calendar quarter closest to your date of termination, multiplied by (iii) a fraction, the numerator of which is the number of days in Safeguard's fiscal year elapsed at the time of the termination and the denominator of which is 365. Payment under this provision will be made within a

reasonable period of time after the end of the quarter for which the determination in (ii) is being made.

2. If (A) there is a Change of Control Termination or (B) a Severance Termination, you will receive a lump sum payment equal to the product of (i) 2 multiplied by (ii) the sum of your annual base salary (of at least $375,000) plus your annual bonus (of at least $325,000).

3. Except as provided below, you will only vest in your interests under and you will receive benefits in accordance with the terms and conditions set forth in Safeguard's various long term incentive plans.

4. You will receive up to twenty four (24) months continued coverage under Safeguard's medical and health plans and life insurance plans, which coverage shall run concurrent with the coverage provided under section 4980B of the Code; or as an alternative, at the discretion of the Board, the Board may elect to pay you in lieu of such coverage an amount equal to your cost of continuing such coverage. You should consult with Safeguard's Manager of Human Resources concerning the process for assuming ownership of and continued premium payments for any whole life policy at end of such twenty four (24) month period.

5. You will receive up to $20,000 as a reimbursement for documented outplacement services or office space which you secure.

6. You will be reimbursed promptly for all your reasonable and necessary business expenses incurred on behalf of Safeguard prior to your termination date in accordance with Safeguard's customary policies.

7. If you experience a Change of Control Termination as described above, you will become fully vested in all of your outstanding stock options and you may exercise those stock options during the thirty six (36) month period following your termination of employment (unless any of the options would by their terms expire sooner, in which case you may exercise such options at any time before their expiration) and you will become fully vested in all of your outstanding restricted stock awards and deferred stock units, if any.

8. If you experience a Severance Termination as described above, you will become fully vested in your outstanding stock options and you may exercise those stock options during the 36 month period following your termination of employment (unless any of the options would by their terms expire sooner, in which case you may exercise such options at any time before their expiration). In addition, upon such a termination, your restricted stock grants made before October, 2002 will become fully vested and the Board, in its discretion may accelerate the vesting of any restricted stock grants and deferred stock units, if any, made or credited after October, 2002.

All compensation and benefits described in this New Agreement will be offered in return for and contingent on your execution and non-revocation of a release and non-competition agreement substantially in the forms attached to this letter.

Upon your termination of employment with Safeguard in connection with a change of control, as discussed above, if it is determined that any payment or distribution by Safeguard of benefits provided under this New Agreement or any other benefits due upon a change of control (the "Change of Control Benefits") would constitute an "excess parachute payment" within the meaning of section 280G of the Code that would be subject to an excise tax under section 4999 of the Code (the "Excise Tax") the following provisions shall apply, unless provided otherwise in the applicable plan, program or agreement that provides change of control payments that are not paid pursuant to this New Agreement. If the aggregate present value to you of receiving the Change of Control Benefits and paying the Excise Tax is not greater than the aggregate present value to you of the Change of Control Benefits reduced to the safe harbor amount (as defined below), then Safeguard shall reduce the Change of Control Benefits such that the aggregate present value to you of receiving the Change of Control Benefits is equal to the safe harbor amount. Otherwise you shall receive the full amount of the Change of Control Benefits and you shall be responsible for payment of the Excise Tax. For purposes of this paragraph "present value" shall be determined in accordance with Section 280G(d)(4) of the Code and the term "safe harbor amount" shall mean an amount expressed in the present value that maximizes the aggregate present value of the Change of Control Benefits without causing any of the Change of Control Benefits to be subject to the deduction limitations set forth in Section 280G of the Code.

All determinations made pursuant to the foregoing paragraph shall be made by Safeguard's independent public accountant immediately prior to the change of control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to Safeguard and to you within ten days of the termination date. Any such determination by the Accounting Firm shall be binding upon you and Safeguard. You shall then, in your sole discretion, determine which and how much of the Change of Control Benefits shall be eliminated or reduced consistent with the requirements of the foregoing paragraph. All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by Safeguard.

Safeguard will pay you the lump sum payments described above within five business days of the date on which you have signed the release and non-competition agreement and such agreements have become effective and following any determination required by the preceding paragraph. Safeguard will prepare the final release (which will be substantially in the form attached as Exhibit A to this letter, but with such changes, if any, as recommended by Safeguard's counsel) and the final non-competition agreement (which will be substantially in the form attached as Exhibit B to this letter, but with such changes, if any, as recommended by Safeguard's counsel) within five business days of your termination of employment. You will have 21 days in which to consider the release although you may execute it sooner. Please note that the release has a rescission period of seven days after which it becomes effective if not revoked. All other payments will be made to you within five business days of the date on which they become due or, in the case of payments payable on notice from you, within five business days of such notice.

Safeguard will pay interest on late payments at the prime rate at Safeguard's agent bank plus 2 percent compounded monthly. In addition, Safeguard will pay all reasonable costs and expenses (including reasonable attorney's fees and all costs of arbitration) incurred by you to enforce the agreement set forth in this New Agreement or any obligation hereunder.

In this letter, the term "cause" means (a) your failure to adhere to any written Safeguard policy if you have been given a reasonable opportunity to comply with such policy or cure your failure to comply (which reasonable opportunity must be granted during the ten-day period preceding termination of this New Agreement); (b) your appropriation (or attempted appropriation) of a material business opportunity of Safeguard, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of Safeguard; (c) your misappropriation (or attempted misappropriation) of any Safeguard fund or property; or (d) your conviction of, or your entering a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime with respect to which imprisonment is a possible punishment.

In this letter, the term "good reason" means (i) your assignment (without your consent) to a position, title, responsibilities, or duties of a materially lesser status or degree of responsibility than your current position, responsibilities, or duties; provided, however, that a mere change in your area of responsibilities shall not constitute a material change if you are reasonably suited by your education and training for such responsibilities and you remain a member of the Safeguard Managing Directors Committee; (ii) a reduction of your base salary or target bonus opportunity (acknowledging that the payment of any bonus is subject to the discretion of the Compensation Committee of the Board); (iii) the relocation of Safeguard's principal executive offices to a location which is more than 30 miles away from the location of Safeguard's principal executive offices on the date of this New Agreement; or (iv) your assignment (without your consent) to be based anywhere other than Safeguard's principal executive offices. Notwithstanding the foregoing, good reason shall not exist if Safeguard cures such action or failure to act that constitutes good reason within a reasonable period of time (which reasonable period of time shall not be longer than 10 days) following the date you provide Safeguard with notice of your intended resignation for good reason.

A "change of control" shall be deemed to have occurred if (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than any Safeguard employee stock ownership plan or an equivalent retirement plan, becomes the beneficial owner (as such term is used in Section 13(d) of the Exchange Act), directly or indirectly, of securities of Safeguard representing 50% or more of the combined voting power of Safeguard's then outstanding voting securities, (ii) the Board ceases to consist of a majority of Continuing Directors (as defined below), (iii) the consummation of a sale of all or substantially all of Safeguard's assets or a liquidation (as measured by the fair value of the assets being sold compared to the fair value of all of Safeguard's assets), or (iv) a merger or other combination occurs such that a majority of the equity securities of the resultant entity after the transaction are not owned by those who owned a majority of the equity securities of Safeguard prior to the transaction. A "Continuing Director" shall mean a member of the Board of Directors who either (i) is a member of the board of

Directors at the date of this New Agreement or (ii) is nominated or appointed to serve as a Director by a majority of the then Continuing Directors.

The provisions set forth in this New Agreement will inure to the benefit of your personal representative, executors and heirs. In the event you die while any amount payable under the New Agreement remains unpaid, all such amounts will be paid in accordance with the terms and conditions of this letter.

No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and the Board of Safeguard or a duly authorized officer of Safeguard.

You will not be required to mitigate the amount of any payment provided for in this letter by seeking other employment or otherwise.

You acknowledge that the arrangements described in this New Agreement will be the only obligations of Safeguard or its affiliates in connection with any determination by Safeguard to terminate your employment with Safeguard. This New Agreement does not terminate, alter or affect your rights under any plan or program of Safeguard in which you may participate or under which you are due a benefit, except as explicitly set forth herein. Your participation in such plans or programs will be governed by the terms of such plans and programs.

The provisions set forth in this New Agreement will be construed and enforced in accordance with the law of the Commonwealth of Pennsylvania without regard to the conflicts of laws rules of any state.

Any controversy or claim arising out of or relating to this New Agreement, or the breach thereof, will be settled by arbitration in Philadelphia, Pennsylvania, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, using one arbitrator, and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction.

The obligations of Safeguard set forth herein are absolute and unconditional and will not be subject to any right of set-off, counterclaim, recoupment, defense or other right which Safeguard may have against you, subject to, in the event of your termination of employment, your execution of the relevant release and the non-competition agreement set forth in the forms attached to this New Agreement.

Safeguard may withhold applicable taxes and other legally required deductions from all payments to be made hereunder.

Safeguard’s obligations to make payments under this letter are unfunded and unsecured and will be paid out of the general assets of Safeguard.

The New Agreement, together with the Prior Agreement, where applicable, as discussed in the first paragraph of this letter, constitute the entire agreement and understanding with respect

to your severance arrangements, and supersede any and all prior agreements and understandings whether oral or written, relating thereto.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to us the enclosed copy of this letter which will then constitute our legally binding agreement on this subject.

Sincerely,

Safeguard Scientifics, Inc.

By: _____

Title

I agree to the terms and conditions of this letter.

_____

Christopher J. Davis

EXHIBIT A

GENERAL RELEASE AND AGREEMENT

NOTICE :

Various state and federal laws, including the Civil Rights Act of 1964 and 1991 and the Age Discrimination in Employment Act, prohibit employment discrimination based on age, sex, race, color, national origin, religion, disability and veteran status. These laws are enforced through the Equal Employment Opportunity Commission (EEOC), the Department of Labor and state civil rights agencies.

If you sign this General Release and Agreement and accept the agreed-upon special severance allowance and other termination benefits described in the letter addressed to you which accompanies this release, you are giving up your right to file a lawsuit pursuant to the aforementioned federal, state and local laws in local, state or federal courts against Safeguard Scientifics, Inc. and its affiliates (the "Releasees") with respect to any claims relating to your employment or termination therefrom which arise up to the date this Agreement is executed.

By signing this General Release and Agreement you waive your right to recover any damages or other relief in any claim or suit brought by or though the Equal Employment Opportunity Commission or any other state or local agency on your behalf under and federal or state discrimination law, except where prohibited by law. You agree to release and discharge each Releasee not only from any and all claims which you could make on your own behalf, but also specifically waive any right to become, and promise not to become, a member of any class in any proceeding or case in which a claim or claims against a Releasee may arise, in whole or in part, from any event which occurred as of the date of this Agreement. You agree to pay for any legal fees or cost incurred by any Releasee as a result of any breach of the promises in this paragraph. The parties agree that if you, by no action of your own, become a mandatory member of any class from which you cannot, by operation of law or order of court, opt out, you shall not be required to pay for any legal fees or costs incurred by a Releasee as a result.

We encourage you to discuss the following release language with an attorney prior to executing this Agreement. In any event, you should thoroughly review and understand the effect of the agreement set forth below before acting on it. Therefore, please take this release home and consider it for up to twenty-one (21) days before you decide to sign it.

GENERAL RELEASE AND AGREEMENT

This GENERAL RELEASE AND AGREEMENT (hereinafter the "Agreement") is made and entered into as of this day of , 200_, by and between SAFEGUARD SCIENTIFICS, INC. ("Safeguard") and [Name of Managing Director] ("Employee").

1. Background. The parties hereto acknowledge that this Agreement is being entered into pursuant to the terms of the Letter Agreement, dated _____ between Safeguard and Employee (the "Letter Agreement"). As used in this Agreement, any reference to Safeguard shall include its predecessors and successors and, in their capacities as such, all of its present, past, and future directors, officers, employees, attorneys, insurers, agents and assigns, as well as all Safeguard affiliates, subdivisions and subsidiaries; and any reference to Employee shall include, in their capacities as such, his or her attorneys, heirs, administrators, representatives, agents and assigns.

2. Resignation from Boards. Employee shall, and hereby does resign from such Boards and officer positions with Safeguard and all affiliates and partner companies of Safeguard as such employee holds on the date hereof. In this regard, Employee agrees to pre-sign and deliver to Safeguard resignation letters acceptable to Safeguard in order to affect Employee's resignation from certain companies and entities, and Safeguard may submit other such letters from time to time, although nothing contained herein shall prohibit Employee from resigning from such boards and officer positions at an earlier time.

3. General Release.

(a) Employee, for and in consideration of the special severance allowance and other termination benefits offered to him by Safeguard specified in the Letter Agreement and intending to be legally bound, does hereby REMISE, RELEASE AND FOREVER DISCHARGE Safeguard, of and from any and all causes of actions, suits, debts, claims and demands whatsoever in law or in equity, which Employee ever had, now has, or hereafter may have or which Employee's heirs, executors or administrators may have, by reason of any matter, cause or thing whatsoever, from the beginning of Employee's employment with Safeguard to the date of this Agreement, and particularly, but without limitation, any claims arising from or relating in any way to Employee's employment or the termination of Employee's employment relationship with Safeguard, including, but not limited to, any claims arising under any federal, state, or local laws, including Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000e et seq., ("Title VII"), the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq. ("the ADEA"), the Americans with Disabilities Act, 42 U.S.C. § 12101 et seq. ("ADA"), Employee Retirement Income Security Act of 1974, as amended 29 U.S.C. § 301, et seq., as amended ("ERISA"), the Pennsylvania Wage Payment and Collection Law, Pa. Stat. Ann. tit. 43 §§ 260.1-260.11a ("WPCL"), the Pennsylvania Human Relations Act, 43 P.S. § 951 et seq. (the "PHRA"), and any and all other federal, state or local laws, regulations, ordinances or public policies and any common law claims now or hereafter recognized, including claims for wrongful discharge, slander and defamation, as well as all claims for counsel fees and costs.

(b) By signing this Agreement, Employee represents that Employee has not commenced any proceeding against Safeguard in any forum (administrative or judicial)

concerning Employee's employment or the termination thereof. Employee further acknowledges that Employee was given sufficient notice under the Worker Adjustment and Retraining Notification Act (the "WARN Act") and that the termination of Employee's employment does not give rise to any claim or right to notice, or pay or benefits in lieu of notice under the WARN Act. In the event any WARN Act issue does exist or arises in the future, Employee agrees and acknowledges that the payments and benefits set forth in this Agreement shall be applied to any compensation or benefits in lieu of notice required by the WARN Act, provided that any such offset shall not impair or affect the validity of any provision of this Agreement or the Letter Agreement.

(c) Employee agrees that in the event of a breach of any of the terms of this Agreement, Safeguard shall be entitled to recover attorneys' fees and costs in an action to prosecute such breach, in addition to compensatory damages, and may cease to make any payments then due under the Letter Agreement.

(d) Anything herein to the contrary notwithstanding, neither party is released from any obligations under the Letter Agreement and Employee acknowledges that Safeguard's obligations under the Letter Agreement and this Agreement are the only obligations of Safeguard or its affiliates in connection with the severance of Employee's service with Safeguard. This Agreement does not terminate, alter or affect Employee's rights under any plan or program of Safeguard in which Employee may participate and under which Employee is due a benefit, except as explicitly set forth herein. Employee's participation in such plans or programs will be governed by the terms of such plans and programs.

(e) Employee agrees and acknowledges that this Agreement is not and shall not be construed to be an admission by Safeguard of any violation of any federal, state or local statue, ordinance, regulation or of any duty owed by Safeguard to Employee.

4. Confidentiality; Non-Disparagement.

(a) Except to the extent required by law, including SEC disclosure requirements, Safeguard and Employee agree that the terms of this Agreement will be kept confidential by both parties, except that Employee may advise his family and confidential advisors, and Safeguard may advise those people needing to know to implement the above terms.

(b) Employee will not at any time knowingly reveal to any person or entity any of the trade secrets or confidential information of Safeguard or of any third party which Safeguard is under an obligation to keep confidential (including but not limited to trade secrets or confidential information respecting inventions, products, designs, methods, know-how, techniques, systems, processes, software programs, works of authorship, customer lists, projects, plans and proposals), and Employee shall keep secret all confidential matters relating to Safeguard and shall not use or attempt to use any such confidential information in any manner which injures or causes loss or may reasonably be calculated to injure or cause loss whether directly or indirectly to Safeguard. These restrictions contained in this sub-paragraph (b) shall not apply to: (i) information that at the time of disclosure is in the public domain through no fault of Employee's; (ii) information received from a third party outside of Safeguard that was disclosed without a breach of any confidentiality obligation; (iii) information approved for release by written authorization of

Safeguard; or (iv) information that may be required by law or an order of the court, agency or proceeding to be disclosed; provided, that Employee shall provide Safeguard notice of any such required disclosure once Employee has knowledge of it and will help Safeguard at Safeguard's expense to the extent reasonable to obtain an appropriate protective order.

(c) Employee represents that Employee has not taken, used or knowingly permitted to be used any notes, memorandum, reports, list, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of Safeguard or its partner companies or concerning any of its dealings or affairs otherwise than for the benefit of Safeguard. Employee shall not, after the termination of Employee's employment, use or knowingly permit to be used any such notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of Safeguard and that immediately upon the termination of Employee's employment, Employee shall deliver all of the foregoing, and all copies thereof, to Safeguard, at its main office.

(d) In accordance with normal ethical and professional standards, Safeguard and Employee agree that they shall not in any way engage in any conduct or make any statement that would defame or disparage the other, or make to, or solicit for, the media or others, any comments, statements (whether written or oral), and the like that may be considered to be derogatory or detrimental to the good name or business reputation of either party. It is understood and agreed that Safeguard's obligation under this paragraph extends only to the conduct of Safeguard's senior officers. The only exception to the foregoing shall be in those circumstances in which Employee or Safeguard is obligated to provide information in response to an investigation by a duly authorized governmental entity or in connection with legal proceedings.

5. Indemnity.

(a) This Agreement shall not release Safeguard or any of its insurance carriers from any obligation it or they might otherwise have to defend and/or indemnify Employee and hold harmless any other director or officer and Safeguard affirms its obligation to provide indemnification to Employee as a director, officer or former director or officer of Safeguard, as set forth in Safeguard's bylaws and charter documents in effect on January 1, 2003.

(b) Employee agrees that Employee will personally provide reasonable assistance and cooperation to Safeguard in activities related to the prosecution or defense of any pending or future lawsuits or claims involving Safeguard.

6. General.

(a) Employee acknowledges and agrees that he has twenty-one (21) days to consider this Agreement, and that Employee has been advised by Safeguard, in writing, to consult with his attorney before signing this Agreement, and that Employee had discussed this matter with his attorney before signing it. Employee further acknowledges that Safeguard has advised him that he may revoke this Agreement for a period of seven (7) calendar days after it has been executed,

with the understanding that Safeguard has no obligations under this Agreement until the seven (7) day period has passed. If the seventh day is a weekend or national holiday, Employee will have until the next business day to revoke. Any revocation must be in writing and received by Safeguard at its facility located at 800 The Safeguard Building, 435 Devon Park Drive, Wayne, PA 19087.

(b) Employee has carefully read and fully understands all of the provisions of the Notice and the Agreement which set forth the entire agreement between him and Safeguard, and he acknowledges that he has not relied upon any representation or statement, written or oral, not set forth in this document.

(c) This Agreement is made in the Commonwealth of Pennsylvania and shall be interpreted under the laws thereof. Its language shall be construed as a whole, to give effect to its fair meaning and to preserve its enforceability.

(d) Employee agrees that any breach of this Agreement by Employee will cause irreparable damage to Safeguard and that in the event of such breach Safeguard shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of Employee's obligations hereunder.

(e) No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and the Chief Executive Officer of Safeguard or another duly authorized officer of Safeguard.

(f) Any waiver by Safeguard of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

(g) Each covenant, paragraph and division of this Agreement is intended to be severable and distinct, and if any paragraph, subparagraph, provision or term of this Agreement is deemed to be unlawful or unenforceable, such a determination will not impair the legitimacy or enforceability of any other aspect of the Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

Date: _____ _____

[Name of Employee]

SAFEGUARD SCIENTIFICS, INC.

Date: _____

By: _____

Title

EXHIBIT B

NON-COMPETITION AGREEMENT

This NON-COMPETITION AGREEMENT (hereinafter the "Agreement") is made and entered into as of this day of , 200_, by and between SAFEGUARD SCIENTIFICS, INC. (the "Company") and [Name of Managing Director] ("Employee").

1. Background. The parties hereto acknowledge that this Agreement is being entered into pursuant to the terms of the Letter Agreement, dated between the Company and Employee (the "Letter Agreement"). As used in this Agreement, any reference to "Majority Subsidiary" shall mean any person or entity that at the date of this Agreement has a majority of its outstanding voting securities owned directly or indirectly by the Company; "Partner Company" shall mean any person or entity in which, at the date hereof, the Company has made, or is actively considering making, an equity or debt investment or acquisition.

2. Confidentiality and Non-Disclosure. (a) I will not reveal to any person or entity any of the trade secrets or confidential information of the Company or of any Partner Company (including but not limited to trade secrets or confidential information respecting inventions, products, designs, methods, know-how, techniques, systems, processes, software programs, works of authorship, customer lists, employee lists, customer lists, projects, plans and proposals) and I shall keep secret all matters entrusted to me and shall not use or attempt to use any such information in any manner which may injure or cause loss or may be calculated to injure or cause loss, whether directly or indirectly, to the Company. The above restrictions shall not apply to: (i) information that at the time of disclosure is in the public domain through no fault of mine; (ii) information received from a third party outside of the Company that was disclosed without a breach of any confidentiality obligation; (iii) information approved for release by written authorization of the Company; or (iv) information that may be required by law or an order of any court, agency or proceeding to be disclosed; provided, I shall provide the Company notice of any such required disclosure once I have knowledge of it and will help the Company to the extent reasonable to obtain an appropriate protective order.

(b) Upon termination of my employment, I shall not take, use or permit to be used any notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of the Company or any Partner Company concerning any of its dealings or affairs, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of the Company or the Partner Company, as appropriate, and that immediately upon the termination of my employment I shall deliver all of the foregoing, and all copies thereof, to the Company, at its main office.

3. Ownership of Inventions and Ideas. I acknowledge that the Company shall be the sole owner of all patents, patent applications, patent rights, formulas, copyrights, inventions, developments, discoveries, other improvements, data, documentation, drawings, charts, and other written, audio and/or visual materials relating to equipment, methods, products, processes, or programs in connection with or useful to the business of the Company or a Partner Company (collectively, the "Developments") which I, by myself or in conjunction with any other person,

conceived, made, acquired, acquired knowledge of, developed or created during the term of my employment with the Company, free and clear of any claims by me (or any successor or assignee of mine) of any kind or character whatsoever other than my rights under the Letter Agreement. I acknowledge that all copyrightable Developments shall be considered works made for hire under the Federal Copyright Act. I hereby assign and transfer my right, title and interest in and to all such Developments, and agree that I shall, at the request of the Company, execute or cooperate with the Company in any patent applications, execute such assignments, certificates or other instruments, and do any and all other acts, as the Company from time to time reasonably deems necessary or desirable to evidence, establish, maintain, perfect, protect, enforce or defend the Company's right, title and interest in or to any such Developments.

4. Non-Compete. Until the first anniversary of the date hereof (the "Restricted Period"), I agree that I will not:

(i) directly or indirectly solicit, entice or induce any customer of the Company or a Majority Subsidiary to become a customer of any other person, firm or corporation with respect to products and/or services then sold by the Company or to cease doing business with the Company, and I shall not approach any such person, firm or corporation for such purpose or authorize or knowingly approve the taking of such actions by any other person;

(ii) directly or indirectly solicit, recruit or hire any person who was an employee of the Company or a Majority Subsidiary on the date of my termination of employment to work for a third party other than the Company or such Majority Subsidiary or engage in any activity that would cause any employee to violate any agreement with the Company or such Majority Subsidiary; provided that I shall not be prohibited from soliciting any person who, at the time of solicitation, is no longer employed by the Company or a Majority Subsidiary and who was not induced to leave employment in violation of this sub-paragraph (ii); or

(iii) whether alone or as a partner, officer, director, consultant, agent, employee or stockholder of any company or other commercial enterprise, directly or indirectly engage in any business or other activity which is competitive in the same service areas with the products or services being manufactured, marketed, distributed, or provided by the Company or a Majority Subsidiary at the time of termination of my employment ("Competitive Activities"). The foregoing prohibition shall not prevent (i) my ownership of securities of a public company not in excess of five percent (5%) of any class of such securities, or (ii) my employment or engagement by a company or business organization which during the previous 12 months did not generate, or during the next 12 months does not seek to generate, more than 5% of its consolidated revenues from Competitive Activities, provided that my responsibilities for such company or business organization do not require me to engage in Competitive Activities or to violate sub-paragraphs (i) or (ii) of this Section.

5. Reasonable Restrictions. I agree that any breach of this Agreement by me will cause irreparable damage to the Company and that in the event of such breach the Company shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of my obligations hereunder. I hereby acknowledge that the type and periods of restriction imposed in the provisions of this Agreement

are fair and reasonable and are reasonably required for the protection of the Company and the goodwill associated with the business of the Company. I represent that my experience and capabilities are such that the restrictions contained herein will not prevent me from obtaining employment or otherwise earning a living at the same general economic benefit as reasonably required by me. I further agree that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

6. General. Any waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof. No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by me and an officer of the Company authorized to sign such writing by the Board of Directors of Safeguard. My obligations under this Agreement shall survive the termination of my employment regardless of the manner of such termination and shall be binding upon my heirs, executors, administrators and legal representatives. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. Any controversy or claim arising out of or relating to this agreement, or the breach thereof (other than a request for equitable relief) will be settled by arbitration in Philadelphia, Pennsylvania, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, using one arbitrator, and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

Date: _____ _____

[Name of Employee]

SAFEGUARD SCIENTIFICS, INC.

Date: _____

By: _____

Title

Exhibit 10.3

Safeguard Scientifics, Inc., a Pennsylvania corporation (the "Company"), hereby grants to the grantee named below ("Grantee") an option (this "Option") to purchase the total number of shares shown below of Common Stock of the Company (the "Shares") at the exercise price per share set forth below, subject to all of the terms and conditions on the reverse side of this Stock Option Grant Certificate and the _____ Equity Compensation Plan (the "Plan"). Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan. The terms and conditions set forth on the reverse side hereof and the terms and conditions of the Plan are incorporated herein by reference. This Stock Option Grant Certificate shall constitute the "Agreement" for this Option as such term is used in the Plan.

Grant Date:	_____
Type of Option:	Nonqualified Stock Option
Shares Subject to Option:	_____
Exercise Price Per Share:	$ _____
Term of Option:	_____years

Shares subject to issuance under this Option will vest as follows: _____; provided, however, if Grantee's service terminates prior to the date this option would otherwise become fully vested as a result of (i) death, (ii) permanent disability, (iii) retirement on or after his or her 65 th birthday, (iv) upon the occurrence of a Reorganization or Change of Control (as defined in the Plan) or (v) not being nominated by the Corporate Governance Committee for re-election to the Company's Board of Directors if the Compensation Committee has determined that the Grantee is a Retiring Director, this option will be deemed fully vested as of the date of such termination of service.

In witness whereof, this Stock Option Grant Certificate has been executed by the Company by a duly authorized officer as of the date specified hereon.

Safeguard Scientifics, Inc.

By: _____

_____

Grantee hereby acknowledges receipt of a copy of the Plan, represents that Grantee has read the Plan and understands the terms and provisions of the Plan, and accepts this Option subject to all the terms and conditions of the Plan and this Stock Option Grant Certificate. Grantee acknowledges that the grant and exercise of this Option, and the sale of Shares obtained through the exercise of this Option, may have tax implications that could result in adverse tax consequences to the Grantee and that Grantee is not relying on the Company for any tax, financial or legal advice and will consult a tax adviser prior to such exercise or disposition.

1. Option Expiration. The Option shall automatically terminate upon the happening of the first of the following events:

(a) the expiration of the 90-day period after the Grantee ceases to be employed by, or providing services to, the Company, if the termination is for any reason other than disability (as defined in the Plan), death, cause (as defined in the Plan), retirement as provided herein, or not being nominated for re-election to the Company's Board of Directors by the Corporate Governance Committee if the Compensation Committee has determined that the Grantee is a Retiring Director;

(b) the expiration of the one-year period after the Grantee ceases to be employed by, or providing services to, the Company on account of the Grantee's disability;

(c) the expiration of the one-year period after the Grantee ceases to be employed by, or providing services to, the Company if the Grantee dies while employed by the Company or within three months after the Grantee ceases to be so employed or provide such services on account of a termination described in subparagraph (a) above;

(d) the expiration of the one-year period after the Grantee's employment or service terminates as a result of retirement on or after the Grantee's sixty-fifth birthday, or after such earlier date as may be determined by the Committee, in its sole discretion, to be warranted given the particular circumstances surrounding the earlier termination of the Grantee's employment or service;

(e) the expiration of the two-year period after the Grantee's service on the Company's Board of Directors terminates as a result of not being nominated by the Corporate Governance Committee for re-election to the Company's Board of Directors if the Compensation Committee has determined that the Grantee is a Retiring Director;

(f) the date on which the Grantee ceases to be employed by, or providing services to, the Company for cause; or

Notwithstanding the foregoing, in no event may the Option be exercised after the expiration of the Term of Option specified on the reverse side. Any portion of the Option that is not vested at the time the Grantee ceases to be employed by, or providing service to, the Company shall immediately terminate.

In the event a Grantee ceases to be employed by, or providing service to, the Company for cause, the Grantee shall automatically forfeit all shares underlying any exercised portion of an Option for which the Company has not yet delivered the share certificates upon refund by the Company of the exercise price paid by the Grantee for such shares.

2. Exercise Procedures.

(a) Subject to the provisions of this Stock Option Grant Certificate and the Plan, the Grantee may exercise part or all of the vested Option by giving the Company written notice of intent to exercise in the manner provided in Paragraph 11 below, specifying the number of Shares as to which the Option is to be exercised. On the delivery date, the Grantee shall pay the exercise price (i) in cash, (ii) by delivering Shares of the Company (duly endorsed for transfer or accompanied by stock powers signed in blank) which shall be valued at their fair market value on the date of delivery, or (iii) by such other method as the Committee may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board. The Committee may impose from time to time such limitations as it deems appropriate on the use of Shares of the Company to exercise the Option.

(b) The obligation of the Company to deliver Shares upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Grantee (or other person exercising the Option after the Grantee's death) represent that the Grantee is purchasing Shares for the Grantee's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Board deems appropriate. All obligations of the Company under this Stock Option Grant Certificate shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable. Subject to Committee approval, the Grantee may elect to satisfy any income tax withholding obligation of the Company with respect to the Option by having Shares withheld up to an amount that does not exceed the maximum marginal tax rate for federal (including FICA), state and local tax liabilities.

3. Change of Control. The provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Board may take such actions as it deems appropriate pursuant to the Plan.

4. Restrictions on Exercise. Only the Grantee may exercise the Option during the Grantee's lifetime. After the Grantee's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Grantee, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Stock Option Grant Certificate. Notwithstanding the foregoing, the Committee may provide, at or after grant, that a Grantee may transfer non-qualified stock options pursuant to a domestic relations order or to family members or other persons or entities on such terms as the Committee may determine.

5. Grant Subject to Plan Provisions. This grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option are subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the Shares, (iii) capital or other changes of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder.

6. No Employment Rights. The grant of the Option shall not confer upon the Grantee any right to be retained by or in the employ of the Company and shall not interfere in any way with the right of the Company to terminate the Grantee's employment or service at any time. The right of the Company to terminate at will the Grantee's employment or service at any time for any reason is specifically reserved. No policies, procedures or statements of any nature by or on behalf of the Company (whether written or oral, and whether or not contained in any formal employee manual or handbook) shall be construed to modify this Grant Letter or to create express or implied obligations to the Grantee of any nature.

7. No Stockholder Rights. Neither the Grantee, nor any person entitled to exercise the Grantee's rights in the event of the Grantee's death, shall have any of the rights and privileges of a stockholder with respect to the Shares subject to the Option until certificates for Shares have been issued upon the exercise of the Option.

8. No Disclosure. The Grantee acknowledges that the Company has no duty to disclose to the Grantee any material information regarding the business of the Company or affecting the value of the Shares before or at the time of a termination of the Grantee's employment, including without limitation any plans regarding a public offering or merger involving the Company.

9. Assignment and Transfers. The rights and interests of the Grantee under this Stock Option Grant Certificate may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Grantee, by will or by the laws of descent and distribution. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Stock Option Grant Certificate, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Grantee, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Stock Option Grant Certificate may be assigned by the Company without the Grantee's consent.

10. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and determined in accordance with the laws of the Commonwealth of Pennsylvania.

11. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Chief Financial Officer at the Company's headquarters and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

EXHIBIT 10.4

Safeguard Scientifics, Inc., a Pennsylvania corporation (the "Company"), hereby grants to the grantee named below ("Grantee") an option (this "Option") to purchase the total number of shares shown below of Common Stock of the Company (the "Shares") at the exercise price per share set forth below, subject to all of the terms and conditions on the reverse side of this Stock Option Grant Certificate and the _____ Equity Compensation Plan (the "Plan"). Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan. The terms and conditions set forth on the reverse side hereof and the terms and conditions of the Plan are incorporated herein by reference. This Stock Option Grant Certificate shall constitute the "Agreement" for this Option as such term is used in the Plan.

Grant Date:	_____
Type of Option:	Nonqualified Stock Option
Shares Subject to Option:	_____
Exercise Price Per Share:	$ _____
Term of Option:	_____years

Shares subject to issuance under this Option will vest as follows: _____; provided, however, if Grantee's employment terminates prior to the date this option would otherwise become fully vested as a result of (i) death, (ii) permanent disability, (iii) retirement on or after his or her 65 th birthday, (iv) upon the occurrence of a Reorganization or Change of Control (as defined in the Plan), or (v) in the event Grantee's employment is terminated by the Company without cause or Grantee terminates his employment with good reason as set forth in the Grantee's letter agreement with the Company dated _____, this option will be deemed fully vested as of the date of such termination.

Grantee hereby acknowledges receipt of a copy of the Plan, represents that Grantee has read the Plan and understands the terms and provisions of the Plan, and accepts this Option subject to all the terms and conditions of the Plan and this Stock Option Grant Certificate. Grantee acknowledges that the grant and exercise of this Option, and the sale of Shares obtained through the exercise of this Option, may have tax implications that could result in adverse tax consequences to the Grantee and that Grantee is not relying on the Company for any tax, financial or legal advice and will consult a tax adviser prior to such exercise or disposition.

This Option is designated an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). **If the aggregate fair market value of the stock on the date of the grant with respect to which incentive stock options are exercisable for the first time by the Grantee 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 that does not meet the requirements of Section 422.** If and to the extent that the Option fails to qualify as an incentive stock option under the Code, the Option shall remain outstanding according to its terms as a nonqualified stock option.

By accepting an incentive stock option under the Plan, Grantee agrees to notify the Company in writing immediately after he or she makes a disqualifying disposition (as described in the Code and regulations thereunder) of any stock acquired pursuant to the exercise of incentive stock options granted under the Plan. A disqualifying disposition is generally any disposition occurring within two years of the date the incentive stock option was granted or within one year of the date the incentive stock option was exercised, whichever period ends later.

In witness whereof, this Stock Option Grant Certificate has been executed by the Company by a duly authorized officer as of the date specified hereon.

Safeguard Scientifics, Inc.

By: _____

_____

1. Option Expiration. The Option shall automatically terminate upon the happening of the first of the following events:

(a) the expiration of the 90-day period after the Grantee ceases to be employed by, or providing services to, the Company, if the termination is for any reason other than involuntary termination without cause or voluntary termination with good reason (as defined in Grantee's agreement), disability (as defined in the Plan), death, cause (as defined in the Plan), or retirement as provided herein;

(b) the expiration of the three-year period after the Grantee ceases to be employed by, or providing services to, the Company, on account of the Grantee's involuntary termination without cause or voluntary termination with good reason as set forth in the letter agreement between the Company and Grantee dated ;

(c) the expiration of the one-year period after the Grantee ceases to be employed by, or providing services to, the Company on account of the Grantee's disability;

(d) the expiration of the one-year period after the Grantee ceases to be employed by, or providing services to, the Company if the Grantee dies while employed by the Company or within three months after the Grantee ceases to be so employed or provide such services on account of a termination described in subparagraph (a) above;

(e) the date on which the Grantee ceases to be employed by, or providing services to, the Company for cause; or

(f) the expiration of the one-year period after the Grantee's employment or service terminates as a result of retirement on or after the Grantee's sixty-fifth birthday, or after such earlier date as may be determined by the Committee, in its sole discretion, to be warranted given the particular circumstances surrounding the earlier termination of the Grantee's employment or service.

Notwithstanding the foregoing, in no event may the Option be exercised after the expiration of the Term of Option specified on the reverse side. Any portion of the Option that is not vested at the time the Grantee ceases to be employed by, or providing service to, the Company shall immediately terminate.

In the event a Grantee ceases to be employed by, or providing service to, the Company for cause, the Grantee shall automatically forfeit all shares underlying any exercised portion of an Option for which the Company has not yet delivered the share certificates upon refund by the Company of the exercise price paid by the Grantee for such shares.

2. Exercise Procedures.

(a) Subject to the provisions of this Stock Option Grant Certificate and the Plan, the Grantee may exercise part or all of the vested Option by giving the Company written notice of intent to exercise in the manner provided in Paragraph 11 below, specifying the number of Shares as to which the Option is to be exercised. On the delivery date, the Grantee shall pay the exercise price (i) in cash, (ii) by delivering Shares of the Company (duly endorsed for transfer or accompanied by stock powers signed in blank) which shall be valued at their fair market value on the date of delivery, or (iii) by such other method as the Committee may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board. The Committee may impose from time to time such limitations as it deems appropriate on the use of Shares of the Company to exercise the Option.

(b) The obligation of the Company to deliver Shares upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Grantee (or other person exercising the Option after the Grantee's death) represent that the Grantee is purchasing Shares for the Grantee's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Board deems appropriate. All obligations of the Company under this Stock Option Grant Certificate shall be subject to the rights of the Company as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable. Subject to Committee approval, the Grantee may elect to satisfy any income tax withholding obligation of the Company with respect to the Option by having Shares withheld up to an amount that does not exceed the minimum marginal tax rate for federal (including FICA), state and local tax liabilities.

3. Change of Control. The provisions of the Plan applicable to a Change of Control shall apply to the Option, and, in the event of a Change of Control, the Board may take such actions as it deems appropriate pursuant to the Plan.

4. Restrictions on Exercise. Only the Grantee may exercise the Option during the Grantee's lifetime. After the Grantee's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Grantee, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Stock Option Grant Certificate. Notwithstanding the foregoing, the Committee may provide, at or after grant, that a Grantee may transfer nonqualified stock options pursuant to a domestic relations order or to family members or other persons or entities on such terms as the Committee may determine.

5. Grant Subject to Plan Provisions. This grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. The grant and exercise of the Option are subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the Shares, (iii) capital or other changes of the Company, and (iv) other requirements of applicable law. The Committee shall have the authority to interpret and construe the Option pursuant to the terms of the Plan, and its decisions shall be conclusive as to any questions arising hereunder.

6. No Employment Rights. The grant of the Option shall not confer upon the Grantee any right to be retained by or in the employ of the Company and shall not interfere in any way with the right of the Company to terminate the Grantee's employment or service at any time. The right of the Company to terminate at will the Grantee's employment or service at any time for any reason is specifically reserved. No policies, procedures or statements of any nature by or on behalf of the Company (whether written or oral, and whether or not contained in any formal employee manual or handbook) shall be construed to modify this Grant Letter or to create express or implied obligations to the Grantee of any nature.

7. No Stockholder Rights. Neither the Grantee, nor any person entitled to exercise the Grantee's rights in the event of the Grantee's death, shall have any of the rights and privileges of a stockholder with respect to the Shares subject to the Option until certificates for Shares have been issued upon the exercise of the Option.

8. No Disclosure. The Grantee acknowledges that the Company has no duty to disclose to the Grantee any material information regarding the business of the Company or affecting the value of the Shares before or at the time of a termination of the Grantee's employment, including without limitation any plans regarding a public offering or merger involving the Company.

9. Assignment and Transfers. The rights and interests of the Grantee under this Stock Option Grant Certificate may not be sold, assigned, encumbered or otherwise transferred except, in the event of the death of the Grantee, by will or by the laws of descent and distribution. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate, or otherwise dispose of the Option or any right hereunder, except as provided for in this Stock Option Grant Certificate, or in the event of the levy or any attachment, execution or similar process upon the rights or interests hereby conferred, the Company may terminate the Option by notice to the Grantee, and the Option and all rights hereunder shall thereupon become null and void. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company and to the Company's parents, subsidiaries, and affiliates. This Stock Option Grant Certificate may be assigned by the Company without the Grantee's consent.

10. Applicable Law. The validity, construction, interpretation and effect of this instrument shall be governed by and determined in accordance with the laws of the Commonwealth of Pennsylvania.

11. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the Chief Financial Officer at the Company's headquarters and any notice to the Grantee shall be addressed to such Grantee at the current address shown on the payroll of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

EXHIBIT 10.5

SAFEGUARD SCIENTIFICS, INC.
GROUP STOCK UNIT AWARD PROGRAM

Under the Safeguard Scientifics, Inc. _____Equity Compensation Plan

Safeguard Scientifics, Inc. (the "Company") hereby grants to you restricted stock awards that vest over a -year period (the "Award" or "Awards"). The Award entitles you to receive in the future common shares of stock of the Company (the "Shares") under the Safeguard Scientifics, Inc. Equity Compensation Plan (the "Plan"). Set forth below is a brief description of the tax treatment of this Award as well as some of the more significant features and requirements of this Program. However, we encourage you to consult with your tax advisor for any advice you need regarding this Award. To participate in the Program, you need to execute this document, which shall constitute your acknowledgment that all decisions and determinations by the Company shall be final and binding on the Company, you and any other persons having or claiming an interest hereunder.

When an Award becomes vested, as described below, the Company will establish a bookkeeping account in your name (the "Account"). The Account will be credited with the number of Shares subject to the Award. The Account will be subject to the terms of the Plan, including the terms regarding the treatment of stock awards granted under the Plan upon a Change of Control of the Company (as defined in the Plan). When the Company distributes a dividend to its shareholders, the Company will pay you an amount equal to the amount that would have been paid to your Account if you actually owned the Shares.

You will become vested in the Shares attributable to the Award (the "Award Shares") as follows: . The vesting of the Award Shares is cumulative and all Award Shares shall be fully vested on the anniversary of the date the Award Shares were credited to your Account if you continue to be employed by the Company through such date. If the vesting schedule would produce fractional shares, the number of Award Shares that vest shall be rounded up for any portion of a Share equal to .5 or greater or down for any portion of a Share equal to less than .5, in each case to the nearest whole Share. If your employment with the Company terminates for any reason other than death, Disability (as defined in the Plan), retirement on or after age 65 or after a Change of Control (as defined in the Plan) before the Award Shares have become fully vested, Award Shares that are not then vested shall be forfeited and must be immediately returned to the Company. If you terminate due to death, Disability, retirement on or after age 65 or after a Change of Control, all of your Award Shares shall automatically become 100% fully vested.

There are no income tax consequences to you upon the granting or vesting of an Award. Instead, your recognition of ordinary income will be postponed until you actually receive the Shares. The Fair Market Value of the Award Shares, as defined in the Plan, will then be treated as ordinary compensation income on the date you actually receive them. Any amounts that you receive as a result of the distribution of a dividend will also be treated as ordinary compensation income when you actually receive such amounts. When you sell the Award Shares, you will realize capital gain or loss (long-term or short-term, depending on the length of time the Award Shares were held after distribution) in an amount equal to the difference between your tax basis

in the Award Shares and the selling price. Your tax basis will ordinarily be the Fair Market Value of the Award Shares at the time you received them. However, your Award Shares will be subject to withholding for Medicare tax purposes in the year the Award Shares become vested. In addition, the Award Shares may be subject to withholding for Social Security tax purposes in the year the Award Shares become vested to the extent you have not met the Social Security tax wage base. If the Award Shares are paid to you in a year after the Award Shares have become vested, the Award Shares and the appreciation on the Award Shares will be exempt from any additional Medicare or Social Security tax withholding.

You may irrevocably elect, by providing written notice to the Company, to receive all or a portion of the vested Award Shares credited to your Account after the date on which you become vested in such Award Shares, which means that if you are vested in 25% of your Award Shares after one year, you may elect to receive a distribution of all or a portion of this 25%. Such an election must be in writing, set forth the number of vested Award Shares that will be distributed and be filed with the Company one year prior to the date of distribution. In addition, you may elect to have the Award Shares become distributable to you on a date that is later than the one-year anniversary of the date you terminate employment again by notifying the Company of the date on which you wish to receive a distribution. Such notice must be in writing and filed with the Company no later than the date you terminate employment with the Company and once made is irrevocable. Notwithstanding the foregoing, however, distribution of all of your Award Shares must be made by the later of (i) the date on which you attain age 70 or (ii) the fifth anniversary of your termination of employment with the Company. If you do not make any of the foregoing elections, you will receive a distribution of Shares equal to the Award Shares credited to your Account as soon as is practicable after the one-year anniversary of the date you terminate employment with the Company, but in no event later than sixty (60) days after the one-year anniversary of the date you terminate employment.

Following your termination of employment, distribution of your Shares may be made in a single distribution, or over a period of time, not to exceed five annual installments depending on the written election you provide to the Company. You may change this election at any time prior to your termination of employment by providing the Company with a new written election. If you do not make an election, your account balance will be distributed to you in a single lump sum as soon as practicable after the one-year anniversary of your termination of employment, but in no event later than sixty (60) days after the one-year anniversary of the date you terminate employment. However, if your Account balance is less than $50,000 (determined by multiplying the number of Award Shares in your Account by the Fair Market value of the Shares on the date of your termination) on the date you terminate employment with the Company, your Account balance will be distributed to you in a single lump as soon as practicable after your termination of your employment.

In the event the Company determines that you have encountered an unforeseeable hardship, upon receipt of your written request, you may redeem as many Award Shares as necessary to alleviate your hardship up to the number of vested Award Shares in your Account. Shares redeemed as the result of a hardship will be distributed as soon as possible after the Company determines you have encountered an unforeseeable hardship. For purposes of this Program, unforeseeable hardship is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from

foreseeable events such as the purchase of a house or education expenses for children are not considered to be the result of an unforeseeable hardship.

If you die before your Account has been fully paid out, the beneficiary designated on your Designation Form will receive a distribution of a number of Shares equal to the remaining Award Shares credited to your Account as soon as administratively practicable after your death. If your beneficiary predeceases you or if, for some reason, you have not designated a beneficiary, your Award Shares will be paid to your surviving spouse, or, if none, your estate.

Upon request, the Company will provide to you a statement showing the number of Award Shares that have been credited to your Account.

This Program may be amended, suspended or terminated at any time by the Company; provided, however, that no amendment, suspension or termination will adversely affect your rights.

Dated:

Safeguard Scientifics, Inc.

By: _____

Acceptance of Grant:

_____

SAFEGUARD SCIENTIFICS, INC. _____ EQUITY COMPENSATION PLAN
DEFERRED STOCK UNIT PROGRAM
ELECTION FORM

DISTRIBUTIONS

Distributions. shares I receive under the Program ("Award Shares") for the calendar year shall be distributed on , which date is as least one year from the date of this election and is prior to the later of (i) the date on which I attain age 70 or (ii) the date that is five years after the date on which I terminate employment with the Company. I understand that this election is irrevocable. I further understand that if I do not make such an election, 100% of my Award Shares will be distributed to me as soon as practicable after the one-year anniversary of my termination of employment.

FORM OF DISTRIBUTION

I hereby elect to have any Award Shares distributed to me in the following form:

In a single distribution at the distribution time for the Account as discussed above.

In substantially equal annual installments over a period of years [**(not more than 5)**] with the first installment being made at the distribution time for the Account discussed above and the remaining installments being made on each anniversary thereof.

I understand that if I elect to receive a percentage of my Award Shares prior to my termination of employment that I will receive those Award Shares in a single distribution. I further understand that I may change this election up until the earlier of (i) the date that is one year prior to the date on which I have elected to have my Award Shares distributed or (ii) the date I terminate employment.

This election supersedes any prior election I have made under the Plan.

GRANTEE SIGNATURE

_____

Date: _____

Receipt Acknowledged:

By: _____

Title: _____ Date: _____

SAFEGUARD SCIENTIFICS, INC.
____ EQUITY COMPENSATION PLAN
GROUP STOCK UNIT AWARD PROGRAM
BENEFICIARY DESIGNATION

Beneficiary to whom payment is to be made (as above specified) in the event of my death before receiving distribution of the entire balance credited to my Account:

Name	Address

Contingent Beneficiary to whom payment is to be made (as above specified) in the event of my death before receiving payment of the entire balance credited to my Account if the Beneficiary listed above dies before the entire balance has been distributed.

Name	Address

I hereby revoke any Designation of Beneficiary I may previously have made and designate the above as my Beneficiary(ies).

Date: _____

_____

EXHIBIT 10.6

SAFEGUARD SCIENTIFICS, INC.
GROUP DEFERRED STOCK UNIT PROGRAM
FOR DIRECTORS

Under the Safeguard Scientifics, Inc. _____ Equity Compensation Plan

Safeguard Scientifics, Inc. (the "Company") generally pays retainer fees, Board meeting fees, Committee chair retainer fees, and Committee meeting fees to its directors ("Directors Fees"). By filing the attached form (the "Election Form") with the Company you will commence participation in the Safeguard Scientifics, Inc. Group Deferred Stock Unit Program for Directors under the Safeguard Scientifics, Inc. Equity Compensation Plan (the "Program"). For 2004, you may elect to defer Directors Fees to be earned after June 30, 2004. Your participation in the Program will automatically terminate on the date you cease to be a director and are no longer entitled to receive Directors Fees from the Company.

The following sets forth a brief description of the tax treatment associated with your election to participate in the Program as well as some of the more significant features and requirements of the Program. However, we encourage you to consult with your tax advisor before making an election to receive deferred shares in lieu of your Directors Fees.

In general, if you elect to participate in the Program, you may elect to defer all or part of the Directors Fees to be earned after the date of your election. Upon filing your election, you (a) receive in exchange for your Directors Fees a stock award under the Safeguard Scientifics, Inc. Equity Compensation Plan (the "Plan") and (b) defer the receipt of the shares under that stock award until the date you terminate service. The stock award will provide you with the right to receive a number of shares of common stock of the Company that is equal to the sum of (1) your Directors Fees divided by the Fair Market Value (as defined in Section 5(b)(ii) of the Plan) of a share of the Company's common stock (the "Stock"), as of the date on which your Directors Fees otherwise would have been paid (the "Deferral Shares"), plus (2) 25% of your Directors Fees divided by the Fair Market Value of a share of Stock as of the date on which your Directors Fees otherwise would have been paid ("Matching Shares"). If, at the time you make your deferral election, there is a trading blackout period, or if otherwise deemed necessary by the Company, the Directors Fees you elect to defer will be held and invested in a money market account until the close of the blackout period, at which time the deferred Directors Fees will be converted into Deferral Shares and Matching Shares based on the Fair Market Value of a share of Stock on the date the blackout period closed, or, on the date determined by the Company, as applicable.

You will always be fully vested in your Deferral Shares but, upon the date you cease to provide services to the Company, you shall not be entitled to receive your Matching Shares unless such shares have become vested as described below. Your execution of an Election Form shall constitute acknowledgement that all decisions and determinations by the Company shall be final and binding on the Company, you and any other persons having or claiming an interest under the Program.

If you make an election in 2004, your deferral election will apply to Directors Fees to be earned after June 30, 2004 for the 2004 calendar year and for Directors Fees to be earned during

each calendar year thereafter that you remain a director and are entitled to receive Directors Fees from the Company, unless you elect to cease making deferrals on or before November 30 of the calendar year immediately preceding the calendar year for which you wish your deferral election to cease to apply. Your election with respect to 2004 Directors Fees will be irrevocable once made.

To elect to defer all or part of the Director Fees to be earned after June 30, 2004 for the 2004 calendar year (and subsequent calendar years), you must complete and file an Election Form with the Company on or before June 11, 2004. If you choose not to defer Directors Fees for 2004 but would like to defer Directors Fees for a subsequent calendar year, you must complete and file an Election Form on or before November 30 of the calendar year immediately preceding the calendar year for which you wish your deferral election to become effective. Once made, your election will be irrevocable with respect to the initial calendar year for which the election is made, and will remain in effect for all subsequent calendar years, unless you revoke your election as described above. Notwithstanding any provision of the Program to the contrary, an election that is made to defer Directors Fees that is made after you first become eligible to participate in this Program must be made within 30 days after you become eligible.

Upon your filing of the Election Form with the Company, the Company will establish a bookkeeping account in your name (the "Account"). The Account will be credited with the number of Deferral Shares and Matching Shares you will be entitled to receive on a deferred basis. The Deferral Shares and Matching Shares will be subject to the terms of the Plan regarding stock awards, including the terms regarding the treatment of stock awards granted under the Plan upon a Change of Control of the Company (as defined in the Plan).

If the Company distributes a dividend to its shareholders, the Company will pay you an amount equal to the amount that would have been paid to you if you actually owned the Stock represented by the Deferral Shares and Matching Shares. Any amounts that you receive as a result of the distribution of a dividend will also be treated as ordinary income when you actually receive such amounts.

You will become vested in 100% of the Matching Shares upon the first anniversary of the date on which your Directors Fees otherwise would have been paid. If you cease to provide services to the Company for any reason other than death, Disability (as defined in the Plan), upon the occurrence of a Change of Control (as defined in the Plan), retirement on or after your 65 th birthday, or as a result of your not being nominated by the Corporate Governance Committee for re-election to the Company's Board of Directors before the Matching Shares have become fully vested, Matching Shares that are not then vested shall be forfeited and must be immediately returned to the Company. If you terminate due to death, Disability, upon the occurrence of a Change of Control, retirement on or after your 65 th birthday, or as a result of your not being nominated by the Corporate Governance Committee for re-election to the Company's Board of Directors, all of your Matching Shares shall automatically become 100% fully vested.

Ordinarily, upon payment of Directors Fees, you must recognize as ordinary taxable income the amount of such Directors Fees. If you elect to be credited with Deferral Shares and Matching Shares in lieu of cash Directors Fees, your recognition of ordinary income will be postponed until you actually receive the Deferral Shares and Matching Shares. The Fair Market Value of the Stock you receive in respect of the Deferral Shares and the Matching Shares on the

date on which you actually receive them following your termination of service will then be treated as ordinary income. When you sell the Stock, you will realize capital gain or loss (long-term or short-term, depending on the length of time the Stock was held) in an amount equal to the difference between your tax basis in the Stock and the selling price. For the Stock attributable to the Deferral Shares and the Matching Shares, your tax basis will ordinarily be the Fair Market Value of the Stock at the time you receive it.

In order to benefit from this deferred tax treatment for Directors Fees to be earned after June 30, 2004, you must complete and return an Election Form on or before June 11, 2004. As indicated above, your election will relate to Directors Fees earned after June 30, 2004 for the 2004 calendar year and Directors Fees to be earned for each calendar year thereafter unless you revoke your election on or before November 30 of the calendar year preceding the calendar year for which you wish your deferral election to cease to apply. (An Election Form to defer Directors Fees commencing in 2004 is enclosed). If you do not wish to defer Directors Fees for 2004, but would like to defer Directors Fees for a subsequent calendar year, you must return an Election Form on or before November 30 of the calendar year preceding the calendar year for which you wish your election to become effective.

In general, the Stock credited to your Account will be distributed to you as soon as possible after the one-year anniversary of the date you cease to provide services to the Company, but in no event later than sixty (60) days thereafter. However, you may elect to have all or a portion of the Stock in your Account distributed to you on a date that is later than the one year anniversary of the date you cease to provide services to the Company by notifying the Company of the date on which you wish to receive a distribution. Such notice must be in writing, set forth the number of shares of Stock that you request to be distributed and be filed with the Company prior to the date on which you cease to provide services to the Company and is irrevocable. Distribution of all of the Deferral Shares and Matching Shares must be made by the later of (i) the date on which you attain age 70 or (ii) the fifth anniversary of your termination of service with the Company.

You may elect to have the Company distribute Stock to you in a single distribution, or over a period of time, not to exceed five annual installments. You may change this election at any time prior to your termination of service. If you do not make an election, your Account balance will be distributed in a single lump sum as soon as practicable after the one year anniversary of the date you cease to provide services to the Company. However, if your Account balance is less than $50,000 (determined by multiplying the number of shares in your Account by the Fair Market Value of the Shares on the date of your termination) on the date you cease to provide services to the Company, your Account balance will be distributed to you in a single lump sum as soon as reasonably practicable after you cease to provide services to the Company. In the event of a trading blackout period, or as otherwise deemed necessary by the Company, distribution may be delayed until such blackout period closes, or as determined by the Company, as applicable.

In the event the Company determines that you have encountered an unforeseeable hardship, upon receipt of your written request, you may redeem as many Deferral Shares and vested Matching Shares as necessary to alleviate your hardship up to the number of Deferral Shares and vested Matching Shares in your Account. Stock redeemed as the result of a hardship will be distributed as soon as possible after the Company determines you have encountered an

unforeseeable hardship. For purposes of this Program, unforeseeable hardship is an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence. Cash needs arising from foreseeable events such as the purchase of a house or education expenses for children are not considered to be the result of an unforeseeable hardship. Notwithstanding anything in this Program to the contrary, if you receive a distribution of Stock in a calendar year by reason of a hardship, any election you have made under this Program for the remaining portion of the year will be terminated and you will be prohibited from making an election under this Program for the next calendar year.

If you die before your Account has been fully paid out, the beneficiary designated on your Election Form will receive a distribution of a number of shares of Stock equal to the remaining Deferral Shares and Matching Shares credited to your Account as soon as administratively practicable after your death. If your beneficiary predeceases you or if, for some reason, you have not designated a beneficiary, your Deferral Shares and Matching Shares will be paid to your surviving spouse, or, if none, your estate.

Upon request, the Company will provide to you a statement showing the number of Deferral Shares and Matching Shares that have been credited to your Account.

You may make an election to receive Deferral Shares and Matching Shares in lieu of all or part of your Directors Fees and to defer receipt of the Deferral Shares and Matching Shares by completing the attached Election Form and returning it to the Corporate Secretary. If you wish to defer Directors Fees to be earned after June 30, 2004, you must return the completed Election Form no later than June 11, 2004. If you do not wish to make a deferral election for 2004, but wish to defer receipt of Directors Fees for a subsequent calendar year, you must complete an Election Form and return it to the Corporate Secretary no later than November 30 of the calendar year immediately preceding the calendar year for which you wish your deferral election to become effective.

This Program may be amended, suspended or terminated at any time by the Company; provided, however that no amendment, suspension or termination that occurs after Deferral Shares and Matching Shares have been credited to your Account will adversely effect your rights in such Deferral Shares or Matching Shares without your consent. Notwithstanding the foregoing, the Company may amend or terminate the Plan immediately at any time if the Company deems such amendment or termination appropriate to avoid adverse accounting or tax consequences in connection with the Plan or should the financial accounting rules or tax laws applicable to the Plan be revised so as to subject the Company to adverse accounting consequences or to subject the Company or Plan participants to adverse tax consequences, in connection with the Plan, as determined by the Company in its sole discretion. In addition, the Company reserves the right to freeze the Program at any time and to cease all elections then in place to defer additional Directors Fees. Upon such an election, the Company will communicate to you that the Program has been frozen and that no Directors Fees will be deferred under the Program, regardless of any then current election to the contrary. Deferrals of Directors Fees will thereafter not be permitted until such time, if any, as the Company elects to re-institute the Program. Upon such an event, distributions of Deferral Shares and Matching Shares will continue to be made in accordance with the terms of this Program.

If you have any questions, please call the Corporate Secretary at 877-506-7371.

SAFEGUARD SCIENTIFICS, INC. _____ EQUITY COMPENSATION PLAN
DEFERRED STOCK UNIT PROGRAM

DEFERRAL ELECTION FORM

Select and complete the following. Except as indicated below, capitalized terms herein have the same meaning as ascribed to such terms under the Safeguard Scientifics, Inc. Group Deferred Stock Unit Program for Directors Under the Safeguard Scientifics, Inc. 1999 Equity Compensation Plan (the "Program") or under the Safeguard Scientifics, Inc. 1999 Equity Compensation Plan (the "Plan"), as indicated.

☐ Directors Fees. I hereby elect to receive a deferred stock award in lieu of _____% or $_____ (**select either a percentage or indicate a flat dollar amount**) of the Directors Fees (as defined in the Program) I will earn as a result of my serving as a member of the Board of Directors of Safeguard Scientifics, Inc. (the "Company"). I understand that such stock award shall be for a number of shares equal to (a) my Directors Fees divided by the Fair Market Value (as defined in the Plan) of a share of Stock (as defined in the Program) on the date on which I would have otherwise received the Directors Fees (the "Deferral Shares"), plus (b) 25% of my Directors Fees divided by the Fair Market Value of a share of Stock on the date I would otherwise have received my Directors Fees ("Matching Shares"); provided, however, that if at the time I make a deferral election there is a trading blackout period in effect, I understand the Directors Fees I elect to defer will be held and invested in a money market account until the close of the blackout period, at which time the deferred Directors Fees will be converted into Deferral Shares and Matching Shares based on the Fair Market Value of a share of Stock on the date the blackout period closes I understand that once filed, this election will apply to the percentage or dollar amount of Directors Fees indicated above to be earned after June 30, 2004 for the 2004 calendar year and for each calendar year thereafter. I understand that my election is irrevocable with respect to Directors Fees to be earned on or after June 30, 2004 for the 2004 calendar year but that I may revoke this election with respect to subsequent calendar years by filing a notice with the Company no later than November 30 of the calendar year immediately preceding the calendar year for which I wish to revoke my deferral election.

Distributions. I understand that by completing this election form my Deferral Shares and Matching Shares will be distributed to me as soon as is reasonably practicable after the one-year anniversary of the date that I cease to perform services for the Company. I further understand that if I wish to defer distribution of my Deferral Shares and Matching Shares until a date that is after the one-year anniversary of the date I cease to perform services for the Company, I will be required to provide the Company with written notice of the date on which I would like to receive a distribution of my Deferral Shares and Matching Shares, and that such written notice must be received by the Company prior to the date that I cease to provide services to the Company. I further understand that I must receive a distribution of my shares by the later of (i) the date that I attain 70 or (ii) the date that is five years after the date I cease to provide services to the Company.

FORM OF DISTRIBUTION

I hereby elect to have any Deferral Shares and Matching Shares paid to me in the following form *[s elect and complete one of the following]* :

☐ In a single distribution at the distribution time for the Account as discussed above.

☐ In substantially equal annual installments over a period of _____ years **(not more than 5)** with the first installment being made at the distribution time for the Account discussed above and the remaining installments being made each anniversary thereof.

I understand that I may change this election at any time prior to the date I cease to provide services to the Company.

BENEFICIARY DESIGNATION

Beneficiary to whom payment is to be made (as above specified) in the event of my death before receiving payment of the entire balance in my Account:

Name Address

Contingent Beneficiary to whom payment is to be made (as above specified) in the event of my death before receiving payment of the entire balance in my Account if the Beneficiary listed above dies before the entire balance of my Account has been distributed.

Name Address

This election supersedes any prior election I have made under the Plan.

GRANTEE SIGNATURE

Date:

Receipt Acknowledged:

Safeguard Scientifics, Inc.

By:

Date:

Exhibit 10.7

SAFEGUARD SCIENTIFICS, INC.
RESTRICTED STOCK GRANT TERMS
DATE OF GRANT: _____

Safeguard Scientifics, Inc. (the "Company") adopted the Plan (the "Plan") to give participants an ownership interest in the Company and to create an incentive for participants to contribute to our growth, thereby benefiting our stockholders, and aligning the economic interests of the participants with those of our stockholders. This Restricted Stock Grant is granted to (the "Grantee") this day of , , in accordance with the terms of the Plan. Capitalized terms used and not otherwise defined in this Grant are used herein as defined in the Plan.

1. Stock Grant

The Company hereby offers to the Grantee the opportunity to acquire from the Company shares of common stock of the Company, $.10 par value (the "Shares"), for no consideration.

Subject to the Grantee's acceptance of this offer, the Company will issue the Shares in the name of the Grantee, which Shares shall be held in book entry at Mellon Investor Services, LLC, the Company's transfer agent, and shall be subject to restrictions on transfer as set forth in this Restricted Stock Grant.

2. Acceptance by the Grantee; Deposit of Certificates into Escrow

The Grantee shall signify acceptance of the offer to acquire the Shares by delivering to the Company, as escrow agent (the "Escrow Agent"):

(i) a copy of the Acceptance of Grant which has been executed by the Grantee; and

(ii) if, after consulting with his or her personal tax and financial advisor, the Grantee has determined that an 83b election should be made, two executed copies of an 83(b) Election (you may obtain the appropriate form from if you desire to make an 83(b) Election).

Upon receipt from the Grantee of the foregoing items, the Company shall cause Mellon Investor Services, LLC to issue the Shares in Grantee's name, in book entry, to be held in accordance with the terms of this Grant.

3. Vesting and Forfeiture of Unvested Shares.

(a) In the event of Grantee's termination of employment for any reason other than as set forth in Section 3(b) below, Grantee shall forfeit all Shares in which Grantee is not vested at the time of his cessation of service in accordance with the Vesting Schedule set forth in Section 3(b) (hereinafter referred to as the "Unvested Shares").

(b) Grantee shall acquire a vested interest in, and the forfeiture provisions of this paragraph shall lapse with respect to, the Shares as follows: ; provided, however, that in the event of a "Change of Control Event," as hereinafter defined in Section 3(c), the Grantee shall be deemed to be fully vested in any Unvested Shares. In the event of the Grantee's disability, as determined in the sole discretion of the Compensation Committee of the Company's Board of Directors, the Grantee will continue to vest according to the above schedule during the period of disability, and upon return to employment with the Company upon the Grantee's recovery, during the period of the Grantee's re-employment. In the event the Grantee fails to return to employment upon recovery from disability, vesting will cease and any Unvested Shares shall be forfeited.

(c) A "Change of Control Event" is: (i) any merger or consolidation which results in the Company's voting securities outstanding immediately prior thereto representing (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 50% of the combined voting power of the Company's voting securities or such surviving or acquiring entity outstanding immediately after such merger or consolidation; (ii) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act) (a "Person") of beneficial ownership of any of the Company's capital stock if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act) 50% or more of either (A) the then-outstanding shares of the Company's common stock (the "Outstanding Company Common Stock") or (B) the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); PROVIDED, HOWEVER, that for purposes of this subsection (ii), the following acquisitions shall not constitute a Change of Control Event: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction in which all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such transaction beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities.

4. Restrictions

(a) Unvested Shares. All Unvested Shares will be held by the Escrow Agent until they become vested. Upon receipt of the taxes which the Company is required to withhold as set forth in Section 7 below, the Escrow Agent shall deliver to the Grantee the Share certificate registered in the Grantee's name for the Vested Shares. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of any Unvested Shares until the scheduled Vesting Date and then only after all applicable withholding taxes have been paid by the Grantee.

(b) Impermissible Transfers Void. Any attempt to assign, transfer, pledge or otherwise dispose of any Shares contrary to the provisions of this Grant, and the levy of any

execution, attachment or similar process upon any Unvested Shares, shall be null and void and without effect.

5. Effect of Changes in Shares

If any change is made to the common stock of the Company by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, exchange of shares, or any other change in capital structure made without receipt of consideration, then any new, substituted, or additional securities distributed with respect to the Shares shall be immediately subject to the restrictions imposed upon the Shares to the same extent that the Shares immediately prior thereto have been covered by such provisions.

6. Voting of Shares; Dividends

The Grantee shall be entitled to exercise all voting rights in connection with the Shares.

Effective as of the date on which the Grantee signifies acceptance of the Shares, the Grantee shall be entitled to receive any dividends, rights or other distributions payable to stockholders of record of the Company on and after the date of such acceptance; provided, however, that the Grantee shall not have any dividend rights or any other rights whatsoever with respect to any Shares which are forfeited in accordance with the terms of this Agreement.

7. Withholding of Taxes

The Company shall have the right to require the Grantee to pay to the Company, in cash, the amount of any taxes which the Company is required to withhold in respect of this Grant or to take whatever action it deems necessary to protect the interests of the Company in respect of such tax liabilities, including, without limitation, withholding a portion of the Shares, selling for Grantee’s account a portion of the Shares and applying the net proceeds thereof to the payment of such taxes, or deducting from other wages, bonuses or other amounts payable to the Grantee by the Company, any federal, state or local taxes required by law to be withheld with respect to such Grant.

8. No Contract for Employment

Nothing contained in this Grant shall be deemed to require the Company to continue the Grantee’s employment. Except as may be provided in a written employment contract executed by a duly authorized officer of the Company, the Grantee shall at all times be an “employee-at-will” of the Company, and the Company may discharge the Grantee at any time for any reason, with or without cause.

9. Administration

This Grant is made pursuant to the terms, conditions and other provisions of the Plan as in effect on the Date of Grant, and as the Plan may be amended from time to time in accordance with the provisions of the Plan. All questions of interpretation and application of the Plan and of

this Grant shall be determined by the Compensation Committee of the Company's Board of Directors, in its discretion, and any such determination shall be final and binding upon all persons. The validity, construction and effect of this Grant shall be determined in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the principles of conflicts of law thereof.

SAFEGUARD SCIENTIFICS, INC.

By: _____

ACCEPTANCE OF GRANT

(the "Grantee") acknowledges and agrees with the terms and conditions of the attached Grant Letter pursuant to which Safeguard Scientifics, Inc. (the "Company") has offered the Grantee the opportunity to acquire shares of common stock of the Company, $.10 par value (the "Shares").

As a condition to the issuance of the Shares, the Grantee hereby represents and warrants to the Company and agrees with the Company as follows:

1. Disposition of Shares. The Grantee hereby agrees not to sell, assign, transfer, pledge or otherwise dispose of any portion of the Shares unless and until the Grantee shall have complied with all of the requirements of the Grant.

2. Section 83(b) Election. The Grantee understands that under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), the difference between the purchase price (if any) paid for the Shares and their fair market value on the date of vesting would be reportable as ordinary income at such time. The Grantee understands that by filing an election with the Internal Revenue Service pursuant to Section 83(b) of the Code within 30 days after the Date of Grant, in lieu of the foregoing, the Grantee will be taxed at the time the Shares are granted to the Grantee on the fair market value of the Shares.

The Section 83(b) election, which may avoid adverse tax consequences in the future, must be made within the 30-day period after the Date of Grant. The form for making this election may be obtained from . THE GRANTEE ACKNOWLEDGES THAT IT IS THE GRANTEE'S SOLE RESPONSIBILITY TO SEEK ADVICE REGARDING SECTION 83(B). THE GRANTEE REPRESENTS THAT HE OR SHE IS RELYING SOLELY ON HIS OR HER ADVISORS WITH RESPECT TO THIS SECTION 83(B) ELECTION, AND THE COMPANY SHALL HAVE NO RESPONSIBILITY OR LIABILITY IN CONNECTION THEREWITH.

3. Withholding of Taxes. The Grantee understands that the Company shall have the right to require the Grantee to pay to the Company the amount of any taxes which the Company is required to withhold in respect of this grant or to take whatever action it deems necessary to protect the interests of the Company in respect of such tax liabilities, including, without limitation, withholding a portion of the Shares, selling for Grantee's account a portion of the Shares and applying the net proceeds thereof to the payment of such taxes, or deducting from other wages, bonuses or other amounts payable to the Grantee by the Company, any federal, state or local taxes required by law to be withheld with respect to such Grant.

The Grantee understands that Vested Shares will not be released to the Grantee until such time as the Company has received any taxes that the Company is required to withhold in respect of the Vested Shares.

The Grantee, intending to be legally bound hereby, has executed this Acceptance of Grant as of the date set forth below.

Dated: _____

GRANTEE:

_____

EXHIBIT 10.8

September 10, 2003

Anthony Ibarguen
Safeguard Scientifics, Inc.
435 Devon Park Drive
Wayne, PA 19087

Dear Mr. Ibarguen:

You previously entered into an employment letter agreement with Safeguard Scientifics, Inc. ("Safeguard") on January 2, 2002 (the "Prior Agreement"). Safeguard considers it essential to the best interests of its stockholders to foster your continued employment with Safeguard and to offer you protection in the event of your severance, including following a change of control. Accordingly, the Board of Directors of Safeguard (the "Board") believes it is now appropriate to modify your Prior Agreement in certain respects and to reaffirm its obligation to you in this letter (the "New Agreement"). Accordingly, this New Agreement serves to amend and restate in its entirety Section 6 of the Prior Agreement. Consequently the Prior Agreement shall remain in full force and effect except that the provisions of Section 6 thereof shall be replaced in their entirety and shall be superseded by the New Agreement.

Subject to the terms and conditions set forth below, in the event that (A) your employment with Safeguard is terminated by Safeguard without cause or by you for good reason within eighteen (18) months following a change of control of Safeguard ("Change of Control Termination") or (B) you are terminated for any reason other than for cause or resignation without good reason (such a termination, a "Severance Termination"), Safeguard shall provide you with the following benefits, which together with any benefits provided under the applicable terms of any other plan or program sponsored by the Safeguard, and applicable to you, shall be the only severance benefits or other payments in respect of your employment with Safeguard to which you shall be entitled. The benefits you receive under this New Agreement will be in respect of all salary, accrued vacation and other rights that you may have against Safeguard or its affiliates.

- You will receive a payment in respect of your current year's bonus equal to the average bonus percentage of annual base salary paid to other members of Safeguard's Managing Directors Committee as determined at the end of

Safeguard's fiscal year multiplied by a fraction, the numerator of which is the number of days in Safeguard's fiscal year elapsed at the time of the termination and the denominator of which is 365. Payment under this provision will be made within a reasonable period of time after the end of Safeguard's fiscal year for which the payment is being made.

• If (A) there is a Change of Control Termination or (B) a Severance Termination occurs after the later of (1) the third anniversary of your date of employment or (2) October 12, 2003 (collectively the "Service Requirements"), you will receive a lump sum payment equal to the product of (i) 2 multiplied by (ii) the sum of your annual base salary (of at least $310,000) plus the average of your actual bonus as received for the last three completed fiscal years during which you were a Managing Director (taking into account the value of any equity grants received by you during such period in lieu of cash bonuses). If there has been no Change of Control termination but there has been a Severance Termination before the Service Requirements are met, you will receive a lump sum payment equal to the product of (i) 1.5 multiplied by (ii) the sum of your annual base salary (of at least $310,000) plus the average of your actual bonus as received for the last three completed fiscal years during which you held your current position on the date of this letter (taking into account the value of any equity grants received by you during such period in lieu of cash bonuses)

• Except as provided below, you will only vest in your interests under and you will receive benefits in accordance with the terms and conditions set forth in Safeguard's various long term incentive plans.

• You will receive up to twenty four (24) months continued coverage under Safeguard's medical and health plans and life insurance plans, which coverage shall run concurrent with the coverage provided under section 4980B of the Code; or as an alternative, at the discretion of the Board, the Board may elect to pay you in lieu of such coverage an amount equal to your cost of continuing such coverage. You should consult with Safeguard's Manager of Human Resources concerning the process for assuming ownership of and continued premium payments for any whole life policy at end of such twenty four (24) month period.

• You will receive up to $20,000 as a reimbursement for documented outplacement services or office space which you secure.

• You will be reimbursed promptly for all your reasonable and necessary business expenses incurred on behalf of Safeguard prior to your termination date in accordance with Safeguard's customary policies.

• If you experience a Change of Control Termination as described above, you will become fully vested in all of your outstanding stock options and you may exercise those stock options during the thirty six (36) month period following

your termination of employment (unless any of the options would by their terms expire sooner, in which case you may exercise such options at any time before their expiration) and you will become fully vested in all of your outstanding restricted stock awards and deferred stock units, if any.

• If your employment with Safeguard is terminated, for any reason, other than cause or your resignation without good reason, you will become fully vested in your outstanding stock options and you may exercise those stock options during the 36 month period following your termination of employment (unless any of the options would by their terms expire sooner, in which case you may exercise such options at any time before their expiration). In addition, upon such a termination, your restricted stock grants made before October, 2002 will become fully vested and the Board, in its discretion may accelerate the vesting of any restricted stock grants and deferred stock units, if any, made or credited after October, 2002.

All compensation and benefits described in this New Agreement will be offered in return for and contingent on your execution and non-revocation of a release and non-competition agreement substantially in the forms attached to this letter.

Upon your termination of employment with Safeguard in connection with a change of control, as discussed above, if it is determined that any payment or distribution by Safeguard of benefits provided under this New Agreement or any other benefits due upon a change of control (the "Change of Control Benefits") would constitute an "excess parachute payment" within the meaning of section 280G of the Code that would be subject to an excise tax under section 4999 of the Code (the "Excise Tax") the following provisions shall apply, unless provided otherwise in the applicable plan, program or agreement that provides change of control payments that are not paid pursuant to this New Agreement. If the aggregate present value to you of receiving the Change of Control Benefits and paying the Excise Tax is not greater than the aggregate present value to you of the Change of Control Benefits reduced to the safe harbor amount (as defined below), then Safeguard shall reduce the Change of Control Benefits such that the aggregate present value to you of receiving the Change of Control Benefits is equal to the safe harbor amount. Otherwise you shall receive the full amount of the Change of Control Benefits and you shall be responsible for payment of the Excise Tax. For purposes of this paragraph "present value" shall be determined in accordance with Section 280G(d)(4) of the Code and the term "safe harbor amount" shall mean an amount expressed in the present value that maximizes the aggregate present value of the Change of Control Benefits without causing any of the Change of Control Benefits to be subject to the deduction limitations set forth in Section 280G of the Code.

All determinations made pursuant to the foregoing paragraph shall be made by Safeguard's independent public accountant immediately prior to the change of control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to Safeguard and to you within ten days of the termination date. Any

such determination by the Accounting Firm shall be binding upon you and Safeguard. You shall then, in your sole discretion, determine which and how much of the Change of Control Benefits shall be eliminated or reduced consistent with the requirements of the foregoing paragraph. All of the fees and expenses of the Accounting Firm in performing the determinations referred to above shall be borne solely by Safeguard.

Safeguard will pay you the lump sum payments described above within five business days of the date on which you have signed the release and non-competition agreement and such agreements have become effective and following any determination required by the preceding paragraph. Safeguard will prepare the final release (which will be substantially in the form attached as Exhibit A to this letter, but with such changes, if any, as recommended by Safeguard's counsel) and the final non-competition agreement (which will be substantially in the form attached as Exhibit B to this letter, but with such changes, if any, as recommended by Safeguard's counsel) within five business days of your termination of employment. You will have 21 days in which to consider the release although you may execute it sooner. Please note that the release has a rescission period of seven days after which it becomes effective if not revoked. All other payments will be made to you within five business days of the date on which they become due or, in the case of payments payable on notice from you, within five business days of such notice.

Safeguard will pay interest on late payments at the prime rate at Safeguard's agent bank plus 2 percent compounded monthly. In addition, Safeguard will pay all reasonable costs and expenses (including reasonable attorney's fees and all costs of arbitration) incurred by you to enforce the agreement set forth in this New Agreement or any obligation hereunder.

In this letter, the term "cause" means (a) your failure to adhere to any written Safeguard policy if you have been given a reasonable opportunity to comply with such policy or cure your failure to comply (which reasonable opportunity must be granted during the ten-day period preceding termination of this New Agreement); (b) your appropriation (or attempted appropriation) of a material business opportunity of Safeguard, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of Safeguard; (c) your misappropriation (or attempted misappropriation) of any Safeguard fund or property; or (d) your conviction of, or your entering a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime with respect to which imprisonment is a possible punishment.

In this letter, the term "good reason" means (i) your assignment (without your consent) to a position, title, responsibilities, or duties of a materially lesser status or degree of responsibility than your current position, responsibilities, or duties; provided, however, that a mere change in your area of responsibilities shall not constitute a material change if you are reasonably suited by your education and training for such responsibilities and you remain a member of the Safeguard Managing Directors Committee; (ii) a reduction of your base salary or target bonus opportunity (acknowledging that the payment of any bonus is subject to the discretion of the

Compensation Committee of the Board); (iii) the relocation of Safeguard's principal executive offices to a location which is more than 30 miles away from the location of Safeguard's principal executive offices on the date of this New Agreement; or (iv) your assignment (without your consent) to be based anywhere other than Safeguard's principal executive offices. Notwithstanding the foregoing, good reason shall not exist if Safeguard cures such action or failure to act that constitutes good reason within a reasonable period of time (which reasonable period of time shall not be longer than 10 days) following the date you provide Safeguard with notice of your intended resignation for good reason.

A "change of control" shall be deemed to have occurred if (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than any Safeguard employee stock ownership plan or an equivalent retirement plan, becomes the beneficial owner (as such term is used in Section 13(d) of the Exchange Act), directly or indirectly, of securities of Safeguard representing 50% or more of the combined voting power of Safeguard's then outstanding voting securities, (ii) the Board ceases to consist of a majority of Continuing Directors (as defined below), (iii) the consummation of a sale of all or substantially all of Safeguard's assets or a liquidation (as measured by the fair value of the assets being sold compared to the fair value of all of Safeguard's assets), or (iv) a merger or other combination occurs such that a majority of the equity securities of the resultant entity after the transaction are not owned by those who owned a majority of the equity securities of Safeguard prior to the transaction. A "Continuing Director" shall mean a member of the Board of Directors who either (i) is a member of the board of Directors at the date of this New Agreement or (ii) is nominated or appointed to serve as a Director by a majority of the then Continuing Directors.

The provisions set forth in this New Agreement will inure to the benefit of your personal representative, executors and heirs. In the event you die while any amount payable under the New Agreement remains unpaid, all such amounts will be paid in accordance with the terms and conditions of this letter.

No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and the Board of Safeguard or a duly authorized officer of Safeguard.

You will not be required to mitigate the amount of any payment provided for in this letter by seeking other employment or otherwise.

You acknowledge that the arrangements described in this New Agreement will be the only obligations of Safeguard or its affiliates in connection with any determination by Safeguard to terminate your employment with Safeguard. This New Agreement does not terminate, alter or affect your rights under any plan or program of Safeguard in which you may participate or under which you are due a benefit, except as explicitly set forth herein.

Your participation in such plans or programs will be governed by the terms of such plans and programs.

The provisions set forth in this New Agreement will be construed and enforced in accordance with the law of the Commonwealth of Pennsylvania without regard to the conflicts of laws rules of any state.

Any controversy or claim arising out of or relating to this New Agreement, or the breach thereof, will be settled by arbitration in Philadelphia, Pennsylvania, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, using one arbitrator, and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction.

The obligations of Safeguard set forth herein are absolute and unconditional and will not be subject to any right of set-off, counterclaim, recoupment, defense or other right which Safeguard may have against you, subject to, in the event of your termination of employment, your execution of the relevant release and the non-competition agreement set forth in the forms attached to this New Agreement.

Safeguard may withhold applicable taxes and other legally required deductions from all payments to be made hereunder.

Safeguard's obligations to make payments under this letter are unfunded and unsecured and will be paid out of the general assets of Safeguard.

The New Agreement, together with the Prior Agreement, where applicable, as discussed in the first paragraph of this letter, constitute the entire agreement and understanding with respect to your severance arrangements, and supersede any and all prior agreements and understandings whether oral or written, relating thereto. If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to us the enclosed copy of this letter which will then constitute our legally binding agreement on this subject.

Sincerely,

Safeguard Scientifics, Inc.
By: ANTHONY L. CRAIG

Title:

I agree to the terms and conditions of this letter.

ANTHONY IBARGUEN

Anthony Ibarguen

EXHIBIT A
GENERAL RELEASE AND AGREEMENT

NOTICE :

Various state and federal laws, including the Civil Rights Act of 1964 and 1991 and the Age Discrimination in Employment Act, prohibit employment discrimination based on age, sex, race, color, national origin, religion, disability and veteran status. These laws are enforced through the Equal Employment Opportunity Commission (EEOC), the Department of Labor and state civil rights agencies.

If you sign this General Release and Agreement and accept the agreed-upon special severance allowance and other termination benefits described in the letter addressed to you which accompanies this release, you are giving up your right to file a lawsuit pursuant to the aforementioned federal, state and local laws in local, state or federal courts against Safeguard Scientifics, Inc. and its affiliates (the "Releasees") with respect to any claims relating to your employment or termination therefrom which arise up to the date this Agreement is executed.

By signing this General Release and Agreement you waive your right to recover any damages or other relief in any claim or suit brought by or though the Equal Employment Opportunity Commission or any other state or local agency on your behalf under and federal or state discrimination law, except where prohibited by law. You agree to release and discharge each Releasee not only from any and all claims which you could make on your own behalf, but also specifically waive any right to become, and promise not to become, a member of any class in any proceeding or case in which a claim or claims against a Releasee may arise, in whole or in part, from any event which occurred as of the date of this Agreement. You agree to pay for any legal fees or cost incurred by any Releasee as a result of any breach of the promises in this paragraph. The parties agree that if you, by no action of your own, become a mandatory member of any class from which you cannot, by operation of law or order of court, opt out, you shall not be required to pay for any legal fees or costs incurred by a Releasee as a result.

We encourage you to discuss the following release language with an attorney prior to executing this Agreement. In any event, you should thoroughly review and understand the effect of the agreement set forth below before acting on it. Therefore, please take this release home and consider it for up to twenty-one (21) days before you decide to sign it.

GENERAL RELEASE AND AGREEMENT

This GENERAL RELEASE AND AGREEMENT (hereinafter the "Agreement") is made and entered into as of this _____day of ____ _____, 200_, by and between SAFEGUARD SCIENTIFICS, INC. ("Safeguard") and [Name of Managing Director] ("Employee").

1. Background. The parties hereto acknowledge that this Agreement is being entered into pursuant to the terms of the Letter Agreement, dated _ _____between Safeguard and Employee (the "Letter Agreement"). As used in this Agreement, any reference to Safeguard shall include its predecessors and successors and, in their capacities as such, all of its present, past, and future directors, officers, employees, attorneys, insurers, agents and assigns, as well as all Safeguard affiliates, subdivisions and subsidiaries; and any reference to Employee shall include, in their capacities as such, his or her attorneys, heirs, administrators, representatives, agents and assigns.

2. Resignation from Boards. Employee shall, and hereby does resign from such Boards and officer positions with Safeguard and all affiliates and partner companies of Safeguard as such employee holds on the date hereof. In this regard, Employee agrees to pre-sign and deliver to Safeguard resignation letters acceptable to Safeguard in order to affect Employee's resignation from certain companies and entities, and Safeguard may submit other such letters from time to time, although nothing contained herein shall prohibit Employee from resigning from such boards and officer positions at an earlier time.

3. General Release.

(a) Employee, for and in consideration of the special severance allowance and other termination benefits offered to him by Safeguard specified in the Letter Agreement and intending to be legally bound, does hereby REMISE, RELEASE AND FOREVER DISCHARGE Safeguard, of and from any and all causes of actions, suits, debts, claims and demands whatsoever in law or in equity, which Employee ever had, now has, or hereafter may have or which Employee's heirs, executors or administrators may have, by reason of any matter, cause or thing whatsoever, from the beginning of Employee's employment with Safeguard to the date of this Agreement, and particularly, but without limitation, any claims arising from or relating in any way to Employee's employment or the termination of Employee's employment relationship with Safeguard, including, but not limited to, any claims arising under any federal, state, or local laws, including Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000e et seq., ("Title VII"), the Age Discrimination in Employment Act, 29 U.S.C. § 621 et seq. ("the ADEA"), the Americans with Disabilities Act, 42 U.S.C. § 12101 et seq. ("ADA"), Employee Retirement Income Security Act of 1974, as amended 29 U.S.C. § 301, et seq., as amended ("ERISA"), the Pennsylvania Wage Payment and Collection Law, Pa. Stat. Ann. tit. 43 §§ 260.1-260.11a ("WPCL"), the Pennsylvania Human Relations Act, 43 P.S. § 951 et seq. (the "PHRA"), and any and all other federal, state or local laws, regulations, ordinances or public policies and any common law claims now or hereafter recognized,

including claims for wrongful discharge, slander and defamation, as well as all claims for counsel fees and costs.

(b) By signing this Agreement, Employee represents that Employee has not commenced any proceeding against Safeguard in any forum (administrative or judicial) concerning Employee's employment or the termination thereof. Employee further acknowledges that Employee was given sufficient notice under the Worker Adjustment and Retraining Notification Act (the "WARN Act") and that the termination of Employee's employment does not give rise to any claim or right to notice, or pay or benefits in lieu of notice under the WARN Act. In the event any WARN Act issue does exist or arises in the future, Employee agrees and acknowledges that the payments and benefits set forth in this Agreement shall be applied to any compensation or benefits in lieu of notice required by the WARN Act, provided that any such offset shall not impair or affect the validity of any provision of this Agreement or the Letter Agreement.

(c) Employee agrees that in the event of a breach of any of the terms of this Agreement, Safeguard shall be entitled to recover attorneys' fees and costs in an action to prosecute such breach, in addition to compensatory damages, and may cease to make any payments then due under the Letter Agreement.

(d) Anything herein to the contrary notwithstanding, neither party is released from any obligations under the Letter Agreement and Employee acknowledges that Safeguard's obligations under the Letter Agreement and this Agreement are the only obligations of Safeguard or its affiliates in connection with the severance of Employee's service with Safeguard. This Agreement does not terminate, alter or affect Employee's rights under any plan or program of Safeguard in which Employee may participate and under which Employee is due a benefit, except as explicitly set forth herein. Employee's participation in such plans or programs will be governed by the terms of such plans and programs.

(e) Employee agrees and acknowledges that this Agreement is not and shall not be construed to be an admission by Safeguard of any violation of any federal, state or local statue, ordinance, regulation or of any duty owed by Safeguard to Employee.

4. Confidentiality; Non-Disparagement.

(a) Except to the extent required by law, including SEC disclosure requirements, Safeguard and Employee agree that the terms of this Agreement will be kept confidential by both parties, except that Employee may advise his family and confidential advisors, and Safeguard may advise those people needing to know to implement the above terms.

(b) Employee will not at any time knowingly reveal to any person or entity any of the trade secrets or confidential information of Safeguard or of any third party which Safeguard is under an obligation to keep confidential (including but not limited to trade secrets or confidential information respecting inventions, products, designs,

methods, know-how, techniques, systems, processes, software programs, works of authorship, customer lists, projects, plans and proposals), and Employee shall keep secret all confidential matters relating to Safeguard and shall not use or attempt to use any such confidential information in any manner which injures or causes loss or may reasonably be calculated to injure or cause loss whether directly or indirectly to Safeguard. These restrictions contained in this sub-paragraph (b) shall not apply to: (i) information that at the time of disclosure is in the public domain through no fault of Employee's; (ii) information received from a third party outside of Safeguard that was disclosed without a breach of any confidentiality obligation; (iii) information approved for release by written authorization of Safeguard; or (iv) information that may be required by law or an order of the court, agency or proceeding to be disclosed; provided, that Employee shall provide Safeguard notice of any such required disclosure once Employee has knowledge of it and will help Safeguard at Safeguard's expense to the extent reasonable to obtain an appropriate protective order.

(c) Employee represents that Employee has not taken, used or knowingly permitted to be used any notes, memorandum, reports, list, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of Safeguard or its partner companies or concerning any of its dealings or affairs otherwise than for the benefit of Safeguard. Employee shall not, after the termination of Employee's employment, use or knowingly permit to be used any such notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of Safeguard and that immediately upon the termination of Employee's employment, Employee shall deliver all of the foregoing, and all copies thereof, to Safeguard, at its main office.

(d) In accordance with normal ethical and professional standards, Safeguard and Employee agree that they shall not in any way engage in any conduct or make any statement that would defame or disparage the other, or make to, or solicit for, the media or others, any comments, statements (whether written or oral), and the like that may be considered to be derogatory or detrimental to the good name or business reputation of either party. It is understood and agreed that Safeguard's obligation under this paragraph extends only to the conduct of Safeguard's senior officers. The only exception to the foregoing shall be in those circumstances in which Employee or Safeguard is obligated to provide information in response to an investigation by a duly authorized governmental entity or in connection with legal proceedings.

5. Indemnity.

(a) This Agreement shall not release Safeguard or any of its insurance carriers from any obligation it or they might otherwise have to defend and/or indemnify Employee and hold harmless any other director or officer and Safeguard affirms its obligation to provide indemnification to Employee as a director, officer or former director or officer of

Safeguard, as set forth in Safeguard's bylaws and charter documents in effect on January 1, 2003.

(b) Employee agrees that Employee will personally provide reasonable assistance and cooperation to Safeguard in activities related to the prosecution or defense of any pending or future lawsuits or claims involving Safeguard.

6. General.

(a) Employee acknowledges and agrees that he has twenty-one (21) days to consider this Agreement, and that Employee has been advised by Safeguard, in writing, to consult with his attorney before signing this Agreement, and that Employee had discussed this matter with his attorney before signing it. Employee further acknowledges that Safeguard has advised him that he may revoke this Agreement for a period of seven (7) calendar days after it has been executed, with the understanding that Safeguard has no obligations under this Agreement until the seven (7) day period has passed. If the seventh day is a weekend or national holiday, Employee will have until the next business day to revoke. Any revocation must be in writing and received by Safeguard at its facility located at 800 The Safeguard Building, 435 Devon Park Drive, Wayne, PA 19087.

(b) Employee has carefully read and fully understands all of the provisions of the Notice and the Agreement which set forth the entire agreement between him and Safeguard, and he acknowledges that he has not relied upon any representation or statement, written or oral, not set forth in this document.

(c) This Agreement is made in the Commonwealth of Pennsylvania and shall be interpreted under the laws thereof. Its language shall be construed as a whole, to give effect to its fair meaning and to preserve its enforceability.

(d) Employee agrees that any breach of this Agreement by Employee will cause irreparable damage to Safeguard and that in the event of such breach Safeguard shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of Employee's obligations hereunder.

(e) No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and the Chief Executive Officer of Safeguard or another duly authorized officer of Safeguard.

(f) Any waiver by Safeguard of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

(g) Each covenant, paragraph and division of this Agreement is intended to be severable and distinct, and if any paragraph, subparagraph, provision or term of this

Agreement is deemed to be unlawful or unenforceable, such a determination will not impair the legitimacy or enforceability of any other aspect of the Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

Date: _____

_____
[Name of Employee]

SAFEGUARD SCIENTIFICS, INC.

Date: _____

By: _____
Title

EXHIBIT B

NON-COMPETITION AGREEMENT

This NON-COMPETITION AGREEMENT (hereinafter the "Agreement") is made and entered into as of this _____day of _____ _, 200_, by and between SAFEGUARD SCIENTIFICS, INC. (the "Company") and [Name of Managing Director] ("Employee").

1. Background. The parties hereto acknowledge that this Agreement is being entered into pursuant to the terms of the Letter Agreement, dated _____between the Company and Employee (the "Letter Agreement"). As used in this Agreement, any reference to "Majority Subsidiary" shall mean any person or entity that at the date of this Agreement has a majority of its outstanding voting securities owned directly or indirectly by the Company; "Partner Company" shall mean any person or entity in which, at the date hereof, the Company has made, or is actively considering making, an equity or debt investment or acquisition.

2. Confidentiality and Non-Disclosure. (a) I will not reveal to any person or entity any of the trade secrets or confidential information of the Company or of any Partner Company (including but not limited to trade secrets or confidential information respecting inventions, products, designs, methods, know-how, techniques, systems, processes, software programs, works of authorship, customer lists, employee lists, customer lists, projects, plans and proposals) and I shall keep secret all matters entrusted to me and shall not use or attempt to use any such information in any manner which may injure or cause loss or may be calculated to injure or cause loss, whether directly or indirectly, to the Company. The above restrictions shall not apply to: (i) information that at the time of disclosure is in the public domain through no fault of mine; (ii) information received from a third party outside of the Company that was disclosed without a breach of any confidentiality obligation; (iii) information approved for release by written authorization of the Company; or (iv) information that may be required by law or an order of any court, agency or proceeding to be disclosed; provided, I shall provide the Company notice of any such required disclosure once I have knowledge of it and will help the Company to the extent reasonable to obtain an appropriate protective order.

(b) Upon termination of my employment, I shall not take, use or permit to be used any notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of the Company or any Partner Company concerning any of its dealings or affairs, it being agreed that all of the foregoing shall be and remain the sole and exclusive property of the Company or the Partner Company, as appropriate, and that immediately upon the termination of my employment I shall deliver all of the foregoing, and all copies thereof, to the Company, at its main office.

3. Ownership of Inventions and Ideas. I acknowledge that the Company shall be the sole owner of all patents, patent applications, patent rights, formulas, copyrights, inventions, developments, discoveries, other improvements, data, documentation, drawings, charts, and other written, audio and/or visual materials relating to equipment, methods, products, processes, or programs in connection with or useful to the business of the Company or a Partner Company (collectively, the "Developments") which I, by myself or in conjunction with any other person, conceived, made, acquired, acquired knowledge of, developed or created during the term of my employment with the Company, free and clear of any claims by me (or any successor or assignee of mine) of any kind or character whatsoever other than my rights under the Letter Agreement. I acknowledge that all copyrightable Developments shall be considered works made for hire under the Federal Copyright Act. I hereby assign and transfer my right, title and interest in and to all such Developments, and agree that I shall, at the request of the Company, execute or cooperate with the Company in any patent applications, execute such assignments, certificates or other instruments, and do any and all other acts, as the Company from time to time reasonably deems necessary or desirable to evidence, establish, maintain, perfect, protect, enforce or defend the Company's right, title and interest in or to any such Developments.

4. Non-Compete. Until the first anniversary of the date hereof (the "Restricted Period"), I agree that I will not:

(i) directly or indirectly solicit, entice or induce any customer of the Company or a Majority Subsidiary to become a customer of any other person, firm or corporation with respect to products and/or services then sold by the Company or to cease doing business with the Company, and I shall not approach any such person, firm or corporation for such purpose or authorize or knowingly approve the taking of such actions by any other person;

(ii) directly or indirectly solicit, recruit or hire any person who was an employee of the Company or a Majority Subsidiary on the date of my termination of employment to work for a third party other than the Company or such Majority Subsidiary or engage in any activity that would cause any employee to violate any agreement with the Company or such Majority Subsidiary; provided that I shall not be prohibited from soliciting any person who, at the time of solicitation, is no longer employed by the Company or a Majority Subsidiary and who was not induced to leave employment in violation of this sub-paragraph (ii); or

(iii) whether alone or as a partner, officer, director, consultant, agent, employee or stockholder of any company or other commercial enterprise, directly or indirectly engage in any business or other activity which is competitive in the same service areas with the products or services being manufactured, marketed, distributed, or provided by the Company or a Majority Subsidiary at the time of termination of my employment ("Competitive Activities"). The foregoing prohibition shall not prevent (i) my ownership of securities of a public company not in excess of five percent (5%) of any

class of such securities, or (ii) my employment or engagement by a company or business organization which during the previous 12 months did not generate, or during the next 12 months does not seek to generate, more than 5% of its consolidated revenues from Competitive Activities, provided that my responsibilities for such company or business organization do not require me to engage in Competitive Activities or to violate sub-paragraphs (i) or (ii) of this Section.

5. Reasonable Restrictions. I agree that any breach of this Agreement by me will cause irreparable damage to the Company and that in the event of such breach the Company shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of my obligations hereunder. I hereby acknowledge that the type and periods of restriction imposed in the provisions of this Agreement are fair and reasonable and are reasonably required for the protection of the Company and the goodwill associated with the business of the Company. I represent that my experience and capabilities are such that the restrictions contained herein will not prevent me from obtaining employment or otherwise earning a living at the same general economic benefit as reasonably required by me. I further agree that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

6. General. Any waiver by the Company of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof. No term or condition set forth in this letter may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by me and an officer of the Company authorized to sign such writing by the Board of Directors of Safeguard. My obligations under this Agreement shall survive the termination of my employment regardless of the manner of such termination and shall be binding upon my heirs, executors, administrators and legal representatives. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. Any controversy or claim arising out of or relating to this agreement, or the breach thereof (other than a request for equitable relief) will be settled by arbitration in Philadelphia, Pennsylvania, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association, using one arbitrator, and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

Date: _____

[Name of Employee]

Date: _____

SAFEGUARD SCIENTIFICS, INC.

By: _____
Title

Exhibit 31.1

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: November 9, 2004

Anthony L. Craig

Anthony L. Craig
Chief Executive Officer

Exhibit 31.2

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: November 9, 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 September 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:

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: November 9, 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 September 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:

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: November 9, 2004

Christopher J. Davis

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