

SAFEGUARD SCIENTIFICS INC

Form POS AM

August 17, 2004

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As filed with the United States Securities and Exchange Commission on August 17, 2004

Registration No. 333-114794

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549  
Post-Effective Amendment No. 1**

**To  
FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
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 No.)

**800 The Safeguard Building  
435 Devon Park Drive  
Wayne, Pennsylvania 19087-1945  
(610) 293-0600**

(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

**Karen M. Keating, Esq.**  
**800 The Safeguard Building**  
435 Devon Park Drive  
Wayne, Pennsylvania 19087-1945  
(610) 293-0600

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Agent for Service)

**Copies to:**

**Richard B. Aldridge, Esq.**  
**Morgan, Lewis & Bockius LLP**  
1701 Market Street  
Philadelphia, Pennsylvania 19103-2921  
(215) 963-5000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest

reinvestment plans, check the following box.  x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

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**PROSPECTUS**

**SAFEGUARD SCIENTIFICS, INC.**

**\$150,000,000**

**2.625% Convertible Senior Debentures Due 2024, and  
the Common Stock Issuable Upon Conversion of the Debentures**

We issued the debentures in a private placement on February 18, 2004. Selling securityholders will use this prospectus to resell their debentures and the shares of our common stock issuable upon the conversion of their debentures at market prices prevailing at the time of sale, fixed or varying prices determined at the time of sale, or at negotiated prices. The selling securityholders may sell the debentures or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts or commissions. We will not receive any proceeds from the offering.

The debentures are our senior, unsecured obligations. The debentures rank equal in right of payment with all of our senior unsecured indebtedness. The debentures are effectively subordinated in right of payment to all of our existing and future secured indebtedness, to the extent of the value of the assets securing that indebtedness, and to all of the existing and future indebtedness and other liabilities of our subsidiaries.

The debentures bear interest at the rate of 2.625% per annum from February 18, 2004, the date of original issuance. We will pay interest on the debentures on March 15 and September 15 of each year. The first interest payment will be made on September 15, 2004. The debentures are issued only in denominations of \$1,000 and integral multiples of \$1,000.

From March 20, 2009, to, but excluding, March 20, 2011, we may redeem any of the debentures if the closing sale price of our common stock exceeds 140% of the conversion price for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give our notice of redemption, including the last trading day of such period. Beginning March 20, 2011, we may redeem any of the debentures at any time or from time to time in whole or in part without regard to the closing sale price of our common stock. Upon any redemption of the debentures, we will pay a redemption price of 100% of their principal amount, plus accrued and unpaid interest, and additional interest paid as liquidated damages, if any.

Holder of the debentures may require us to repurchase their debentures on March 21, 2011, March 20, 2014 and March 20, 2019, or at any time prior to their maturity following a designated event, as defined in this prospectus, at a repurchase price of 100% of their principal amount, plus accrued and unpaid interest, and additional interest paid as liquidated damages, if any.

The debentures mature on March 15, 2024 unless earlier redeemed, repurchased or converted. Holders of the debentures may convert their debentures into shares of our common stock at a conversion rate of 138.5540 shares per \$1,000 principal amount of debentures, subject to adjustment, before the close of business on March 14, 2024 only under the following circumstances: (i) during any fiscal quarter commencing after June 30, 2004, if the closing sale price of our common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter; (ii) subject to certain

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exceptions, during the five business days after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the debentures for each day of such period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1,000 principal amount of the debentures; (iii) if the debentures have been called for redemption; (iv) if our common stock (or other common stock into which the debentures are then convertible) ceases to be listed for trading on a U.S. national securities exchange and is not approved for trading on the Nasdaq National Market; or (v) upon the occurrence of certain corporate transactions.

*An investment in the securities offered under this prospectus involves a high degree of risk. See **Risk Factors beginning on page 10.***

The debentures are not listed on any securities exchange or included in any automated quotation system. The debentures are eligible for trading on The PORTAL<sup>SM</sup> Market. Our common stock trades on the New York Stock Exchange under the symbol SFE. On August 16, 2004, the closing sale price of our common stock on the New York Stock Exchange was \$1.65.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is August 17, 2004.

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**You should rely only upon the information provided in this prospectus or incorporated in this document by reference. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus, including any information incorporated by reference, is accurate as of any date other than the date of this prospectus.**

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**FORWARD-LOOKING STATEMENTS**

This prospectus and the documents we incorporate by reference into this prospectus contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our company, the industries in which we operate and other matters, as well as management's beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects under the heading "Risk Factors" included or incorporated in this prospectus. For example, when we use words such as "projects," "annualize," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "should," "would," "could," "will," "opportunity," "potential" or "may," variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our forward-looking statements are subject to risks and uncertainties. Factors that could cause actual results to differ materially, include, among others, managing rapidly changing technologies, limited access to capital, competition, the ability to attract and retain qualified employees, the ability to execute our strategy, the uncertainty of the future performance of our companies, acquisitions and dispositions of companies, the inability to manage growth, compliance with government regulation and legal liabilities, additional financing requirements, labor disputes, the consummation of the pending acquisition of CompuCom Systems, Inc. and the effect of economic conditions in the business sectors in which our companies operate, which are discussed below under the caption "Risk Factors." Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance.

All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus might not transpire.

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

In this prospectus, we incorporate by reference the information we file with the SEC, which means that we can disclose important business, financial and other information to you in this prospectus by referring you to the documents containing this information. All information incorporated by reference is deemed to be a part of this prospectus, unless and until that information is updated and superseded by the information contained in this prospectus or any information we file with the SEC and incorporate later. We incorporate by reference into this prospectus the documents listed below and any documents we file subsequently with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until this offering is terminated (excluding any information furnished under either Item 9 or Item 12 of any Current Report on Form 8-K):

<b>Our SEC Filings</b>	<b>Period Covered or Date of Filing</b>
Annual Report on Form 10-K	Year ended December 31, 2003, as amended.
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2004 and June 30, 2004.
Current Reports on Form 8-K	Filed with the SEC on January 28, 2004, February 11, 2004, February 12, 2004, February 24, 2004, March 15, 2004, April 12, 2004, April 15, 2004, April 26, 2004, May 5, 2004 (relating to the appointment of Anthony Ibarguen as Chief Executive Officer and President of Alliance Consulting Group Associates, Inc.) May 17, 2004, May 28, 2004, July 15, 2004, July 23, 2004 and August 2, 2004.
The description of the common stock contained on Form 8-A	As has been filed with the SEC and amended from time to time.

You may read and copy materials that we have filed with the SEC at the SEC's public reference room located at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available on the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov).

You may also request a copy of each document incorporated by reference in this prospectus at no cost, by writing or calling us at the following address or telephone number:

Safeguard Scientifics, Inc.  
 800 The Safeguard Building  
 435 Devon Park Drive  
 Wayne, Pennsylvania 19087  
 Telephone: (610) 293-0600  
[www.safeguard.com](http://www.safeguard.com)  
 Attention: Investor Relations

Exhibits to a document will not be provided unless they are specifically incorporated by reference in that document.





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**SUMMARY**

*This prospectus summary highlights information incorporated by reference or contained elsewhere in this prospectus. This summary is not complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information about us and the debentures, including the section entitled *Risk Factors* and our financial information, appearing elsewhere in this prospectus, as well as the information incorporated by reference in this prospectus.*

**Safeguard Scientifics, Inc.**

We seek to create long-term shareholder value by taking controlling interests primarily in information technology and healthcare life sciences companies and helping them develop through superior operations and management. We sponsor companies at the leading edge of technology cycles and work to accelerate the commercialization of their technology-based solutions, products and services. Our value creation strategy is designed to drive superior growth at our companies by providing leadership and counsel, capital support and financial expertise, strategic guidance and operating discipline, access to best practices and industry knowledge, we offer a range of operational 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 strategic criteria and that we can leverage our resources to assist them in achieving superior financial performance and value growth. When a company no longer meets our strategic criteria, we consider divesting the company and redeploying the capital realized in other acquisition and development opportunities. We may achieve liquidity events through a number of means, including 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.

***Strategic Companies***

We focus our resources on the operations of our strategic, 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:

**Business Decision Solutions.** Companies focused on complex information technology and software solutions delivering 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

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

We refer to these companies as our strategic companies. We generally acquire majority ownership positions in strategic companies through expansion capital, buyouts, recapitalizations or other structures.

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***Other Holdings and Activities***

We hold interests in a number of non-strategic companies (which we formerly referred to as legacy companies in our Form 10-Qs and in 2003), which are companies that do not currently operate in the strategic categories described above, or that operate in our strategic categories but in which we generally own less than a majority interest. It is possible for a non-strategic company to become a strategic company as it develops. We also own a 58 percent voting interest in CompuCom Systems, Inc., a leading provider of information technology outsourcing, technology procurement and systems integration services. On May 27, 2004, CompuCom entered into an Agreement and Plan of Merger which transaction, if consummated, would result in the divestiture of our interest in CompuCom. See Recent Development. We may also seek to opportunistically divest our interests in our other companies. In addition, we participate in earlier stage technology development through our interests in several affiliated private equity funds. We currently have no intention of committing new investments in additional private equity funds and may seek to reduce our current ownership interest in, and our existing commitments to, the private equity funds in which we hold interests.

**Recent Development**

On May 27, 2004, CompuCom Systems, Inc. entered into an Agreement and Plan of Merger with CHR Holding Corporation and CHR Merger Corporation, providing that, upon satisfaction of certain conditions, CHR Merger Corporation would be merged into CompuCom, each outstanding share of CompuCom's common stock would be converted into the right to receive \$4.60 in cash, without interest, and each outstanding share of CompuCom's preferred stock would be converted into the right to receive \$10.00 in cash plus accrued and unpaid dividends, without interest. Upon consummation of the CompuCom merger, CompuCom would be a wholly-owned subsidiary of CHR Holding Corporation.

We have entered into a principal stockholder agreement with CHR Holding Corporation and CHR Merger Corporation pursuant to which we are obligated to vote in favor of the approval of the CompuCom merger, subject to specified conditions. One of the conditions to our voting obligation is that our shareholders shall have approved the vote by us in favor of the approval of the CompuCom merger. If we vote our shares of CompuCom in favor of the merger, then CompuCom will have received the requisite stockholder approval for the merger at their special stockholders meeting.

If the CompuCom merger is consummated, we will receive an aggregate of approximately \$128 million in gross cash proceeds. This aggregate consideration is comprised of (i) approximately \$113 million being received in respect of our holdings of CompuCom common stock and (ii) approximately \$15 million being received in respect of our holdings of CompuCom series B convertible preferred stock. A presentation of certain of our pro forma consolidated financial information giving effect to the consummation of the CompuCom merger is contained in note 18 to the financial statements contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

In addition to the approval of our shareholders, the consummation of the CompuCom merger is subject to other conditions, including CHR Holding Corporation obtaining financing to fund a portion of the merger consideration and the satisfaction of certain minimum working capital targets as of the close of business on the business day immediately preceding the closing date. There can be no guarantee that these conditions will be satisfied and the merger will be consummated. If the merger is not consummated, we will continue to hold our ownership interest in CompuCom and consolidate CompuCom's results of operations for the purposes of our financial statements.

**Our Corporate Information**

We were incorporated in the Commonwealth of Pennsylvania in 1953. Our corporate headquarters are located at 800 The Safeguard Building, 435 Devon Park Drive, Wayne, Pennsylvania 19087. Our website is

www.safeguard.com. Information on our website or any other website mentioned herein does not constitute part of this prospectus.

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**The Offering**

Issuer	Safeguard Scientifics, Inc., a Pennsylvania corporation.
Securities Offered	\$150,000,000 principal amount of 2.625% Convertible Senior Debentures due 2024.
Original Issue Date	February 18, 2004.
Maturity Date	March 15, 2024, unless earlier redeemed, repurchased or converted.
Interest	2.625% per annum on the principal amount, from February 18, 2004, payable semi-annually in arrears in cash on March 15 and September 15 of each year, beginning September 15, 2004.
Ranking	The debentures are our senior, unsecured obligations and rank equally in right of payment with all of our existing and future senior, unsecured indebtedness. The debentures are junior to any of our secured obligations to the extent of the collateral pledged and are effectively subordinated to all liabilities of our subsidiaries, including their trade payables.
Conversion	<p>You may convert the debentures into shares of our common stock, par value \$0.10 per share, at a conversion rate of 138.5540 shares per \$1,000 principal amount of debentures (representing a conversion price of approximately \$7.2174), subject to adjustment, prior to the close of business on the business day immediately preceding the final maturity date only under the following circumstances:</p> <p>during any fiscal quarter commencing after June 30, 2004, and only during such fiscal quarter, if the closing sale price of our common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter; or</p> <p>during the five business days after any five consecutive trading day period (the measurement period ) in which the trading price per \$1,000 principal amount of debentures for each day of such measurement period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1,000 principal amount of the debentures; <i>provided, however</i>, you may not convert your debentures in reliance on this provision if on any day during such measurement period the closing sale price of our common stock was between 100% and 120% of the</p>

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then current conversion price of the debentures; or

if the debentures have been called for redemption; or

if our common stock (or other common stock into which the debentures are then convertible) ceases to be listed for trading on a U.S. national securities exchange and is not approved for trading on the Nasdaq National Market; or

upon the occurrence of specified corporate transactions described under  
 Description of Debentures Conversion of Debentures Conversion Upon  
 Specified Corporate Transactions.

Sinking Fund

None.

Optional Redemption

We may not redeem any debentures before March 20, 2009. From March 20, 2009 to, but excluding, March 20, 2011, we may redeem some or all of the debentures, but only if the closing sale price of our common stock for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give our redemption notice exceeds 140% of the conversion price of the debentures, subject to adjustment in a number of circumstances as described under  
 Description of the Debentures Conversion of Debentures Conversion Rate  
 Adjustments. Beginning March 20, 2011, we may redeem some or all of the debentures at any time or from time to time, without regard to the closing sale price of our common stock. We will give not less than 30 nor more than 60 days notice of any redemption, and we will pay a redemption price equal to 100% of the principal amount of the debentures to be redeemed, plus accrued and unpaid interest, and additional interest paid as liquidated damages, if any, up to, but excluding, the redemption date.

Designated Event

If a designated event (as described under Description of Debentures Repurchase at Option of the Holder Upon a Designated Event ) occurs prior to maturity, you may require us to purchase all or part of your debentures at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, and additional interest paid as liquidated damages, if any, up to, but excluding, the repurchase date.

Repurchase at the  
 Option of the Holder

You may require us to repurchase the debentures on March 21, 2011, March 20, 2014 and March 20, 2019, at a repurchase price equal to 100% of their principal amount plus accrued and unpaid interest, and additional interest paid as liquidated damages, if any, to, but excluding the repurchase date. See Description of Debentures

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	Repurchase at Option of the Holder.
Use of Proceeds Upon Sales of Interests in Our Non-Strategic Companies	If we sell our interest in certain of our companies and the aggregate book value of the interest being sold, when added to the aggregate book value of all interests in such company sold in the preceding twelve months, exceeds \$50,000,000, we will use the net cash proceeds of such sale as specified under Description of Debentures Use of Proceeds Upon Sales of Interests in Our Non-Strategic Companies.
Use of Proceeds	We will not receive any of the proceeds from the sale by any selling securityholder of the debentures or the shares of common stock issuable upon conversion of the debentures. See Use of Proceeds.
Registration Rights	<p>We have agreed to file a shelf registration statement, of which this prospectus is a part, with the SEC covering the resale of the debentures and the common stock issuable upon conversion of the debentures. We have also agreed to use our reasonable best efforts to have the registration statement declared effective and to use our reasonable best efforts to keep the shelf registration statement effective for a specified period.</p> <p>We are required to pay additional interest as liquidated damages if we fail to keep the shelf registration statement effective during the specified time periods. If you convert debentures to common stock on any date when we are required to pay additional interest as liquidated damages, you will not be entitled to the additional interest as liquidated damages, but you will instead receive additional shares upon conversion.</p>
PORTAL Trading of Debentures	The debentures are eligible for trading in The Portal <sup>SM</sup> Market of the National Association of Securities Dealers, Inc.
New York Stock Exchange Symbol for our Common Stock	SFE.

**Risk Factors**

You should carefully consider all of the information contained or incorporated by reference in this prospectus prior to investing in the debentures. In particular, we urge you to carefully consider the information under Risk Factors, beginning on page 10 of this prospectus, so that you understand the risks associated with an investment in our company and the debentures.

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**Ratio Of Earnings To Fixed Charges**

The ratio of earnings to fixed charges is computed by dividing earnings by fixed charges. These computations include us and our subsidiaries. For the purposes of this calculation, earnings means pretax income from operations before adjustment for minority interests and equity (income) loss. The term fixed charges means the sum of interest on indebtedness and a portion of rents representative of the interest factor. The deficiencies of net earnings to cover fixed charges for the years ended December 31, 2003, 2002, 2001 and 2000 and the six months ended June 30, 2004 were \$47,229, \$36,810, \$47,534, \$59,897 and \$65,423 respectively (in thousands). Our ratio of earnings to fixed charges for the year ended December 31, 1999 was 1:1.



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**RISK FACTORS**

*You should carefully consider the information set forth below before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could be materially harmed, and the value of our securities may decline. You should also refer to other information included or incorporated by reference in this prospectus.*

**Risks Related to Our Business**

*Our business depends upon the performance of our companies, which is uncertain.*

If our companies do not succeed, the value of our assets could be significantly reduced and require substantial impairments or write-offs, and our results of operations and the price of our common stock could decline. The risks relating to our companies include:

many of our companies have a history of operating losses or a limited operating history and may never be profitable;

intensifying competition affecting the products and services our companies offer could adversely affect their businesses, financial condition, results of operations and prospects for growth;

inability to adapt to the rapidly changing marketplace;

inability to manage growth;

our companies may need additional capital to fund their operations, which we may not be able to fund or which may not be available from third parties on acceptable terms, if at all;

inability to protect their proprietary rights and our companies may infringe on the proprietary rights of others;

certain of our companies could face legal liabilities from claims made against their operations, products or work;

our companies are subject to the impact of economic downturns;

inability to attract and retain qualified personnel; and

government regulations and legal uncertainties may place financial burdens on the businesses of our companies. These risks are discussed in greater detail under the caption **Risks Related to Our Companies** below.

*The identity of our companies and the nature of our interests in them could vary widely from period to period.*

As part of our strategy, we continually assess the value to our shareholders, and to the owners of our companies, of our interests in our companies. We also regularly evaluate alternate uses for our capital resources. As a result, depending on market conditions, growth prospects and other key factors, we may, at any time, change the companies in which we strategically focus, liquidate our interests in any of our companies or otherwise change the nature of our interests in our companies. Therefore, the identity of our companies and the nature of our interests in them could vary significantly from period to period.

*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.*

We need capital to invest in new companies, to make additional investments in, or advances to, our existing

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companies and private equity funds, and to finance our corporate overhead. We also need cash to service and repay our outstanding debt. Our 5.0% Convertible Subordinated Notes will mature in June 2006, requiring approximately \$54.8 million to be repaid after the application of the proceeds of this offering. Pursuant to the terms of the debentures, we will be required to use a portion of the net proceeds we receive in the proposed sale of our interest in CompuCom to repurchase the remainder of our 5.0% Convertible Subordinated Notes due June 15, 2006 that are outstanding. See Summary Recent Development and Description of Debentures Use of Proceeds Upon Sales of Interests in Our Non-Strategic Companies. As a result, we have substantial cash requirements. Our companies currently do not provide us with any cash flow from their operations. To the extent our companies generate any cash from operations, they generally retain the funds to develop their own businesses. As a result, we must rely on cash on hand, liquidity events and new capital raising activities to meet our cash needs. If we are unable to find ways of monetizing our investment or to raise additional capital on attractive terms, we may face liquidity issues that will require us to curtail our new business efforts, constrain our ability to execute our business strategy and limit our ability to provide financial support to our existing companies.

***Fluctuations in the price of the common stock of our publicly traded companies may affect the price of our common stock.***

The aggregate market value of our equity interests in our publicly traded companies was \$174.1 million as of July 31, 2004. Fluctuations in the market price of the common stock of our publicly traded companies are likely to affect the price of our common stock. The market price of many of our public companies' common stock has been highly volatile and 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.***

We face intense competition from companies with business strategies similar to our own and from other capital providers as we acquire and develop interests in companies. Some of our competitors have more experience identifying and acquiring companies and have greater financial and management resources, brand name recognition or industry contacts than we have. Although most of our acquisitions will be made at a stage when our companies are not publicly traded, we may pay higher prices for those equity interests because of higher trading prices for securities of similar public companies and competition from other acquirers and capital providers, which could result in lower gains or possibly losses on our equity investments. In addition, our strategy of actively operating and integrating our companies generally requires us to acquire majority or controlling interests in companies. This may place us at a competitive disadvantage to some of our competitors because they may have more flexibility than we do in structuring acquisitions.

***We may be unable to obtain maximum value for our holdings in companies or liquidate our interests in companies on a timely basis.***

We have significant positions in our companies. Consequently, if we were to divest all or part of our interest in a company, we may have to sell our interests at a relative discount to a price received by a seller of a smaller portion. For companies with publicly traded stock, we may be unable to sell our interest at then-quoted market prices. The trading volume and public float in the common stock of our publicly-traded companies are small relative to our holdings in the companies. As a result, any significant divestiture by us of our holdings in these companies would likely have a material adverse effect on the market price of the companies' common stock and on our proceeds from such a divestiture. Additionally, we may not be able to take our companies public as a means of monetizing our position or creating shareholder value.

The absolute size of our holdings in our companies may also affect our ability to sell our interest in companies on a timely basis. Registration and other requirements under applicable securities laws, as well as our need to comply with the Investment Company Act, may adversely affect our ability to dispose of our interest in companies on a timely basis.

***Our success is dependent on our executive management.***

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

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

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

***Accounting conventions may require us to change the presentation of our financial statements.***

During 2003, we consolidated the results of operations of 9 companies: CompuCom Systems, Inc., Tangram Enterprise Solutions, Inc., Agari Mediaware, Inc. (consolidated through June 30, 2003), Alliance Consulting Group Associates, Inc., Pacific Title and Art Studio, Inc., Mantas, Inc., Protura Wireless, Inc. (consolidated through June 30, 2003), SOTAS, Inc. (separately consolidated until it was merged with Mantas on October 1, 2003) and ChromaVision Medical Systems, Inc., because we control or controlled more than 50 percent of the respective outstanding voting securities. In February 2004, Opware, Inc. closed on its acquisition of Tangram. Our interest in Tangram was divested in that transaction and, as a result, we will no longer consolidate Tangram's results of operations for periods after the closing date thereof.

At December 31, 2003, we owned approximately 58% of the aggregate voting interests of CompuCom. The presentation of our financial statements is significantly influenced by the consolidated results of operations of CompuCom. CompuCom represented approximately 90% of our 2003 consolidated revenues. If our voting ownership of CompuCom were to decrease below 50% as a result of the issuance of stock by CompuCom in an acquisition or other transaction or a divestiture by us of all or part of our interests in CompuCom, we may no longer be able to consolidate the results of operations of CompuCom with our results of operations. If we were no longer required to consolidate CompuCom, our consolidated revenues would decline significantly and our consolidated statement of operations and balance sheet would change significantly. On May 27, 2004, CompuCom entered into an Agreement and Plan of Merger which transaction, if consummated, would result in the divestiture of our interest in CompuCom. See Summary Recent Development.

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

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

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

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

Our inability to prevent dilution of our ownership interests in our companies or our inability to otherwise have a controlling influence over the management and operations of our companies could have an adverse impact on our status under the Investment Company Act. Our inability to adequately control our companies also could prevent us

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

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

The Investment Company Act of 1940 regulates companies which are engaged primarily in the business of

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investing, reinvesting, owning, holding or trading in securities. Under the Investment Company Act, a company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of the value of its total assets (excluding government securities and cash items) on an unconsolidated basis, unless an exemption or safe harbor applies. We refer to this test as the 40% Test. Securities issued by companies other than majority-owned subsidiaries are generally considered investment securities for purpose of the Investment Company Act. We are an operating company that conducts its business operations principally through majority-owned subsidiaries and are not engaged primarily in the business of investing, reinvesting or trading in securities. We are also in compliance with the 40% Test. Consequently, we do not believe that we are an investment company under the Investment Company Act.

We monitor our compliance with the 40% Test and seek to conduct our business activities to comply with this test. It is not feasible for us to be regulated as an investment company because the Investment Company Act rules are inconsistent with our strategy of actively managing, operating and promoting collaboration by and among our companies. In order to continue to comply with the 40% Test, we may need to take various actions which we would otherwise not pursue. For example, we may need to retain a majority interest in a company that we no longer consider strategic, we may not be able to acquire an interest in a company unless we are able to obtain majority ownership interest in the company, or we may be limited in the manner or timing in which we sell our interests in a company. Our ownership levels may also be affected if our companies are acquired by third parties or if our companies issue stock which dilutes our majority ownership. The actions we may need to take to address these issues while maintaining compliance with the 40% Test could adversely affect our ability to create and realize value at our companies.

***Several lawsuits have been brought or threatened against us and our companies and the outcomes of these lawsuits are uncertain.***

We and Warren V. Musser, our former Chairman, were named as defendants in a putative class action filed on June 26, 2001 in U.S. 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 our 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 us 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 our companies, the impact of competition on prospects for one or more of our companies and our lack of a superior business plan. On October 23, 2001, the Court entered an order consolidating the two cases and, on April 5, 2002, plaintiffs filed a consolidated and amended class action complaint for violation of the federal securities laws. 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 new plaintiffs and proposed class representatives 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 us 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. We have not yet responded to the new complaint.

The outcome of this litigation is uncertain, and while we believe that we have valid defenses to plaintiffs' claims and intend to defend the lawsuits vigorously, no assurance can be given as to the outcome of these lawsuits. An adverse ruling could have a material adverse effect on our consolidated financial statements and results of operations.

On May 28, 2004, June 1, 2004 and June 10, 2004, three substantially similar complaints were filed in the Chancery Court of the State of Delaware by purported stockholders of CompuCom Systems, Inc. ( "CompuCom" ) allegedly on behalf of a class of holders of CompuCom's common stock. By order dated July 22, 2004, these three actions were consolidated for all purposes. On July 27, 2004, plaintiffs filed an amended class action complaint under the caption of one of the three actions ( the "Amended Complaint" ) that names us, CompuCom and its directors as defendants. The Amended Complaint alleges the CompuCom, its directors, and we breached fiduciary duties in connection with the merger agreement relating to the acquisition of CompuCom by an affiliate of Platinum Equity, LLC and aided and abetted one another in the course of committing the alleged breach. Among other things, the Amended Complaint alleges that the defendants failed to obtain the best transaction reasonably available and diverted merger consideration from CompuCom's minority stockholders to us and CompuCom's directors and certain of its officers. It is also alleged that CompuCom failed to disclose, or only partially disclosed, certain matters in CompuCom's proxy statement. The Amended Complaint seeks (i) an injunction against the proposed transaction, (ii) an order invalidating the proposed transaction in the event it is consummated, (iii) an order directing CompuCom's directors to obtain a transaction that is in the best interests of all of its stockholders and to disclose all material information to stockholders in connection with any transaction, and (iv) the imposition of a constructive trust, in favor of plaintiffs, upon any benefits improperly received by defendants. On July 27, 2004, plaintiffs 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 our shareholders and the stockholders of CompuCom. Defendants filed their opposition to the motion on July 28, 2004. On July 29, 2004, the Court denied the plaintiff's motion.

Finally, we, as well as our companies, are involved in various claims and legal actions arising in the ordinary course of business. While in the current opinion of management, the ultimate disposition of these matters will not s



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have a material adverse effect on our consolidated financial position or results of operations, no assurance can be given as to the outcome of these lawsuits, and one or more adverse rulings could have a material adverse effect on our consolidated financial position and results of operations, or that of our companies.

**Risks Related to Our Companies**

***Many of our companies have a history of operating losses or limited operating history and may never be profitable.***

Many of our companies have a history of operating losses or limited operating history, have significant historical losses and may never be profitable. Many of these companies have incurred substantial costs to develop and market their products, have incurred net losses and cannot fund their cash needs from operations. We expect that the operating expenses of certain of our companies will increase substantially in the foreseeable future as they continue to develop products, increase sales and marketing efforts and expand operations.

***Our companies face intense competition, which could adversely affect their business, financial condition, results of operations and prospects for growth.***

There is intense competition in the technology and healthcare life sciences marketplace, and we expect competition to intensify in the future. Our companies compete against companies outside our network of companies. Additionally, the intense competition within the technology and healthcare life sciences marketplace may cause our companies to compete among themselves. Our business, financial condition, results of operations and prospects for growth will be materially adversely affected if our companies are not able to compete successfully with companies outside our family of companies or compete among themselves. Many of the present and potential competitors may have greater financial, technical, marketing and other resources than those of our companies. This may place our companies at a disadvantage in responding to the offerings of their competitors, technological changes or changes in client requirements. Also, our companies may be at a competitive disadvantage because many of their competitors have greater name recognition, more extensive client bases and a broader range of product offerings.

***Our companies may fail if they do not adapt to the rapidly changing technology and healthcare life sciences marketplace.***

If our companies fail to adapt to rapid changes in technology and customer and supplier demands, they may not become or remain profitable. There is no assurance that the products and services of our companies will achieve or maintain market penetration or commercial success, or that the businesses of our companies will be successful.

The technology and healthcare life sciences marketplace is 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.

Our future success will depend on our companies' ability to adapt to this rapidly evolving marketplace. They may not be able to adequately or economically adapt their products and services, develop new products and services or establish and maintain effective distribution channels for their products and services. If our companies are unable

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to offer competitive products and services or maintain effective distribution channels, they will sell fewer products and services and forego potential revenue, possibly causing them to lose money. In addition, we and our companies may not be able to respond to the rapid technology changes in an economically efficient manner, and our companies may become or remain unprofitable.

***Many of our companies may grow rapidly and may be unable to manage their growth.***

We expect some of our companies to grow rapidly. Rapid growth often places considerable operational, managerial and financial strain on a business. To successfully manage rapid growth, our companies must, among other things:

rapidly improve, upgrade and expand their business infrastructures;

scale-up production operations;

develop adequate financial reporting controls;

attract and maintain qualified personnel; and

maintain adequate levels of liquidity.

If our companies are unable to manage their growth successfully, their ability to respond effectively to competition and to achieve or maintain profitability will be adversely affected.

***Our companies may need to raise additional capital to fund their operations, which we may not be able to fund or which may not be available from third parties on acceptable terms, if at all.***

Our companies may need to raise additional funds in the future and we cannot be certain that they will be able to obtain additional financing on favorable terms, if at all. Because our resources and our ability to raise capital are limited, we cannot commit to provide our companies with sufficient capital resources to allow them to reach a cash flow positive position. If our companies are not able to raise capital from other outside sources, then they may need to cease or scale back operations.

***Some of our companies may be unable to protect their proprietary rights and may infringe on the proprietary rights of others.***

Our companies assert various forms of intellectual property protection. Intellectual property may constitute an important part of our companies' assets and competitive strengths. Federal law, most typically, copyright, patent, trademark and trade secret, generally protects intellectual property rights. Although we expect that our companies will take reasonable efforts to protect the rights to their intellectual property, the complexity of international trade secret, copyright, trademark and patent law, coupled with the limited resources of these companies and the demands of quick delivery of products and services to market, create a risk that their efforts will prove inadequate to prevent misappropriation of our companies' technology, or third parties may develop similar technology independently.

Some of our companies also license intellectual property from third parties and it is possible that they could become subject to infringement actions based upon their use of the intellectual property licensed from those third parties. Our companies generally obtain representations as to the origin and ownership of such licensed intellectual property; however, this may not adequately protect them. Any claims against our companies' proprietary rights, with or without merit, could subject our companies to costly litigation and the diversion of their technical and management personnel from other business concerns. If our companies incur costly litigation and their personnel are not effectively deployed, the expenses and losses incurred by our companies will increase and their profits, if any, will decrease.

Third parties may assert infringement or other intellectual property claims against our companies based on their patents or other intellectual property claims. Even though we believe our companies' products do not infringe any

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third party's patents, they may have to pay substantial damages, possibly including treble damages, if it is ultimately determined that they do. They may have to obtain a license to sell their products if it is determined that their products infringe another person's intellectual property. Our companies might be prohibited from selling their products before they obtain a license, which, if available at all, may require them to pay substantial royalties. Even if infringement claims against our companies are without merit, defending these types of lawsuits take significant time, may be expensive and may divert management attention from other business concerns.

### ***Certain of our companies could face legal liabilities from claims made against their operations, products or work.***

The manufacture and sale of certain of our company's products entails an inherent risk of product liability. Certain of our companies maintain product liability insurance. Although none of our companies to date have experienced any material losses, there can be no assurance that they will be able to maintain or acquire adequate product liability insurance in the future and any product liability claim could have a material adverse effect on our companies' revenues and income. In addition, many of the engagements of our companies involve projects that are critical to the operation of their clients' businesses. If our companies fail to meet their contractual obligations, they could be subject to legal liability, which could adversely affect their business, operating results and financial condition. The provisions our companies typically include in their contracts, which are designed to limit their exposure to legal claims relating to their services, and the applications they develop, may not protect our companies or may not be enforceable. Also, as consultants, some of our companies depend on their relationships with their clients and their reputation for high caliber professional services and integrity to retain and attract clients. As a result, claims made against our companies work may damage their reputation, which in turn, could impact their ability to compete for new work and negatively impact their revenues and profitability.

### ***Our companies are subject to the impact of economic downturns.***

The results of operations of our companies are affected by the level of business activity of their clients, which in turn is affected by the levels of economic activity in the industries and markets that they serve. In addition, the businesses of certain of our Business Decision Solutions companies tend to lag behind economic cycles in an industry. Any significant downturn in the economic environment could result in reduced demand for the products and services offered by our companies which could negatively impact their revenues and profitability. In addition, an economic downturn could cause increased pricing pressure which also could have a material adverse impact on the revenues and profitability of our companies.

### ***Our companies' success depends on their ability to attract and retain qualified personnel.***

Our companies are dependent upon their ability to attract and retain senior management and key personnel, including trained technical and marketing personnel. Our companies will also need to continue to hire additional personnel as they expand. A shortage in the availability of the requisite qualified personnel would limit the ability of our companies to grow, to increase sales of their existing products and services and to launch new products and services.

### ***Government regulations and legal uncertainties may place financial burdens on the businesses of our companies.***

Failure to comply with applicable requirements of the FDA or comparable regulation in foreign countries can result in fines, recall or seizure of products, total or partial suspension of production, withdrawal of existing product approvals or clearances, refusal to approve or clear new applications or notices and criminal prosecution. Manufacturers of pharmaceuticals and medical diagnostic devices are subject to strict federal regulation regarding validation and the quality of manufacturing facilities. Failure to comply with these quality regulation systems requirements could result in civil or criminal penalties or enforcement proceedings, including the recall of a product or

a cease distribution order requiring our company to stop placing its products in service or selling. The enactment of any additional laws or regulations that affect healthcare insurance policy and reimbursement (including Medicare reimbursement) could negatively affect our companies. If Medicare or private payors change the rates at which our companies or their customers are reimbursed by insurance providers for their products, such changes could adversely impact our companies. If either the USA PATRIOT Act or the Basel Capital Accord are repealed, the demand for services and/or products of certain of our companies may be negatively impacted.

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**Risks Related to the Debentures and Our Common Stock**

***The debentures are unsecured and are effectively subordinated to all our secured debt and all liabilities of our subsidiaries. We may be unable to pay our obligations under the debentures.***

The debentures are not secured by any of our assets and therefore are effectively subordinated to all of our existing and future secured debt. If we become insolvent or are liquidated, or if payment of any of our secured debt is accelerated, the holders of that secured debt will be entitled to exercise the remedies available to secured lenders under applicable law, including the ability to foreclose on and sell the assets securing such debt to satisfy such debt. In any such case, our remaining assets may be insufficient to repay the debentures.

The debentures are obligations exclusively of Safeguard Scientifics, Inc. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the debentures or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries will also be contingent upon our subsidiaries' earnings and could be subject to contractual or statutory restrictions. Our subsidiaries currently do not provide us with any cash, except upon a sale of our interest in a subsidiary for cash or other liquid assets. To the extent our companies generate any cash from operations, they currently retain the funds to develop their own businesses. We rely on the sale of our interests in our companies, capital raising activities and our cash on hand to service the debt of Safeguard Scientifics, Inc.

Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of the debentures to participate in those assets, will be subordinated to the claims of that subsidiary's creditors, including their trade creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

***We may be unable to purchase the debentures for cash on specified dates or following a designated event.***

Holders of the debentures have the right to require us to repurchase the debentures on specified dates or upon the occurrence of a designated event prior to maturity as described under the headings "Description of Debentures Repurchase at Option of the Holder" and "Description of Debentures Repurchase at Option of the Holder Upon a Designated Event." Any of our future debt agreements may contain similar provisions. We may not have sufficient funds to make the required repurchase in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, our ability to repurchase the debentures with cash may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our senior credit facility. If we fail to repurchase the debentures as required by the indenture, it would constitute an event of default under the indenture governing the debentures which, in turn, could be expected to constitute an event of default under any agreements relating to debt outstanding, including our senior credit facility. Important corporate events, such as takeovers, recapitalizations or similar transactions, may not constitute a designated event under the indenture governing the debentures and thus not permit the holders of the debentures to require us to repurchase or redeem the debentures.

***There is currently no public market for the debentures, and an active trading market may not develop for the debentures. The failure of a market to develop for the debentures could adversely affect the liquidity and value of your debentures.***

The debentures are a new issue of securities, and there is no existing market for the debentures. Although the debentures are eligible for trading on The PORTAL Market<sup>SM</sup>, we do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures on any automated dealer quotation system. A market

may not develop for the debentures, and if a market does develop, it may not be sufficiently liquid for your purposes. If an active, liquid market does not develop for the debentures, the market price and liquidity of the debentures may be adversely affected. If any of the debentures are traded after their initial issuance, they may trade at a discount from their initial offering price.

The liquidity of the trading market, if any, and future trading prices of the debentures will depend on many



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factors, including, among other things, the market price of our common stock, our ability to register the resale of the debentures, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. In addition, we do not expect any credit rating agencies to rate the debentures, which could have a negative impact on the market price for the debentures. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. The market for the debentures may be subject to disruptions that could have a negative effect on the holders of the debentures, regardless of our operating results, financial performance or prospects.

The initial purchaser had advised us that it intended to make a market in the debentures. The initial purchaser is not obligated, however, to make a market in the debentures, and it may discontinue any such market making at any time at its sole discretion. In addition, any market making activity will be subject to the limits imposed by the Securities Act and the Securities Exchange Act. Accordingly, we cannot assure you as to the development or liquidity of any market for the debentures.

***We increased our level of indebtedness as a result of the sale of the debentures and may incur additional indebtedness in the future, which could adversely affect our business and our ability to make payments on our indebtedness, including the debentures, and may restrict our operating flexibility.***

Our aggregate level of indebtedness recently increased with the consummation of the offering of \$150 million of 2.625% Convertible Senior Debentures due 2024. We used all of the net proceeds from this offering to repurchase a portion of our 5% Convertible Subordinated Notes due June 15, 2006. Our aggregate long-term indebtedness, after taking into account our repurchase of \$145 million out of a total of \$200 million outstanding of our 5% Convertible Subordinated Notes due June 15, 2006, was \$205 million as of July 31, 2004. In the future, we may obtain additional long-term debt and working capital lines of credit to meet future financing needs, which would have the effect of increasing total leverage. We and our subsidiaries are not restricted under the terms of the debentures or notes from incurring additional debt or providing guarantees of debt of others, including secured debt, repurchasing our securities or paying dividends. In addition, the limited covenants applicable to the debentures do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. Our and our subsidiaries' ability to incur additional debt and take a number of other actions that are not limited by the terms of the debentures could have the effect of diminishing our ability to make payments on the debentures and notes when due. Certain of our other debt instruments may, however, restrict these and other actions.

The level of our indebtedness could:

limit cash flow available for general corporate purposes, such as acquisitions and capital expenditures, due to the ongoing cash flow requirements for debt service;

limit our ability to obtain, or obtain on favorable terms, additional debt financing in the future for working capital or acquisitions;

limit our flexibility in reacting to competitive and other changes in our industry and economic conditions generally;

expose us to a risk that a substantial decrease in net cash flows due to an inability to monetize our interests in our companies, economic developments or adverse developments in our business could make it difficult to meet debt service requirements;

increase our vulnerability to adverse economic and industry conditions; and

expose us to risks inherent in interest rate fluctuations because of the variable interest rates on other debt instruments, which could result in higher interest expense in the event of increases in interest rates.

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, including those discussed herein. In addition, there can be no assurance that future borrowings or equity financing will be available for the payment or refinancing of any indebtedness we may have. If we are unable to service our indebtedness or maintain covenant compliance, whether

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in the ordinary course of business or upon acceleration of such indebtedness, we may be forced to pursue one or more alternative strategies, such as restructuring or refinancing our indebtedness, selling assets, reducing or delaying capital expenditures or seeking additional equity capital. There can be no assurances that any of these strategies could be effected on satisfactory terms, if at all.

***The conditional conversion feature of the debentures could result in you receiving less than the value of the common stock into which a debenture is convertible.***

The debentures are convertible into shares of our common stock only if specified conditions are met. If these conditions are not met, you will not be able to convert your debentures, and you may not be able to receive the value of the common stock into which the debentures would otherwise be convertible. The contingent conversion features could also adversely affect the value and the trading prices of the debentures.

***If you hold debentures, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.***

If you hold debentures, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting our common stock. You will have the rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your debentures and, in limited cases, under the conversion rate adjustments applicable to the debentures. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the delivery of common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

***We have various mechanisms in place to discourage takeover attempts, which may reduce or eliminate our shareholders' ability to sell their shares for a premium in a change of control transaction.***

Various provisions of our articles of incorporation and bylaws and of Pennsylvania Business Corporation Law may discourage, delay or prevent a change of control or takeover attempt of our company by a third party that is opposed by our management and board of directors. Public shareholders who might desire to participate in such a transaction may not have the opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change of control or change in our management and board of directors. In addition, these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, and as a result, the price of our common stock could decline. These provisions include:

the existence of a shareholder rights plan;

authority to issue blank check preferred that could be used by our board of directors to further increase the number of outstanding shares and thwart a takeover attempt;

supermajority voting requirement for certain merger, lease, asset sale and equity sale transactions; and

the existence of certain Pennsylvania anti-takeover statutes. See [Description of Capital Stock](#) [Pennsylvania Anti-Takeover Laws](#).

***Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock and the value of the debentures and our ability to raise funds in new stock offerings.***

Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and the value of the debentures and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or

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the availability of shares of common stock for future sale will have on the trading price of our common stock or the value of the debentures. The price of our common stock could be affected by possible sales of our common stock by investors who view the debentures as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that we expect to develop involving our common stock. The hedging or arbitrage could, in turn, affect the trading price of the debentures.

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**USE OF PROCEEDS**

We will not receive any of the proceeds from the sale by any selling securityholder of the debentures or the shares of our common stock issuable upon conversion of the debentures.

We have used the net proceeds from our sale of the debentures to repay a portion of our existing indebtedness.

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**SELLING SECURITYHOLDERS**

The debentures were originally issued by us and sold by Wachovia Capital Markets, LLC (the initial purchaser ) in a transaction exempt from the registration requirements of the Securities Act to persons reasonably believed by the initial purchaser to be qualified institutional buyers as defined by Rule 144A under the Securities Act. The selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the debentures listed below and shares of our common stock issuable upon conversion of those debentures. When we refer to the selling securityholders in this prospectus, we mean those persons listed in the table below, as well as the permitted pledgees, donees, assignees, transferees, successors and others who later hold any of the selling securityholders interests. The table below, which we have prepared based on information provided to us by the selling securityholders as of August 16, 2004, sets forth the name of each selling securityholder, the principal amount of debentures, that each selling securityholder may offer pursuant to this prospectus and the number of shares of our common stock into which those debentures are convertible. Unless set forth below, none of the selling securityholders has, or within the past three years has had, any material relationship with us or any of our predecessors or affiliates.

**Principal Amount  
of  
Debentures**