

SAFEGUARD SCIENTIFICS INC

Form DEF 14A

April 25, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

SAFEGUARD SCIENTIFICS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11(set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

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 - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount previously paid:

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 - (3) Filing Party:

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Wayne, PA 19087-1945**

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Fax: (610) 293-0601
Automated Investor Relations Line: (888) 733-1200**

Internet: www.safeguard.com

SAFEGUARD SCIENTIFICS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

You are invited to attend the Safeguard Scientifics, Inc. 2005 Annual Meeting of Shareholders.

DATE: May 25, 2005

TIME: 10:00 a.m. Eastern time

PLACE: The Desmond Great Valley Hotel and Conference Center
One Liberty Boulevard
Malvern, PA 19355
(610) 296-9800 or (800) 575-1776

RECORD DATE: Only shareholders who owned stock at the close of business on April 5, 2005, can vote at this meeting and any adjournments that may take place.

ITEMS OF BUSINESS:

1. To elect nine directors;
2. To ratify the appointment of KPMG LLP as Safeguard's independent registered public accounting firm for the fiscal year ending December 31, 2005; and
3. To consider such other business as may properly come before the meeting.

We also will report on Safeguard's 2004 business results and other matters of interest to our shareholders. You will have an opportunity at the meeting to ask questions, make comments and meet our management team.

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Your vote is very important. We encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible to ensure your representation at the annual meeting, regardless of whether you attend in person. You may vote by completing, signing, dating and returning your proxy card or voting instruction form in the pre-addressed envelope provided, or, in most cases, by using the telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled Questions and Answers about the Meeting and the Proposals beginning on page 1 of this proxy statement and the instructions on the proxy card or voting instruction form.

This notice of annual meeting, proxy statement, accompanying proxy card, and 2004 annual report are being mailed to shareholders beginning April 25, 2005, in connection with the solicitation of proxies by the Board of Directors.

By Order of the Board of Directors,

Deirdre Blackburn
Secretary

April 25, 2005

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PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

QUESTIONS AND ANSWERS ABOUT THE MEETING AND THE PROPOSALS

Q: *When and where is the annual meeting?*

A: Safeguard's annual meeting is being held on Wednesday, May 25, 2005 at 10:00 a.m. at The Desmond Great Valley Hotel and Conference Center, One Liberty Boulevard, Malvern, PA 19355.

Q: *Do I need a ticket or proof of Safeguard ownership to attend the annual meeting?*

A: You will not need a ticket to attend the annual meeting. **However, only persons with evidence of stock ownership, or who are guests of Safeguard, may attend and be admitted to the annual meeting.** Photo identification, such as a valid driver's license or passport, will be required. If your shares are registered in the name of a broker, trust, bank or other nominee, you will need to bring a proxy or a letter from that broker, trust, bank or other nominee, or your most recent brokerage account statement, that confirms that you are the beneficial owner of Safeguard shares. **Individuals who do not have proof that they own Safeguard shares will not be admitted to the meeting.**

Q: *Why am I receiving these materials?*

A: You are receiving Safeguard's annual report, notice of annual meeting, proxy statement and a proxy card or voting instruction form because you owned shares of Safeguard stock on April 5, 2005, the record date for determining the shareholders entitled to vote at the annual meeting. This proxy statement contains detailed information relating to the proposals on which we would like you, as a shareholder, to vote. The proxy card or voting instruction form is used for voting.

Q: *How many shares must be present to hold the meeting?*

A: To hold the meeting, a quorum must be present. A quorum is a majority of the outstanding shares, which may be represented at the meeting either in person or by proxy. Proxies received but marked as abstentions or containing broker non-votes on a particular matter will be included in the calculation of the number of shares entitled to vote for the purpose of determining the presence of a quorum.

Q: *What am I voting on?*

A: You are being asked to vote on:

1. the election of nine directors who have been nominated to serve on Safeguard's Board of Directors (Board);
and

2. the ratification of the appointment of KPMG LLP as Safeguard's independent registered public accounting firm for the 2005 fiscal year.

We also will consider other business that properly comes before the annual meeting.

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Q: *How does Safeguard's Board of Directors recommend I vote?*

A: Safeguard's Board recommends a vote **FOR** each Board nominee and **FOR** ratification of the appointment of KPMG LLP as Safeguard's independent registered public accounting firm. Our Board also requests discretionary authority to cumulate votes and to vote on any other matter that may properly arise at the meeting.

Q: *How many votes do I have?*

A: Each share of Safeguard common stock outstanding on the record date is entitled to vote on all items being voted upon at the annual meeting. On the record date, we had 119,890,738 shares issued and outstanding.

Every shareholder may cast one vote for each share owned on the record date, including shares held directly in your name as the **shareholder of record** and shares held for you as the **beneficial owner** through a broker, trustee, or other nominee, such as a bank. In the election of directors, shareholders may elect to cumulate their votes as described below under ***What does cumulative voting mean?***

Q: *What does cumulative voting mean?*

A: Cumulative voting applies only in the election of directors. It means that you may cast a number of votes equal to the number of Safeguard shares you own multiplied by the number of directors to be elected. For example, since nine directors are standing for election at the annual meeting, if you hold 100 shares of Safeguard stock, you may cast 900 votes (nine times 100) in the election of directors. You may distribute those votes among as few or as many of the nine nominees as you wish. In other words, in the example provided, you may cast all 900 votes **FOR** one nominee or allocate your 900 votes among two or more nominees, as long as the total equals 900 votes.

If you received a proxy card and wish to vote cumulatively, you must:

write the words *cumulate for* in the space provided under item 1 of the proxy card; and

write the name of each nominee and the number of votes to be cast for each nominee in that space.

If you vote cumulatively, please check to be sure that the votes you cast add up to the number of shares you own multiplied by nine. If the number of votes does not add up correctly, your votes will not be counted until a properly completed proxy card has been received.

The cumulative voting feature for the election of directors also is available by voting in person at the annual meeting; however, it is not available by telephone or the Internet. If you are the **beneficial owner** of shares held in street name and wish to vote cumulatively, you will need to contact your broker, bank or other nominee holder of your shares.

Q: *What is the difference between holding shares as a shareholder of record and as a beneficial owner ?*

A: Most of Safeguard's shareholders hold their shares through a broker, bank or other nominee rather than directly in their own name. There are some distinctions between shares held of record and those owned beneficially.

Shareholder of Record

If your shares are registered directly in your name with Safeguard's transfer agent, Mellon Investor Services LLC, you are considered the **shareholder of record** with respect to those shares, and these proxy materials are being sent to you directly by Safeguard. As a **shareholder of record**, you have the right to grant your voting proxy directly to Safeguard or to vote in person at the meeting. If you are a **shareholder of record**, Safeguard has enclosed a proxy card for your use in voting your shares.

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Beneficial Owner

If your shares are held in street name (such as in a brokerage account or by another nominee, such as a bank or trust company), you are considered the **beneficial owner** of the shares, and these proxy materials, together with a voting instruction form, are being forwarded to you by your broker or other nominee. As the **beneficial owner**, you have the right to direct your broker or other nominee how to vote your shares. You also are invited to attend the annual meeting. To vote your shares at the meeting, you will need a legal proxy from your broker or other nominee authorizing you to vote at the meeting.

Q: *How do I vote my shares?*

A: If you are a **shareholder of record**, there are three ways for you to vote by proxy:

1. sign and date each proxy card you receive, mark the boxes indicating how you wish to vote, and return the proxy card in the prepaid envelope provided;
2. Call 1-866-540-5760 and follow the instructions; or
3. Log on to the Internet at <http://www.proxyvoting.com/sfe> and follow the instructions at that site.

Telephone and Internet voting will close at 11:59 p.m. Eastern time the date prior to the annual meeting date.

If you sign your proxy card but do not mark any boxes showing how you wish to vote, the proxies designated by our Board, Christopher J. Davis and Steven J. Feder, will vote your shares and cumulate your votes as recommended by our Board and, in their discretion, will vote on any other matters which may properly arise at the meeting

If you are the **beneficial owner** of shares held in street name, you will receive a voting instruction form directly from your broker, bank or other nominee describing how to vote your shares. This form will, in most cases, offer you three ways to vote:

1. by telephone;
2. via the Internet; or
3. by completing, signing and returning the voting instruction form in the accompanying prepaid envelope.

Whether you are a shareholder of record or the beneficial owner of the shares, you will need to have your proxy card or voting instruction form in hand when you call or log on to the Internet. Remember, if you vote by telephone or via the Internet, do not return your proxy card or voting instruction form.

Q: *What do I do if I change my mind after I vote my shares?*

A: If you are a **shareholder of record**, you may change your vote at any time prior to the vote at the annual meeting by:

1. sending written notice to our Secretary (which must be received at our corporate headquarters on or before the business day prior to the annual meeting) stating that you would like to revoke (that is, cancel) your proxy;
2. re-voting by telephone or via the Internet (only your latest vote will be counted);
3. submitting another proxy card with a later date (again, only your latest vote will be counted); or
4. voting in person at the annual meeting.

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If you are the **beneficial owner** of shares held in street name, you may submit new voting instructions by following the instructions provided by your broker, bank or other nominee. You also may vote in person at the annual meeting if you obtain a legal proxy from your broker or other nominee authorizing you to vote at the meeting.

Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically request so. If you are a **shareholder of record** and wish to vote at the meeting, you may do so by presenting your completed proxy card or ballot to the judge of election. If you are a **beneficial owner** of shares held in street name and wish to vote at the meeting, you must present the legal proxy from your broker or other nominee to the judge of election along with your ballot.

Q: *What is the required vote for a proposal to pass?*

A: In the election of directors, the nine nominees who receive the highest number of **FOR** votes at the annual meeting will be elected as directors. A properly executed proxy that withholds authority to vote with respect to the election of one or more directors will not be voted with respect to the director or directors indicated and will not be taken into account in determining the outcome of the election; however, it will be counted for purposes of determining whether there is a quorum.

The proposal to ratify the appointment of our independent registered public accounting firm requires the affirmative **FOR** vote of a majority of the shares present in person or represented by proxy and entitled to vote on the proposal.

Broker non-votes (which are explained in the next question) and abstentions are not counted in the tally of votes **FOR** or **AGAINST** a proposal and, therefore, have no effect on the proposal, assuming a quorum is present.

Q: *Will my shares be voted if I do not sign and return my proxy card or voting instruction form?*

A: They could be. If you are a **shareholder of record** and do not provide a proxy, your shares will not be voted unless you attend the meeting and vote your shares. If you are a **beneficial owner** of shares held in street name and do not provide your broker with voting instructions, your broker or other nominee may either use its discretion to vote your shares on routine matters (such as the election of directors or the ratification of our independent registered public accounting firm) or leave your shares unvoted. However, for matters deemed non-routine by the New York Stock Exchange, your broker or other nominee would not be able to vote without your instructions, in which case your shares would be considered broker non-votes on that particular matter.

Q: *Who will count the votes?*

A: A representative of Mellon Investor Services LLC, our registrar and transfer agent, will count the votes and act as the judge of election.

Q: *What does it mean if I get more than one proxy card or voting instruction form?*

A: It may mean that you have multiple accounts at the transfer agent or hold your shares in more than one brokerage account. **Please provide voting instructions for all proxy cards and voting instruction forms that you receive.** If you are a **shareholder of record**, we encourage you to contact our transfer agent to obtain information about how to combine your accounts. You may contact our transfer agent at the following address and telephone numbers:

Safeguard Scientifics, Inc.
c/o Mellon Investor Services LLC
P. O. Box 3315
South Hackensack, NJ 07606

Toll Free: 1-800-526-0801
TDD Hearing Impaired: 1-800-231-5469
International: 1-201-329-8660

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If you are a **shareholder of record**, you also can find information on transferring shares and other useful shareholder information on our transfer agent's web site at <http://www.melloninvestor.com>.

Q: *What is householding and how does it affect me?*

A: If you and other residents at your mailing address are the **beneficial owner** of shares held in street name, your broker, bank or other nominee may have notified you that your household will receive only one annual report and proxy statement for each company in which you hold stock through that broker, bank or other nominee. This practice is commonly referred to as householding and potentially provides extra convenience for shareholders and cost savings for companies. Unless you responded that you did not want to participate in householding, you were deemed to have consented to the process. Therefore, your broker or other nominee will send only one copy of our annual report and proxy statement to your address; however, each shareholder in your household will continue to receive a separate voting instruction form.

If you are the **beneficial owner** of shares held in street name and you would like to receive your own set of our annual report and proxy statement in the future, or if you share an address with another Safeguard shareholder and together both of you would like to receive only a single set of Safeguard annual documents, please contact ADP Investor Communication Services by telephone at 800-542-1061. Be sure to provide ADP Investor Communication Services with your name, the name of your brokerage firm, bank or other nominee, and your account number. These changes should be effective 30 days following receipt of your instructions.

If you did not receive an individual copy of this year's annual report or proxy statement, we will send a copy to you if you send a written request to Safeguard Scientifics, Inc., Attention: Investor Relations, 800 The Safeguard Building, 435 Devon Park Drive, Wayne, PA 19087-1945 or call 1-888-733-1200.

Q: *Can a shareholder nominate someone to be a director of Safeguard?*

A: The policy of the Corporate Governance Committee is to consider properly submitted shareholder nominations for candidates for membership on the Board in substantially the same manner as it considers other Board candidates it identifies. Criteria to be considered include, among other things, a candidate's qualification as independent under the various standards applicable to the Board and each of its committees, depth and breadth of experience within Safeguard's industry and otherwise, outside time commitments, special areas of expertise, accounting and finance knowledge, business judgment, leadership ability, and experience in developing and assessing business strategies.

Any shareholder nomination must include the following: the nominee's name, a comprehensive biography of the director nominee, an explanation of why the nominee is qualified to serve as a director and whatever other supporting material the shareholder considers appropriate; the name, address and telephone number of the shareholder or group of shareholders making the recommendation, proof of Safeguard stock ownership, number of shares and length of time the shares of Safeguard's voting securities have been beneficially owned by the stockholder or group of stockholders, and a representation that the stockholder or group of stockholders is entitled to and will remain entitled to vote at Safeguard's next annual meeting; and a letter from the individual being recommended certifying his or her willingness to serve, if elected, as a director. Recommendations, which must be received not later than 120 days prior to the first anniversary of the date on which notice of the prior year's annual meeting was first mailed to shareholders, should be directed to:

Chair, Corporate Governance Committee
c/o Secretary
Safeguard Scientifics, Inc.
800 The Safeguard Building
435 Devon Park Drive
Wayne, PA 19087-1945

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Q: *How may I communicate with Safeguard's Board or with non-management directors on Safeguard's Board?*

A: Safeguard's Audit Committee has established procedures for confidential, anonymous submission of complaints by employees and for receipt, retention and treatment of complaints, from whatever source, received by Safeguard, regarding accounting, internal accounting controls or auditing matters. Any person who desires to contact the Audit Committee may do so by addressing correspondence to:

Audit Committee Chair
c/o Secretary
Safeguard Scientifics, Inc.
800 The Safeguard Building
435 Devon Park Drive
Wayne, PA 19087-1945

All such communications are sent to the Chair of the Audit Committee, and after consultation with the Chair of the Audit Committee, may be sent to the other members of the Audit Committee.

All other communications directed to the Board or any specified director(s) should be addressed in care of Safeguard's Secretary at the address noted above. All communications are initially reviewed by our Secretary. The Chair of the Audit Committee is advised promptly of any communication that alleges misconduct on the part of Safeguard's management or raises legal, ethical or compliance concerns about Safeguard's policies or practices.

On a regular basis, the Chair of the Audit Committee receives updates on other communications received from shareholders that raise issues related to the affairs of Safeguard but which do not fall into the two prior categories. The Chair of the Audit Committee determines which of these communications he would like to see. Our Secretary maintains a log of all such communications which are available for review upon request of any member of the Board. Typically, we do not forward to our independent directors communications from our shareholders or other communications which are of a personal nature or not related to the duties and responsibilities of the Board, including, without limitation, business plan or other business opportunity submissions, inquiries related to products or services provided by Safeguard's companies, spam, junk mail and mass mailings, resumes and other forms of job inquiries, surveys or polls, business solicitations or advertisements, and any material that relates to improper or irrelevant topics or is unduly hostile, threatening, illegal or similarly unsuitable.

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**ELECTION OF DIRECTORS
Item 1 on Proxy Card**

Directors are elected annually and serve a one-year term. There are nine nominees for election this year. Each nominee is currently serving as a director and has consented to serve until the next annual meeting if elected. You will find a detailed biography for each nominee below. If any director is unable to stand for re-election after distribution of this proxy statement, the Board may reduce its size or designate a substitute. If the Board designates a substitute, proxies voting on the original director candidate will be cast for the substituted candidate. **The Board recommends a vote FOR each nominee. The nine nominees who receive the highest number of affirmative votes will be elected as directors.**

ANTHONY L. CRAIG

Director since 2001

Age 59

Mr. Craig became president and chief executive officer of Safeguard in October 2001. In March 2005, Mr. Craig notified the Board of his intention to retire. Mr. Craig has agreed to remain in his role while the Board identifies and retains a successor chief executive officer and may remain a director for a transitional period thereafter. Before joining Safeguard, Mr. Craig was chief executive officer from December 1999 to October 2001 and remains chairman of Arbinet-thexchange, a leading electronic market for trading, routing and settling communications capacity. Before Arbinet, he served as president and chief executive officer of Global Knowledge Network, a premier provider of technology learning services, from January 1997 to December 1999. Mr. Craig also has served as corporate vice president for Digital Equipment Corporation, senior vice president for Oracle Systems Corporation, and president and chief executive officer of Prime Computer. Mr. Craig also has held the positions of vice president of General Electric Company and president and chief executive officer of GE Information Services, as well as a series of executive assignments internationally at IBM Corporation. Mr. Craig is also a director of Arbinet-thexchange and Clariant, Inc.

JULIE A. DOBSON

Director since 2003

Age 48

Ms. Dobson served as chief operating officer, from 1998 until February 2002, of TeleCorp PCS, a wireless/mobile phone company that was acquired by AT&T Wireless in late 2001. From 1997 to 1998, Ms. Dobson was president of Bell Atlantic's New York/ New Jersey Metro Region mobile phone operations. Prior to that time, Ms. Dobson served in a number of executive positions during her 18-year career with Bell Atlantic, including sales, operations, and strategic planning and development in the CEO's office. Ms. Dobson is also a director of PNM Resources Inc. and LCC International, Inc.

ROBERT E. KEITH, JR.

Director since 1996

Age 63

Mr. Keith was appointed chairman of the Board of Safeguard in October 2001, prior to which he served as vice chairman since February 1999. Mr. Keith also served as a member of the office of the chief executive of Safeguard from April 2001 to October 2001. Mr. Keith has been a managing director of TL Ventures, a private equity fund, and its predecessor funds since 1988. He served as president from 1991 to December 2002, and as chief executive officer

from February 1996 to December 2002, of Technology Leaders Management, Inc., a private equity capital management company. Mr. Keith is also a senior adviser to, and co-founder of, EnerTech Capital Partners. Mr. Keith is also a director of Internet Capital Group, Inc. and Millstream II Acquisition Corporation.

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ANDREW E. LIETZ

Director since 2003

Age 66

Mr. Lietz is managing director of Rye Capital Management, a company he founded in 2001 to provide capital and professional services to pre-IPO stage companies. From late 2000 until mid-2002, he served as executive chairman of Clare Corporation, a designer and manufacturer of integrated circuits, solid-state relays and electronic switches, which was acquired by Ixys Corporation. Prior to his tenure with Clare, Mr. Lietz served as president and chief executive officer of Hadco Corporation, a global manufacturer of electronic interconnect products and services, a position which he held since 1995, and served in several other executive positions during his 16-year career with Hadco. Prior to joining Hadco, Mr. Lietz served in a variety of positions at IBM Corporation. Mr. Lietz is also a director of Amphenol Corporation, Omtool Corporation and DDi Corp. and is a member of the Board of Trustees of the University System of New Hampshire.

GEORGE MACKENZIE

Director since 2003

Age 56

Mr. MacKenzie was appointed interim chief executive officer of C&D Technologies, Inc., a company that produces and markets systems for the conversion and storage of electrical power, in March 2005. Mr. MacKenzie served from September 2001 until June 2002 as executive vice president and chief financial officer of Glatfelter Co., a paper manufacturer. Prior to that time, Mr. MacKenzie had retired in June 2001 as vice chairman and chief financial officer of Hercules, Incorporated, a global manufacturer of chemical specialties. Mr. MacKenzie's 22-year career with Hercules culminated in his role as vice chairman and chief financial officer, the latter a position which he held since 1995. Mr. MacKenzie is also a director of C&D Technologies, Inc. and Central Vermont Public Service Corporation.

JACK L. MESSMAN

Director since 1994

Age 65

Mr. Messman is chairman of the board and chief executive officer of Novell, Inc., a leading provider of infrastructure software products focused around Linux and identity management. Mr. Messman previously served as chief executive officer and president of Cambridge Technology Partners (Massachusetts), Inc., an e-business systems integration company, from August 1999 until its acquisition by Novell in July 2001. From April 1991 until August 1999, Mr. Messman was chairman and chief executive officer of Union Pacific Resources Group Inc., an independent oil and gas exploration and production company. From May 1988 to April 1991, Mr. Messman was chairman and chief executive officer of USPCI, Inc., Union Pacific's environmental services company. Mr. Messman is also a director of Novell, Inc., RadioShack Corporation and Timminco Limited.

JOHN W. PODUSKA, SR., Ph.D.

Director since 1987

Age 67

Dr. Poduska is an independent business consultant. From January 1992 until December 2001, he served as chairman of Advanced Visual Systems, Inc., a provider of visualization software and solutions. Before 1992, Dr. Poduska was president and chief executive officer of Stardent Computer, Inc, a computer manufacturer, from December 1989 to December 1991. From December 1985 to December 1989, Dr. Poduska was founder, chairman and chief executive

officer of Stellar Computer, Inc., a computer manufacturer and the predecessor of Stardent Computer, Inc. Dr. Poduska is also a director of Novell, Inc. and Anadarko Petroleum Corporation.

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ROBERT RIPP

Director since 2003

Age 63

Mr. Ripp is currently chairman of the board of LightPath Technologies, Inc., a manufacturer of fiber optic components. Mr. Ripp is retired chairman and chief executive officer of AMP Incorporated, an electrical connector manufacturer. Mr. Ripp held several executive positions at AMP, including chairman and chief executive officer from August 1998 until the company was sold in May 1999, executive vice president of sales and marketing from January 1998 to July 1998 and chief financial officer from April 1994 to January 1998. Prior to joining AMP, Mr. Ripp was employed for 29 years with IBM Corporation. He held a number of financial positions and retired from IBM in April 1993 as vice president and treasurer. Mr. Ripp is also a director of LightPath Technologies, Inc., ACE Ltd. and PPG Inc.

JOHN J. ROBERTS

Director since 2003

Age 60

Mr. Roberts retired in June 2002 as a global managing partner and a member of the Leadership Team of PricewaterhouseCoopers LLP, completing a 35-year career with the professional services firm. Mr. Roberts is a C.P.A. and served in a variety of client service and operating positions during his career. He is also a director of Armstrong Holdings, Inc. and a trustee of Pennsylvania Real Estate Investment Trust.

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CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

We have long believed that good corporate governance is important to ensure that Safeguard is managed for the long-term benefit of our shareholders and to maintain Safeguard's integrity in the marketplace. Safeguard's Statement on Corporate Governance (attached as Appendix A), Code of Conduct and the charters for each of the Board's standing committees (attached as Appendices B, C and D) are available through the Corporate Governance link on Safeguard's website at <http://www.safeguard.com/investors/> and, upon a shareholder's written request directed to our Secretary, in print. The Code of Conduct is applicable to all employees of Safeguard, including each of Safeguard's executive and financial officers, and the members of our Board. Safeguard intends to post amendments to or waivers from our Code of Conduct (to the extent applicable to Safeguard's directors or executive officers) in the Corporate Governance section of our website.

Board Independence. The Board has determined that each of the current directors standing for re-election, except Messrs. Craig, Keith and Messman, has no material relationship with Safeguard (either directly or through Safeguard's relationship with an organization of which the director is a partner, shareholder or officer) and is independent within the meaning of Safeguard's director independence standards, which reflect the New York Stock Exchange (NYSE) director independence standards as currently in effect. The attached Statement on Corporate Governance addresses the director independence standards.

Board Compensation. Directors employed by Safeguard receive no additional compensation for serving on the Board or its committees. Mr. Craig is the only employee of Safeguard who is a member of the Board.

During 2004, non-employee directors received the following compensation:

\$35,000 annual retainer, or \$85,000 in the case of the chairman of the Board;

\$5,000 annual retainer for chairing a committee;

\$2,000 for each Board meeting attended;

\$1,500 for each committee meeting attended;

reimbursement of out-of-pocket expenses.

For 2005, the chairman of the Board will receive an annual retainer of \$50,000. Safeguard does not provide retirement benefits to directors.

Safeguard also maintains a Group Deferred Stock Unit Program for Directors (Directors' DSU Program) which allows each director, at his or her election, to receive deferred stock units in lieu of cash retainer fees, Board meeting fees, Committee chair retainer fees, and Committee meeting fees paid to directors (Directors' Fees). The deferral election applies to Directors' Fees to be received for the following calendar year and remains in effect for each subsequent year unless the director elects otherwise at the end of the calendar year preceding the year in which the services are rendered. The number of deferred stock units awarded is determined by dividing the Directors' Fees by the fair market value of Safeguard's stock on the date on which the director would have otherwise received the Directors' Fees. Each director also receives a number of matching share units, based on the same fair market value calculation, equal to 25% of the Directors' Fees deferred. A director is always 100% vested in Directors' Fees deferred; the matching share units vest 100% on the first anniversary of the date the matching share units are credited to the director's account. Each deferred stock unit entitles the director to receive one share of Safeguard common stock on or about the first anniversary of the date upon which the director leaves the Safeguard Board. A director also may elect to receive the stock in annual installments over a period of up to 5 years after leaving the Board. Messrs. Keith, Messman and

Roberts elected to defer payment of Directors Fees earned during 2004 in the amount of \$55,500, \$31,000 and \$17,500, respectively, and received matching share units with an aggregate value of \$13,876, \$7,750 and \$4,374, respectively.

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Each director who is not an employee of Safeguard receives an initial option grant to purchase 50,000 shares of Safeguard common stock upon initial election to the Board. Each of these directors also receives an annual service option grant to purchase 15,000 shares. Directors' options generally have an eight-year term. Initial option grants generally vest 25% each year starting on the first anniversary of the grant date. Annual service option grants generally vest 100% on the first anniversary of the grant date. The exercise price is equal to the fair market value of a share of our common stock on the grant date. In December 2004, each non-employee director received the annual service option grant to purchase 15,000 shares. These options have a per share exercise price of \$2.125, an eight-year term, and vest 100% on the first anniversary of the grant date.

Board Structure and Committee Composition. As of the date of this proxy statement, Safeguard's Board has nine members and four standing committees. The Board held 12 meetings in 2004, two of which were joint meetings with the Corporate Governance Committee and one of which was a joint meeting with the special transactions committee that was established to evaluate Safeguard's strategy and strategic relationship with CompuCom Systems, Inc. Each incumbent director attended at least 75% of the total number of meetings of the Board and committees of which he or she was a member, with the exception of Mr. Ripp who attended 74% of the total number of meetings. Directors are invited, but not required, to attend annual meetings of Safeguard shareholders. Five directors attended the 2004 annual meeting of shareholders. In addition, under Safeguard's Statement on Corporate Governance and in accordance with NYSE listing standards, non-employee directors have an opportunity to meet in executive session at each regularly scheduled Board meeting, outside of the presence of any management directors and any other members of Safeguard's management who may otherwise be present, and during at least one session per year, only independent directors may be present. The chair of the Corporate Governance Committee presides at these sessions. The table below describes the membership of each of the standing committees during 2004 and the number of meetings held by each of these committees during 2004.

	Acquisition	Audit	Compensation	Corporate Governance
Number of Meetings held in 2004	2	15	7	6
Anthony L. Craig	ü			
Julie A. Dobson		ü	ü	ü
Robert E. Keith, Jr.	Chair			
Andrew E. Lietz		ü		Chair
George MacKenzie	ü	Chair		
Jack L. Messman				*
John W. Poduska, Sr.			Chair	
Robert Ripp	ü			ü
John J. Roberts		ü	ü	

*

Mr. Messman served as chair and a member of this committee until December 2004, at which time Mr. Lietz was appointed chair and Ms. Dobson was appointed as a member of this committee.

Audit Committee. The functions of the Audit Committee are described under the heading Audit Committee Report. The Audit Committee Charter is attached to this proxy statement as Appendix B and also is available through the Corporate Governance link on Safeguard's website at <http://www.safeguard.com/investors/>. The Board has determined that each current member of the committee meets the independence requirements established by SEC regulations, the NYSE listing standards and Safeguard's Statement on Corporate Governance. Messrs. MacKenzie and Roberts qualify and have been designated by the Board as audit committee financial experts within the meaning of the SEC regulations, and the Board has determined that each member of the committee has accounting and related financial management expertise within the meaning of the NYSE listing standards.

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Corporate Governance Committee. The Corporate Governance Committee is responsible for establishing criteria for the selection of directors, considering qualified Board candidates recommended by shareholders, and recommending to the Board the nominees for director, including nominees for director in connection with Safeguard's annual meeting of shareholders. In addition, the committee conducts annual evaluations of the Board, its committees and its members. The committee also is responsible for taking a leadership role in shaping Safeguard's corporate governance policies, developing and recommending to the Board Safeguard's Statement on Corporate Governance and Safeguard's Code of Conduct and overseeing the process of succession planning for the chief executive officer and executive management. The committee operates under a written charter adopted by the Board which is attached to this proxy statement as Appendix C and also is available through the Corporate Governance link on Safeguard's website at <http://www.safeguard.com/investors/>. The Board has determined that each current member of the committee is independent within the meaning of the NYSE listing standards and Safeguard's Statement on Corporate Governance.

Compensation Committee. The functions of the Compensation Committee are described under the heading Report of the Compensation Committee on Executive Compensation. The committee operates under a written charter adopted by the Board which is attached to this proxy statement as Appendix D and also is available through the Corporate Governance link on Safeguard's website at <http://www.safeguard.com/investors/>. The Board has determined that each current member of the committee is independent within the meaning of the NYSE listing standards and Safeguard's Statement on Corporate Governance.

Acquisition Committee. The Board has delegated to the Acquisition Committee the authority to approve, between regularly scheduled Board meetings, the following transactions:

follow-on investments in existing companies and investments in related companies involving an amount between \$5 million and \$20 million;

divestitures of existing companies involving an amount between \$5 million and \$20 million; and

new investments in an amount up to \$10 million.

Other Matters. As required under the NYSE listing standards:

the Audit Committee, Corporate Governance Committee and Compensation Committee each recently completed their respective annual performance evaluation; and

the non-management directors met at regularly scheduled executive sessions without management, including one session at which only independent directors were present.

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Item 2 on Proxy Card**

The Audit Committee, composed entirely of independent, non-employee members of the Board, approved the reappointment of KPMG LLP (KPMG) as Safeguard s independent registered public accounting firm for the fiscal year ending December 31, 2005 and the Board has recommended that our shareholders ratify the appointment. If the shareholders do not ratify the appointment, the Audit Committee may reconsider its recommendation and may retain KPMG or another accounting firm without resubmitting the matter to shareholders. Even if the shareholders ratify the appointment of KPMG, the Audit Committee may select another firm if it determines such selection to be in the best interest of Safeguard and its shareholders.

Services provided to Safeguard and its subsidiaries by KPMG in fiscal 2004 and fiscal 2003 are described below under Independent Registered Public Accounting Firm Audit Fees. Representatives of KPMG are expected to attend the annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The Board recommends a vote FOR ratification of the appointment of KPMG as Safeguard s independent registered public accounting firm. Ratification requires the affirmative vote of a majority of those shares present in person or represented by proxy and entitled to vote on the proposal.

Independent Registered Public Accounting Firm Audit Fees

The following table presents fees for professional services rendered by KPMG for the audit of Safeguard s consolidated financial statements for fiscal 2004 and fiscal 2003 and fees billed for audit-related services, tax services and all other services rendered by KPMG for fiscal 2004 and fiscal 2003. This table also includes fees billed to Safeguard s consolidated subsidiaries for services rendered by KPMG.

	2004	2003
Audit Fees (1)	\$ 2,272,303	\$ 1,243,625
Audit-Related Fees (2)	93,990	125,595
Tax Fees (3)	282,548	390,025
All Other Fees	7,686	1,461
Total	\$ 2,656,527	\$ 1,760,706

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- (1) For 2003 and 2004, audit fees included the aggregate fees billed by KPMG for professional services rendered in connection with the audit of the consolidated financial statements included in our Annual Report on Form 10-K, the review of the consolidated financial statements included in our Quarterly Reports on Form 10-Q and comfort letters, consents and other services related to SEC and other regulatory filings. Audit fees for 2004 also included fees for professional services rendered for the audits of management s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting.
- (2) Audit-related fees included the aggregate fees billed by KPMG principally for audits of financial statements of certain employee benefit plans and officer expense review.
- (3) Tax fees included the aggregate fees billed by KPMG for tax consultation and tax compliance services.

The Audit Committee pre-approves each service to be performed by KPMG at its regularly scheduled meetings. However, for any service that may require pre-approval between regularly scheduled meetings, the Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve services not prohibited by law to be performed by Safeguard's independent registered public accounting firm and associated fees up to a maximum for any one non-audit service of \$100,000, provided that the Chair shall report any decisions to pre-approve such services and fees to the Audit Committee at its next regularly scheduled meeting.

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AUDIT COMMITTEE REPORT

The Audit Committee assists the Board of Directors in fulfilling its responsibilities for general oversight of the accuracy of Safeguard's financial statements, Safeguard's compliance with legal and regulatory requirements, the adequacy and efficiency of Safeguard's internal controls and procedures, the performance of Safeguard's internal audit function, and the performance, qualifications and independence of Safeguard's independent registered public accounting firm. The Audit Committee has the sole authority to retain, set compensation and retention terms for, terminate and oversee the relationship with Safeguard's independent registered public accounting firm (which reports directly to the Audit Committee). The Audit Committee has the authority to obtain advice, counsel and assistance from internal and external legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and to receive appropriate funding from Safeguard for such advice and assistance.

The responsibilities of the Audit Committee are set forth in the Audit Committee Charter, which is reviewed annually by the Committee. A copy of the Audit Committee Charter is attached as Appendix B to this proxy statement and also is available through the Corporate Governance link on Safeguard's website at <http://www.safeguard.com/investors/>. As required by its charter, during 2004 the Audit Committee completed a self-evaluation of its performance and delivered a report to the Board of the results of that evaluation.

Safeguard's management has primary responsibility for the financial reporting process, including the system of internal controls, and for preparation of Safeguard's consolidated financial statements in accordance with generally accepted accounting principles. Safeguard's independent registered public accounting firm is responsible for auditing those financial statements and expressing an opinion as to the conformity of Safeguard's audited financial statements with accounting principles generally accepted in the United States.

During 2004, management completed the documentation, testing and evaluation of Safeguard's system of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Audit Committee provided oversight and advice to management during the process. In connection with this oversight, the Audit Committee received periodic updates provided by management, KPMG and the firm responsible for Safeguard's internal audit function. At the conclusion of the process, management provided the Audit Committee with a report on the effectiveness of Safeguard's internal control over financial reporting. The Audit Committee also reviewed the report of management contained in Safeguard's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed with the SEC, as well as KPMG's Reports of Independent Registered Public Accounting Firm (included in Safeguard's Annual Report on Form 10-K). These reports related to the audit of the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting. The Audit Committee continues to oversee Safeguard's efforts related to its internal control over financial reporting and management's preparations for the evaluation in 2005.

Throughout the year, the Audit Committee regularly meets with management of Safeguard, Safeguard's independent registered public accounting firm, and the firm responsible for Safeguard's internal audit function. The Audit Committee often meets with these groups in closed sessions. In this context, the Audit Committee hereby reports as follows: