

2001-3

SCP

Private Equity Partners, L.P.

Building 300, 435 Devon Park Drive Wayne, PA 19087-1993
(610) 995-2900 / FAX (610) 975-9546

January 3, 2001

Commonwealth of Pennsylvania
Public School Employees' Retirement System
Five North Fifth Street
Harrisburg, Pennsylvania 17101

Attention: John C. Lane
Chief Investment Officer

Re: SCP Private Equity Partners II, L.P.

Dear Mr. Lane:

This letter is being written and delivered to confirm certain agreements with regard to the investment made by the Public School Employees' Retirement System ("PSERS") in SCP PRIVATE EQUITY PARTNERS II, L.P., a Delaware limited partnership (the "Partnership"), pursuant to the Limited Partnership Agreement dated as of June 15, 2000, as amended (the "Partnership Agreement") of the Partnership and the Subscription Agreement among the Partnership, the General Partner and PSERS dated as of January ___, 2001 (the "Subscription Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Partnership Agreement.

The General Partner, on behalf of the Partnership, and PSERS agree that the terms of this letter agreement shall be applicable to the investment by PSERS in the Partnership, notwithstanding anything to the contrary contained in the Partnership Agreement or the Subscription Agreement. The terms of this letter agreement supersede any conflicting term(s) in the Partnership Agreement or the Subscription Agreement.

- 1. Preservation of Sovereign Immunity.** The General Partner understands that PSERS reserves all immunities, defenses, rights or actions arising out of its status as a sovereign entity, including those under the Eleventh Amendment to the United States Constitution. No provision of the Partnership Agreement or the Subscription Agreement shall be construed as a waiver or limitation of such immunities, defense, rights or actions.
- 2. Board of Claims.** The General Partner hereby agrees and acknowledges that any legal proceeding involving any contract claim asserted against PSERS arising out of the Partnership Agreement or the Subscription Agreement may only be brought before and subject to the exclusive jurisdiction of the Board of Claims of the

Commonwealth of Pennsylvania pursuant to §§ 4651-1 *et seq.* of Title 72 Pa. Statutes, and that such proceeding shall be governed by the procedural rules and laws of the Commonwealth of Pennsylvania, without regard to the principles of conflicts of law.

3. **Limitation of Liability.** The General Partner hereby confirms that the Partnership Agreement and the Subscription Agreement do not impose any personal indemnification obligations on PSERS and shall not be applied or construed to require PSERS to provide indemnification directly to any person or entity thereunder. PSERS, however, acknowledges that it is obligated as a Limited Partner to make capital contributions as called pursuant to the terms of the Partnership Agreement, including without limitation, contributions to pay expenses, costs, losses or liabilities of the Partnership when, as and under the terms and conditions provided in the Partnership Agreement. In no event shall the liability of PSERS under the Agreement or the Subscription Agreement exceed the sum of PSERS' Commitment.

4. **Preservation of Records.** The General Partner hereby agrees to preserve all financial and accounting records pertaining to the Partnership Agreement during the term of the Partnership Agreement and for four years thereafter, and during such period, PSERS or any other department or representatives of the Commonwealth of Pennsylvania, upon reasonable notice, shall have the right to audit such records in regard thereto to the fullest extent permitted by law. The General Partner shall have the right to preserve all records and accounts in original form or on microfilm, magnetic tape, or any similar process. PSERS agrees to keep all such information confidential to the fullest extent permitted by law.

5. **Most Favored Nation Provision.** The Partnership and General Partner represent and warrant that none of the Partnership, the General Partner nor the individual partners of the General Partner have entered or will enter into any side letter or similar agreement on or prior to the date hereof with any investor or Partner in the Partnership in connection with the admission of such investor or Partner to the Partnership except as disclosed to PSERS in writing on or prior to the date hereof. If the Partnership, the General partner or the individual partners of the General Partner shall enter into a side letter or similar agreement with an existing or future investor, PSERS shall promptly be given a copy of such agreement and the opportunity to obtain the same rights and benefits of such side letter or similar agreement by written notice thereof to the General Partner delivered within 30 days of receipt by PSERS of copies of such side letters or similar agreements.

6. **Co-Investment Rights.** If the Partnership shall make any co-investment opportunity available to one or more Limited Partners, then PSERS shall be given the right to participate in such co-investment in an amount equal to no less than its pro rata share of such co-investment opportunity (which pro rata share shall be based on the Subscription of PSERS as compared to the Subscriptions of all Limited Partners); provided, however, that another Limited Partner may be permitted to make co-investments or follow-on investments in Portfolio Companies for strategic (as opposed to

economic) purposes, which, if made, will not obligate the General Partner or the Partnership to offer you such co-investment right.

7. **No-Fault Divorce.** Notwithstanding anything to the contrary contained in the Partnership Agreement, from and after the date on which the Partnership shall have made indemnification payments on two occasions in excess of \$500,000 to one or more Indemnified Persons in respect of two matters for which indemnification is required, PSERS will have the option to terminate its Unfunded Subscription except to the extent necessary to fund (i) Operating Expenses (including the Management Fee) of the Partnership, (ii) follow-on investments and (iii) binding written commitments to make investments entered into prior to the second indemnification payment; and PSERS' Commitment shall be reduced to the extent not required to be contributed under this Section (except for purposes of calculating the Management Fee). The option to terminate its Unfunded Subscription pursuant to the preceding sentence must be exercised in writing within thirty (30) days from the time notice is received that such option is exercisable. Upon termination of such option, PSERS will have further options (each exercisable in writing within thirty (30) days from receipt of notice of any such option) to terminate its Unfunded Subscription for each instance where an Indemnitee has been subsequently indemnified for more than \$500,000. If such option is exercised, PSERS shall have no interest in, nor receive any allocations or distributions in respect of, any investments made by the Partnership (other than investments described in clauses (ii) and (iii) above) after PSERS' obligation to contribute has been reduced hereunder.

8. **General Partner's Capital Commitment.** The General Partner shall contribute at least five percent of the aggregate Capital Contributions to the Partnership of all Partners.

9. **Guaranty Obligation.** Upon the completion of the dissolution and liquidation of the Partnership, if PSERS has not received, over the life of the Partnership, distributions from the Partnership in an aggregate amount at least equal to the amount PSERS has contributed to the Partnership in respect of its Subscription, Safeguard Scientifics Inc. ("Safeguard") will pay to PSERS the amount of such shortage up to the lesser of (i) \$7.5 million or (ii) 10% of the amount PSERS has contributed to the Partnership in respect of its Subscription. The obligation set forth in this paragraph 9 is part of an overall program PSERS has implemented in connection with investments PSERS has made in Safeguard sponsored investment funds.

10. **Representation on Limited Partners Advisory Committee.** Notwithstanding anything contained in the Partnership Agreement, PSERS shall have the right to have one representative who shall be a voting member of the Limited Partners Advisory Committee. PSERS shall have the right to name all successor representatives in the event any PSERS' designee resigns or is removed from the Limited Partners Advisory Committee under the Partnership Agreement. The Partnership shall pay all travel expenses for PSERS' designee to attend meetings and other business required by the Limited Partners Advisory Committee.

11. **Key-Man Triggering Event.** The General Partner, on behalf of the Partnership, hereby agrees that, in addition to the events set forth in the Agreement, in the event Winston J. Churchill ceases to be a member of the governing board of the LLC or a member of the Management Company, PSERS will have the option to terminate its Unfunded Subscription. The option to terminate its Unfunded Subscription pursuant to the preceding sentence must be exercised in writing within thirty (30) days from the time that such option is first exercisable. If PSERS terminates its Unfunded Subscription, PSERS shall have no interest in, nor receive any allocations or distributions in respect of, any investments acquired by the Partnership after PSERS' obligation to contribute in respect of its Unfunded Subscription has been terminated.

12. **Failure to Make Additional Capital Contributions.** If PSERS is to be sent a notice as provided for in Section 8.2(a) of the Partnership Agreement, such notice shall be sent by certified mail, return receipt requested, to the Chief Investment Officer of PSERS.

13. **Management Fee Break.** The General Partner, on behalf of the Partnership, hereby agrees that to the extent that your Subscription equals or exceeds Seventy Five Million Dollars (\$75,000,000), (a) the Management Fee attributable to your Subscription shall be calculated at an annual rate of 1.75% (quarterly at the rate of .4375%) of your Subscription rather than at the annual rate of 2% and (b) at such time as the Management Fee is adjusted pursuant to either Section 5.2 or 8.5 of the Partnership Agreement, the Management Fee applicable to your Subscription shall be calculated at an annual rate of 1.25% (quarterly at the rate of .3125%) rather than at an annual rate of 1.5%. You shall receive the economic benefit of such rate reduction on such basis as you and the General Partner mutually shall agree.

14. **Liquidating Trust.** If upon the liquidation of the Partnership there shall be any Securities that are not Publicly Traded Securities (after application of Section 14.4 of the Partnership Agreement), then in lieu of distributing to PSERS its allocable share of such Securities, the General Partner (or liquidator if not the General Partner) shall use reasonable best efforts to dispose of PSERS' allocable share of such Securities. In the event the General Partner is unable to dispose of such Securities within a reasonable period of time, the General Partner shall give PSERS at least ten business days prior written notice of its intention to make any such distribution in kind; provided, that PSERS may within such notice period elect, by written notice to the General Partner or a liquidating trustee, as applicable, to decline the receipt of distributions in kind, in which case such distribution to PSERS shall be made by depositing such Securities in a liquidating trust established by the General Partner (or liquidator if not the General Partner) in the name and for the benefit of PSERS; provided that PSERS shall bear its pro rata share of the out of pocket expenses of such liquidating trust. The General Partner shall not allocate any non Publicly Traded Securities to PSERS relating to an investment from which PSERS was excused or excluded under the terms of the Agreement. The terms of the liquidating trust shall be mutually agreeable to both PSERS and the liquidating trustee. Non Publicly Traded Securities in the liquidating trust shall be disposed of at the same time and on the same terms and conditions as those governing a

disposition by the General Partner holding the same class of securities (or its principals holding such securities if the General Partner has been liquidated).

15. **Individual Principal Status as Limited Partner.** If an Individual Principal commits an act or omission that is not indemnifiable under subsections (A), (B), (C), (D) or (E) of Section 18.1(a) of the Partnership Agreement, then such Individual Principal's status as a limited partner of the General Partner shall not serve as a shield against liability to PSERS for damages resulting from such act or omission.

Sincerely yours,

SCP PRIVATE EQUITY PARTNERS II, L.P.

By: SCP PRIVATE EQUITY II GENERAL PARTNER, L.P., its sole general partner

By: SCP PRIVATE EQUITY II, LLC, its manager

By: Winston J. Churchill
Name: Winston J. Churchill
Title: A Manager

SOLELY WITH RESPECT TO ITEM 9 HEREOF:

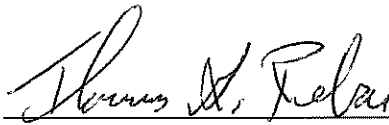
SAFEGUARD SCIENTIFICS INC.

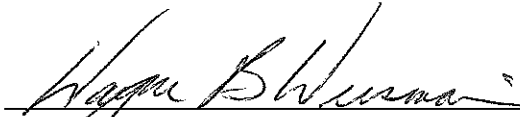
By: N. Jeffrey Klauder
Name: N. JEFFREY KLAUDER
Title: SVP

SOLELY WITH RESPECT TO ITEM 15 HEREOF:

Winston J. Churchill
WINSTON J. CHURCHILL

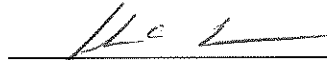
James W. Brown
JAMES W. BROWN



THOMAS G. REBAR


WAYNE B. WEISMAN

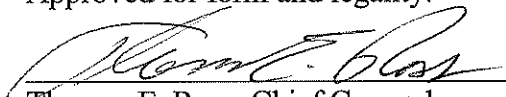
Agreed to and Acknowledged:

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT
SYSTEM

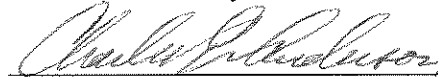
By: 
Name: John C. Lane
Title: Chief Investment Officer

By: 
Name: Dale H. Everhart
Title: Executive Director

Approved for form and legality:


Thomas E. Ross, Chief Counsel
Public School Employees' Retirement System

Please see attached approval memo.
Chief Deputy Attorney General
Office of Attorney General

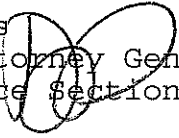

Deputy General Counsel
Office of General Counsel

LEGAL OFFICE JAN 30 2001

Commonwealth of Pennsylvania
Office of Attorney General
JANUARY 30, 2001

Subject: Contract 2000-3
SCP PRIVATE EQUITY PARTNERS II LP

To: THOMAS E. ROSS
CHIEF COUNSEL
PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEMS

From: David J. DeVries 
Chief Deputy Attorney General
Review and Advice Section

The following proposed document(s) for the above-referenced contract are approved for form and legality pursuant to the Commonwealth Attorneys Act, 71 P.S. Section 732.101 et seq. No approval or opinion is offered as to the manner of execution if the document was submitted in proposed form. No approval or opinion is offered concerning any document referenced but not submitted or any events or other occurrences giving rise to the contract's creation or submission. Our review and approval is based upon the law of the Commonwealth of Pennsylvania. This review does not extend to compliance with the laws of other jurisdictions. To the extent, if any, that such other laws may be applicable to the making or performance of the contract in any respect, the agency may want to consult with counsel in that jurisdiction.

Please note that the side letter and the subscription agreement have been signed but not the limited partnership agreement.

DJD /jmn