

SAFEGUARD SCIENTIFICS INC

Form 10-K

March 06, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-5620

Safeguard Scientifics, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

435 Devon Park Drive

Building 800

Wayne, PA

(Address of principal executive offices)

(610) 293-0600

(Registrant's telephone number, including area code)

23-1609753

(I.R.S. Employer Identification No.)

19087

(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock (\$.10 par value)

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2014, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$421,013,883 based on the closing sale price as reported on the New York Stock Exchange.

The number of shares outstanding of the registrant’s common stock as of March 4, 2015 was 20,693,432.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement (the “Definitive Proxy Statement”) to be filed with the Securities and Exchange Commission for the Company’s 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

---

Table of Contents

SAFEGUARD SCIENTIFICS, INC.  
FORM 10-K  
December 31, 2014

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>3</u>
<u>Item 1A. Risk Factors</u>	<u>11</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>17</u>
<u>Item 2. Properties</u>	<u>17</u>
<u>Item 3. Legal Proceedings</u>	<u>17</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>17</u>
<u>PART II</u>	
<u>Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>19</u>
<u>Item 6. Selected Consolidated Financial Data</u>	<u>20</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>34</u>
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>65</u>
<u>Item 9A. Controls and Procedures</u>	<u>65</u>
<u>Item 9B. Other Information</u>	<u>65</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>66</u>
<u>Item 11. Executive Compensation</u>	<u>66</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>66</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>67</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>67</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>68</u>

Table of Contents

PART I

Cautionary Note Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about Safeguard Scientifics, Inc. (“Safeguard” or “we”), 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. For example, when we use words such as “projects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “would,” “could,” “will,” “opportunity,” “potential” or “may,” variations of such words or other words to 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, our ability to make good decisions about the deployment of capital, the fact that our partner companies may vary from period to period, our substantial capital requirements and absence of liquidity from our partner company holdings, fluctuations in the market prices of our publicly traded partner company holdings, competition, our inability to obtain maximum value for our partner company holdings, our ability to attract and retain qualified employees, our ability to execute our strategy, market valuations in sectors in which our partner companies operate, our inability to control our partner companies, our need to manage our assets to avoid registration under the Investment Company Act of 1940, and risks associated with our partner companies and their performance, including the fact that most of our partner companies have a limited history and a history of operating losses, face intense competition and may never be profitable, the effect of economic conditions in the business sectors in which our partner companies operate, compliance with government regulation and legal liabilities, all of which are discussed in Item 1A. “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, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

Item 1. Business

Business Overview

Safeguard’s charter is to build value in early- and growth-stage businesses by providing capital as well as strategic, operational and management resources. Safeguard participates principally in growth and expansion financings and early-stage financings. Our vision is to be the preferred capital source for entrepreneurs and management teams in well-defined industry sectors. Throughout this document, we use the term “partner company” to generally refer to those companies in which we have an equity interest and in which we are actively involved, influencing development through board representation and management support, in addition to the influence we exert through our equity ownership. From time to time, in addition to these partner companies, we also hold relatively small equity interests in other enterprises where we do not exert significant influence and do not participate in management activities. In some cases, these interests relate to former partner companies and in some cases they relate to entities which may later become partner companies.

We strive to create long-term value for our shareholders by helping our partner companies increase their market penetration, grow revenue and improve cash flow. Safeguard focuses principally on companies with initial capital requirements between \$5 million and \$15 million, and follow-on financing needs of between \$5 million and \$10 million, with a total anticipated deployment of up to \$25 million from Safeguard. We will occasionally provide certain early-stage financing in amounts generally up to \$1 million to promising young companies with the goal to provide more capital once certain development milestones are achieved. Safeguard principally targets companies that operate in two sectors:

Healthcare — companies focused principally on medical technology (“MedTech”), including diagnostics and devices; and healthcare technology (“HealthTech”). Within these areas, Safeguard targets companies that have lesser regulatory risk and have achieved or are near commercialization; and

Technology — companies focused principally on digital media; financial technology (“FinTech”); and Enterprise 3.0, which includes mobile technology, cloud, the “Internet of Things” and big data. Within these areas, Safeguard targets companies that have transaction-enabling applications with a recurring revenue stream.

In 2014, our management team continued to focus on the following objectives:

• Deploy capital in companies within our strategic focus;

• Build value in partner companies by developing strong management teams, growing the companies organically and through acquisitions, and positioning the companies for liquidity at premium valuations;

Table of Contents

Realize the value of partner companies through selective, well-timed exits to maximize risk-adjusted value; and  
Provide the tools needed for investors to fully recognize the shareholder value that has been created by our efforts.

To meet our strategic objectives during 2015, Safeguard will continue to focus on:

Finding opportunities to deploy our capital in additional partner companies within our target sectors;  
Helping partner companies to achieve additional market penetration, revenue growth, cash flow improvement and growth in long-term value; and

Realizing value in our partner companies if and when we believe doing so will maximize value for our shareholders.

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

Significant 2014 Highlights

Here are some of our key developments from 2014:

During 2014, we deployed an aggregate of \$43.3 million of capital into six new partner companies. In addition, we deployed \$26.6 million of additional capital to support the growth of partner companies in which we already had an interest at December 31, 2013.

In January 2014, we received \$15.7 million in cash proceeds from the sale of partner company Alverix, Inc. to Becton, Dickinson and Company. This excludes \$1.7 million, which will be held in escrow until approximately July 2015.

In February 2014, we received \$38.4 million in cash proceeds from the sale of partner company Crescendo Bioscience, Inc. to Myriad Genetics, Inc. This excludes \$2.9 million which will be held in escrow until approximately May 2015.

In February 2014, we received \$23.1 million in cash proceeds from the sale of partner company NuPathe Inc. to Teva Pharmaceutical Industries Ltd. Depending on the achievement of certain milestones achieved over time, Safeguard may receive up to an additional \$24.2 million.

In April 2014, we received \$4.2 million in cash proceeds from the sale of our ownership interests in partner company Sotera Wireless, Inc.

In April 2014 and November 2014, we deployed an aggregate of \$8.0 million as part of a \$17.0 million Series B financing for InfoBionic, Inc. InfoBionic is an emerging digital health company focused on creating patient monitoring solutions for chronic disease management with an initial market focus on cardiac arrhythmias. InfoBionic's MoMe™ System is the first cloud-based, multi-pass analysis universal remote patient monitoring platform that provides unprecedented analytics with seamless transition between holter, event, and mobile cardiac telemetry monitoring modes in one device.

In June 2014, we deployed \$5.8 million as part of a \$10.0 million Series B financing for Syapse, Inc. Syapse is a software company that enables healthcare providers to deploy precision medicine platforms. Syapse's Precision Medicine Data platform integrates complex genomic and clinical data with care pathways and medical knowledge bases, providing clinicians with actionable insights to enable diagnosis and treatment.

In July and September 2014, we deployed an aggregate of \$5.0 million as part of an \$11.6 million Series B financing for Trice Medical™. Trice Medical is a diagnostics company focused on micro invasive technologies. Trice Medical has pioneered fully integrated camera-enabled needle technologies that provide a clinical solution that is optimized for use in the physician's office.

In August 2014, we deployed \$6.0 million in a Series A financing for WebLinc, Inc. WebLinc is a commerce platform provider for fast growing online retailers.

In August 2014, we deployed \$9.5 million as part of an \$11.0 million Series D financing for Transactis, Inc. Transactis is a leading provider of electronic billing and payment solutions. Transactis' cloud-based electronic bill presentment and payment platform, BillerIQ, is a white-labeled solution that is offered "as-a-service", enabling businesses to rapidly and securely deliver electronic bills, invoices and documents, as well as accept payments online, by phone, and via mobile device.

In August 2014, we deployed \$9.0 million as part of a \$14.5 million Series B financing for Propeller Health, Inc. Propeller Health provides digital solutions to measurably improve respiratory health. One of the first mobile platforms with 510(k) clearance from the U.S. Food and Drug Administration ("FDA"), Propeller Health combines sensors, mobile apps and predictive analytics to monitor and engage patients, increase adherence and encourage effective self-management.

In October 2014, we appointed Mara G. Aspinall to our board of directors. Ms. Aspinall has a track record of success as an entrepreneur and healthcare industry visionary. She is the former President and CEO of Ventana Medical Systems and Global Head of Roche Tissue Diagnostics; founder and former CEO of On-Q-ity; and President of Genzyme Genetics.

## Table of Contents

During the year ended December 31, 2014, we repurchased 1,194,313 shares of the Company's common stock in open market transactions at prices ranging from \$19.54 to \$22.18 per share for an aggregate cost of \$25.0 million.

### Our Strategy

Founded in 1953, Safeguard has a distinguished record of building market leaders by providing capital and operational support to entrepreneurs across an evolving and innovative spectrum of industries. Today, Safeguard principally targets healthcare companies focusing on medical technology and healthcare technology; and technology companies focusing on financial technology, digital media, and Enterprise 3.0.

As a visionary for the development of early- and growth-stage healthcare and technology companies, Safeguard is a proven partner for entrepreneurs looking to accelerate growth and build long-term value in their businesses.

Leveraging Safeguard's rich and colorful history of building market leaders, along with our team's collective operational expertise and successful entrepreneurial endeavors, Safeguard has built a powerful - and actionable - platform of resources to support our partner companies with the strategies and relationships that are most vital for success. We provide value that extends beyond capital and work as a team to foster growth.

Our corporate staff of 30 employees is dedicated to creating long-term value for our shareholders by helping our partner companies build value and pursuing selective, well-timed exits of our partner companies.

### Identifying Partner Company Opportunities

Safeguard's go-to-market strategy, marketing and sourcing activities within our sectors of focus (Healthcare and Technology) are designed to generate a large volume of high-quality opportunities to acquire significant shareholder positions in partner companies. Our principal focus is to acquire positions in early- and growth-stage companies with attractive growth prospects in the technology and healthcare sectors. Generally, we prefer to deploy capital into companies:

- operating in large and/or growing markets;

- with barriers to entry by competitors, such as proprietary technology and intellectual property, or other competitive advantages;

- with initial capital requirements between of \$5 million and \$15 million, and follow-on financing needs of between \$5 million and \$10 million, with the total anticipated deployment of up to \$25 million from Safeguard; and

- with a compelling growth strategy.

Our sourcing efforts are targeted primarily in the eastern United States. However, in-bound deal leads generate opportunities throughout the United States, and we do not limit our sourcing to a particular geographic area within the United States. Leads come from a variety of sources, including investment bankers, syndication partners, existing partner companies and advisory board members.

In Healthcare, we currently target companies principally in MedTech, including diagnostics and devices and HealthTech that have lesser regulatory risk and have achieved or are near commercialization.

In Technology, we currently target companies principally in digital media, FinTech, and Enterprise 3.0, which includes mobile technology, cloud, "Internet of Things" and big data that have transaction-enabling applications with a recurring revenue stream.

We believe there are many opportunities within these business models and vertical markets, and our sourcing activities are focused on finding candidate companies and evaluating how well they align with our criteria. However, we recognize we may have difficulty identifying candidate companies and completing transactions on terms we believe appropriate. As a result, we cannot be certain how frequently we will enter into transactions with new or existing partner companies.

Competition. We face intense competition from other companies that acquire or provide capital to healthcare and technology businesses. Competitors include venture capital and, occasionally, private equity investors, as well as companies seeking to make strategic acquisitions. Many providers of growth capital also offer strategic guidance, networking access for recruiting and general advice. Nonetheless, we believe we are an attractive capital provider to potential partner companies because our strategy and capabilities offer:

- responsive operational assistance, including strategy design and execution, business development, corporate development, sales, marketing, finance, risk management, talent recruitment and legal support;



- the flexibility to structure transactions, with or without debt;
- occasional liquidity opportunities for founders and existing investors;
- a focus on maximizing risk-adjusted value growth, rather than absolute value growth within a narrow or predetermined time frame;

Table of Contents

interim C-level management support, as needed; and  
opportunities to leverage Safeguard's balance sheet for borrowing and stability.

Helping Our Partner Companies Build Value

We offer operational and management support to each of our partner companies through our deep domain expertise from our management team's careers as entrepreneurs, board members, financiers and operators. Our employees have expertise in business strategy, sales and marketing, operations, finance, legal and transactional support. We provide hands-on assistance to the management teams of our partner companies to support their growth. We believe our strengths include:

- applying our expertise to support a partner company's introduction of new products and services;
- leveraging our market knowledge to generate additional growth opportunities;
- leveraging our business contacts and relationships; and
- identifying and evaluating potential acquisitions and providing capital to pursue potential acquisitions to accelerate growth.

Strategic Support. By helping our partner companies' management teams remain focused on critical objectives through the provision of human, financial and strategic resources, we believe we are able to accelerate their development and success. We play an active role in developing the strategic direction of our partner companies, including:

- defining short and long-term strategic goals;
- identifying and planning for the critical success factors to reach these goals;
- identifying and addressing the challenges and operational improvements required to achieve the critical success factors and, ultimately, the strategic goals;
- identifying and implementing the business measurements that we and others will apply to measure a company's success; and
- providing capital to drive growth.

Management and Operational Support. We provide management and operational support, as well as ongoing planning and development assessment. Our executives and advisory board members provide mentoring, advice and guidance to develop partner company management. Our executives serve on the boards of directors of our partner companies, working with them to develop and implement strategic and operating plans. We measure and monitor achievement of these plans through regular review of operational and financial performance measurements. We believe these services provide our partner companies with significant competitive advantages within their respective markets.

Realizing Value

In general, we will hold our position in a partner company as long as we believe the risk-adjusted value of that position is maximized by our continued ownership and effort. From time to time, we engage in discussions with other companies interested in our partner companies, either in response to inquiries or as part of a process we initiate. To the extent we believe that a partner company's further growth and development can best be supported by a different ownership structure or if we otherwise believe it is in our shareholders' best interests, we may sell some or all of our position in the partner company. These sales may take the form of privately negotiated sales of stock or assets, mergers and acquisitions, public offerings of the partner company's securities and, in the case of publicly traded partner companies, sales of their securities in the open market. In the past, we have taken partner companies public through rights offerings and directed share subscription programs. We will continue to consider these (or similar) programs to maximize partner company value for our shareholders. We expect to use proceeds from these sales (and sales of other assets) primarily to pursue opportunities to deploy capital in new and existing partner companies, or for working capital purposes, either with existing partner companies or at Safeguard.

Table of Contents

Our Partner Companies

An understanding of our partner companies is important to understanding Safeguard and its value-building strategy. Following are descriptions of our partner companies in which we owned interests at December 31, 2014. The indicated ownership percentage is presented as of December 31, 2014 and reflects the percentage of the vote we were entitled to cast at that date based on issued and outstanding voting securities (on a common stock equivalent basis), excluding the effect of options, warrants and convertible debt (primary ownership).

HEALTHCARE PARTNER COMPANIES

AdvantEdge Healthcare Solutions, Inc. (Safeguard Ownership: 40.1%)

Headquartered in Warren, New Jersey, AdvantEdge Healthcare Solutions (“AdvantEdge”) is a technology-enabled provider of healthcare revenue cycle and business management solutions that improve decision-making, maximize financial performance, streamline operations and mitigate compliance risks for healthcare providers. AdvantEdge continues to pursue scale through organic growth and strategic acquisitions, having completed eight acquisitions since 2009. AdvantEdge has more than 625 employees in seven regional offices in the U.S. and one office in Bangalore, India. [www.ahsrem.com](http://www.ahsrem.com)

Dabo Health, Inc. (Safeguard Ownership: 15.3%)

Headquartered in Philadelphia, Pennsylvania, Dabo Health provides the healthcare community with an online visualization platform to view and track improvement in key performance metrics, collaborate across hospitals and healthcare systems, and identify and share learnings. Dabo Health delivers a solution that enables providers to improve patient care, reduce per capita cost and maximize reimbursements. [www.dabohealth.com](http://www.dabohealth.com)

Good Start Genetics, Inc. (Safeguard Ownership: 29.9%)

Headquartered in Cambridge, Massachusetts, Good Start Genetics is a commercial-stage molecular genetic information company focused on fundamentally transforming the standard of care in reproductive medicine by providing physicians and their patients with clinically relevant and actionable information concerning inherited genetic disorders. Through GoodStart Select™, the company provides a comprehensive and clinically actionable menu of genetic carrier screening tests for known and novel mutations that cause inherited genetic disorders. [www.goodstartgenetics.com](http://www.goodstartgenetics.com)

InfoBionic, Inc. (Safeguard Ownership: 27.8%)

Headquartered in Lowell, Massachusetts, InfoBionic is an emerging digital health company focused on creating patient monitoring solutions for chronic disease management with an initial market focus on cardiac arrhythmias. InfoBionic’s MoMe™ System is the first cloud-based, multi-pass analysis universal remote patient monitoring platform that provides unprecedented analytics with seamless transition between holter, event, and mobile cardiac telemetry monitoring modes in one device. [www.infobionic.com](http://www.infobionic.com)

Medivo, Inc. (Safeguard Ownership: 34.5%)

Headquartered in New York, New York, Medivo's mission is to improve the health of patients by using lab data and analytics to enable better treatment decisions. Medivo enables life science companies to build clinical intelligence to optimize their sales and marketing initiatives, while enabling its lab partners to realize the full value of their data assets and to gain value with their customers through Medivo's Lab Solutions. [www.medivo.com](http://www.medivo.com)

NovaSom, Inc. (Safeguard Ownership: 31.7%)

Headquartered in Glen Burnie, Maryland, NovaSom is a medical device company that has developed an FDA-cleared wireless home sleep test for Obstructive Sleep Apnea (“OSA”) called AccuSom Home Sleep Test. The NovaSom home sleep test has been shown to provide in-home, clinically equivalent diagnosis of OSA at a significantly reduced cost compared to in-facility testing for uncomplicated adult OSA. [www.novasom.com](http://www.novasom.com)



Table of Contents

Propeller Health, Inc.

(Safeguard Ownership: 24.6%)

Headquartered in Madison, Wisconsin, Propeller Health provides digital solutions to measurably improve respiratory health. One of the first mobile platforms with 510(k) clearance from the FDA, Propeller Health combines sensors, mobile apps and predictive analytics to monitor and engage patients, increase adherence and encourage effective self-management. [www.propellerhealth.com](http://www.propellerhealth.com)

Putney, Inc.

(Safeguard Ownership: 28.3%)

Headquartered in Portland, Maine, Putney is a pet pharmaceutical company focused on developing high-quality, generic prescription medicines for pets. Putney's mission is to provide veterinary practices with FDA-approved veterinary generic medicines that meet pet medical needs and offer cost-effective alternatives for pet owners. [www.putneyvet.com](http://www.putneyvet.com)

Quantia, Inc.

(Safeguard Ownership: 42.3%)

Headquartered in Waltham, Massachusetts, Quantia is a leader in physician engagement. Quantia's web-based and mobile platform, called QuantiaMD, enables principal participants in healthcare to reach and engage high-value physicians in ways that ultimately reduce costs, save time, and improve quality of care. The platform blends expert content, social networking and game mechanics to help its clients, including large health systems and life sciences companies, collaborate with physicians. [www.quantia-inc.com](http://www.quantia-inc.com)

Syapse, Inc.

(Safeguard Ownership: 27.0%)

Headquartered in Palo Alto, California, Syapse is a software company that enables healthcare providers to deploy precision medicine programs. Syapse's Precision Medicine Data Platform integrates complex genomic and clinical data with care pathways and medical knowledge bases, providing clinicians with actionable insights to enable diagnosis and treatment. [www.syapse.com](http://www.syapse.com)

Trice Medical <sup>TM</sup>

(Safeguard Ownership: 31.9%)

Headquartered in King of Prussia, Pennsylvania, Trice Medical is a diagnostics company focused on micro invasive technologies. Trice Medical has pioneered fully integrated camera-enabled needle technologies that provide a clinical solution that is optimized for use in the physician's office. The company's first FDA-approved product is mi-eye<sup>TM</sup>, a fully-disposable, single-use, streamlined visualization device that uses a standard 14-gauge needle with an integrated camera and light source to perform a diagnostic arthroscopy. [www.tricemedical.com](http://www.tricemedical.com)

TECHNOLOGY PARTNER COMPANIES

AppFirst, Inc.

(Safeguard Ownership: 34.3%)

Headquartered in New York, New York, AppFirst's technology provides global organizations the ability to achieve unmatched visibility into the real-time relationships between distributed applications and the global assets which support their execution. By delivering unmatched visibility, AppFirst enables a business to experience real time and complete systems integrity. [www.appfirst.com](http://www.appfirst.com)

Apprenda, Inc.

(Safeguard Ownership: 21.6%)

Headquartered in Troy, New York, Apprenda powers the next generation of enterprise software development in public, private and hybrid clouds. As a foundational software layer and application run-time environment, Apprenda abstracts away the complexities of building and delivering modern software applications, enabling enterprises to turn ideas into innovations more quickly. With Apprenda, enterprises can securely deliver an entire ecosystem of data, services, applications and application programming interfaces to both internal and external customers across any infrastructure. [www.apprenda.com](http://www.apprenda.com)



Table of Contents

Beyond.com, Inc.	(Safeguard Ownership: 38.2%)
Headquartered in King of Prussia, Pennsylvania, Beyond, The Career Network, helps millions of professionals find jobs and advance their careers while also serving as the premier destination for companies in need of top talent. This is achieved through more than 500 talent communities that use integrated social features to help members discover relevant jobs, career news, career advice, and resources. <a href="http://www.beyond.com">www.beyond.com</a>	
Bridgevine, Inc.	(Safeguard Ownership: 17.2%)
Headquartered in Vero Beach, Florida, Bridgevine provides customer acquisition and retention solutions for enterprise customers. Bridgevine's software-as-a-service ("SaaS")-based platform is used by leading companies in communications, entertainment, home security, and energy resulting in more than 50 million consumer interactions annually. <a href="http://www.bridgevine.com">www.bridgevine.com</a>	
Clutch Holdings, Inc.	(Safeguard Ownership: 29.6%)
Headquartered in Ambler, Pennsylvania, Clutch is a leading provider of advanced Consumer Management technology that delivers customer intelligence and customer engagement solutions to premium brands. Clutch empowers customer-focused businesses to identify, target and engage their most valuable customers. The company's Consumer Management platform integrates a brand's customer data across traditional point-of-sale systems, ecommerce platforms, mobile applications and social networks to deliver the highest value from existing customers. <a href="http://www.clutch.com">www.clutch.com</a>	
DriveFactor, Inc.	(Safeguard Ownership: 40.6%)
Headquartered in Richmond, Virginia, DriveFactor provides auto insurance companies and original equipment manufacturers with a SaaS platform for telematics-driven usage based insurance ("UBI") and rewards programs. The DriveFactor platform is live in market on three continents and enables UBI and rewards programs that drive profitable acquisition and retention. DriveFactor's smartphone telematics apps, which are fully integrated into the DriveFactor telematics platform, are available for download on iOS and Android. <a href="http://www.drivefactor.com">www.drivefactor.com</a>	
Hoopla Software, Inc.	(Safeguard Ownership: 25.6%)
Headquartered in San Jose, California, Hoopla provides cloud-based software that helps sales organizations inspire and motivate sales team performance. Hoopla's Sales Motivation Platform combines modern game mechanics, data analytics and broadcast-quality video in a cloud application that makes it easy for managers to motivate team performance and score more wins. <a href="http://www.hoopla.net">www.hoopla.net</a>	
Lumesis, Inc.	(Safeguard Ownership: 45.7%)
Headquartered in Stamford, Connecticut, Lumesis is a financial technology company focused on providing business efficiency, data and regulatory solutions to the municipal bond marketplace. Lumesis' DIVER platform helps over 100 firms with more than 30,000 users efficiently meet credit, regulatory and risk needs. <a href="http://www.lumesis.com">www.lumesis.com</a>	
MediaMath, Inc.	(Safeguard Ownership: 20.7%)
Headquartered in New York, New York, MediaMath is a global technology company that is leading the movement to revolutionize traditional marketing and drive transformative results for marketers through its TerminalOne Marketing Operating System™. MediaMath empowers marketers with an extensible, open platform that activates data, automates execution and optimizes interactions across all addressable media, delivering superior performance, transparency and control to all marketers and better, more individualized experiences for consumers. <a href="http://www.mediamath.com">www.mediamath.com</a>	





Table of Contents

Pneuron Corporation

(Safeguard Ownership: 27.6%)

Headquartered in Woburn, Massachusetts, Pneuron enables organizations to rapidly solve business problems through a distributed approach that cuts across data, applications and processes. By targeting the right information at the data source, companies are no longer faced with the complex integration and infrastructure requirements of traditional approaches. Pneuron's innovative Distributed Solutions Platform enables customers to accelerate business value and develop reports, products and applications in half the time and cost of traditional methods. [www.pneuron.com](http://www.pneuron.com)

Spongecell, Inc.

(Safeguard Ownership: 23.0%)

Headquartered in New York, New York, Spongecell is a programmatic creative solution that leverages data-driven technology to automate the production and delivery of high-quality ads at scale across display, mobile and video. Spongecell's technology helps brands and their creative and media agencies create more meaningful consumer engagement, without sacrificing speed or quality. [www.spongecell.com](http://www.spongecell.com)

Transactis, Inc.

(Safeguard Ownership: 24.8%)

Headquartered in New York, New York, Transactis is a leading provider of electronic billing and payment solutions. Transactis' cloud-based electronic bill presentment and payment platform, BillerIQ, is a white-labeled solution that is offered "as-a-service", enabling businesses to rapidly and securely deliver electronic bills, invoices and documents, as well as accept payments online, by phone, and via mobile device. [www.transactis.com](http://www.transactis.com)

WebLinc, Inc.

(Safeguard Ownership: 29.2%)

Headquartered in Philadelphia, Pennsylvania, WebLinc is a commerce platform provider for fast growing online retailers. WebLinc tailors its commerce platform to the needs and scale of mid to large retailers by leveraging extensive experience and success supporting clients' need for fast growth and system flexibility. [www.weblinc.com](http://www.weblinc.com)

**FINANCIAL INFORMATION ABOUT OPERATING SEGMENTS**

Effective December 31, 2014, we operate in two reportable segments: Healthcare and Technology. We no longer present the operations of Penn Mezzanine as a separate reportable operating segment because we do not separately evaluate Penn Mezzanine financial results for purposes of making operating decisions and assessing performance. The results of Penn Mezzanine are now reported within corporate operations under Other items. The amounts, discussion, and presentation of our reportable segments reflect this restatement for all years presented in this Annual Report on Form 10-K.

Information on operating income (loss), equity income (loss) and net income (loss) for each operating segment of Safeguard's business for each of the three years in the period ended December 31, 2014 and assets as of December 31, 2014 and 2013 is contained in Note 14 to the Consolidated Financial Statements.

**OTHER INFORMATION**

The operations of Safeguard and its partner companies are subject to environmental laws and regulations. Safeguard does not believe that expenditures relating to those laws and regulations will have a material adverse effect on the business, financial condition or results of operations of Safeguard.

**AVAILABLE INFORMATION**

Safeguard is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Therefore, we file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with, and furnish other reports to, the Securities and Exchange Commission ("SEC"). You can read and copy such documents at the SEC's public reference facilities in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. Such material may also be accessed electronically by means of the SEC's home page on the Internet at [www.sec.gov](http://www.sec.gov) or through Safeguard's website at [www.safeguard.com](http://www.safeguard.com). Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. Copies

of these reports (excluding exhibits) also may be obtained free of charge, upon written request to: Investor Relations, Safeguard Scientifics, Inc., 435 Devon Park Drive, Building 800, Wayne, Pennsylvania 19087.

## Table of Contents

The Internet website addresses for Safeguard and its partner companies are included in this report for identification purposes. The information contained therein or connected thereto is not intended to be incorporated into this Annual Report on Form 10-K.

The following corporate governance documents are available free of charge on Safeguard's website: the charters of our Audit, Compensation and Nominating & Corporate Governance Committees, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics. We also will post on our website any amendments to or waivers of our Code of Business Conduct and Ethics that relate to our directors and executive officers.

### Item 1A. Risk Factors

You should carefully consider the information set forth below. The following risk factors describe situations in which our business, financial condition and/or results of operations could be materially harmed, and the value of our securities may be adversely affected. You should also refer to other information included or incorporated by reference in this report.

Our principal business depends upon our ability to make good decisions regarding the deployment of capital into new or existing partner companies and, ultimately, the performance of our partner companies, which is uncertain.

If we make poor decisions regarding the deployment of capital into new or existing partner companies, our business model will not succeed. Our success as a company ultimately depends on our ability to choose the right partner companies. If our partner 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 would be adversely affected. The risks relating to our partner companies include:

- most of our partner companies have a history of operating losses and/or limited operating history;
- the intense competition affecting the products and services our partner companies offer could adversely affect their businesses, financial condition, results of operations and prospects for growth;
- the inability to adapt to changing marketplaces;
- the inability to manage growth;
- the need for 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;
- the inability to protect their proprietary rights and/or infringing on the proprietary rights of others;
- that our partner companies could face legal liabilities from claims made against them based upon their operations, products or work;
- the impact of economic downturns on their operations, results and growth prospects;
- the inability to attract and retain qualified personnel;
- the existence of government regulations and legal uncertainties may place financial burdens on the businesses of our partner companies; and
- the inability to plan for and manage catastrophic events.

These and other risks are discussed in detail under the caption "Risks Related to Our Partner Companies" below.

Our partner 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 of our interests in our partner companies. We also regularly evaluate alternative 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 individual and/or types of partner companies on which we focus;
- sell some or all of our interests in any of our partner companies; or
- otherwise change the nature of our interests in our partner companies.

Therefore, the nature of our holdings could vary significantly from period to period.

Our consolidated financial results also may vary significantly based upon which, if any, of our partner companies are included in our Consolidated Financial Statements.

Our business model does not rely upon, or plan for, the receipt of operating cash flows from our partner companies.

Our partner companies generally provide us with no cash flow from their operations. 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 develop new partner company relationships and to fund the capital needs of our existing partner companies. We also need cash to service and repay our outstanding debt, finance our corporate overhead and meet our existing funding commitments. As a result, we have substantial cash requirements. Our partner companies generally provide us with no

Table of Contents

cash flow from their operations. To the extent our partner 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, partner company liquidity events and new capital raising activities to meet our cash needs. If we are unable to find ways of monetizing our holdings or raising 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 partner companies.

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

From time to time, we may hold equity interests in companies that are publicly traded. Fluctuations in the market prices of the common stock of publicly traded holdings may affect the price of our common stock. Historically, the market prices of our publicly traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance.

Intense competition from other capital providers for interests in companies could adversely affect our ability to deploy capital and result in higher valuations of partner company interests which could result in lower gains or possibly losses on our partner companies.

We face intense competition from other capital providers as we acquire and develop interests in our partner companies. Some of our competitors have more experience identifying, acquiring and selling companies and have greater financial and management resources, brand name recognition or industry contacts than we have. Competition from other capital providers could adversely affect our ability to deploy capital. In addition, despite making most of our acquisitions at a stage when our partner companies are not publicly traded, we may still pay higher prices for those equity interests because of higher valuations of similar public companies and competition from other acquirers and capital providers, which could result in lower gains or possibly losses.

We may be unable to obtain maximum value for our holdings or to sell our holdings on a timely basis.

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

Registration and other requirements under applicable securities laws and contractual restrictions also may adversely affect our ability to dispose of our holdings on a timely basis.

Our success is dependent on our senior management.

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

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

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

Our partner 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 holdings.

Although we may seek a controlling or influential equity interest and participation in the management of our partner companies, we may not be able to control the significant business decisions of our partner companies. We may have

shared control or no control over some of our partner companies. In addition, although we currently own a significant, influential interest in some of our partner companies, we do not maintain a controlling interest in any of our partner companies. Acquisitions of interests in partner companies in which we share or have no control, and the dilution of our interests in or loss

12

---

## Table of Contents

of control of partner companies, will involve additional risks that could cause the performance of our interests and our operating results to suffer, including:

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

• the partner companies not taking our advice with respect to the financial or operating issues they may encounter.

Our inability to control our partner 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 partner companies may not 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 incur losses on our interests in these partner 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 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 consolidated partner companies are generally considered “investment securities” for purposes of the Investment Company Act, unless other circumstances exist which actively involve the company holding such interests in the management of the underlying company. We are a company that partners with growth-stage companies to build value; we are not engaged primarily in the business of investing, reinvesting or trading in securities. We are 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 helping our partner companies in their efforts to build value. 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 controlling interest in a partner 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 a controlling ownership interest in the company, or we may be limited in the manner or timing in which we sell our interests in a partner company. Our ownership levels also may be affected if our partner companies are acquired by third parties or if our partner companies issue stock which dilutes our ownership interest. 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 partner companies.

Economic disruptions and downturns may have negative repercussions for us.

Events in the United States and international capital markets, debt markets and economies may negatively impact our ability to pursue certain tactical and strategic initiatives, such as accessing additional public or private equity or debt financing for us or for our partner companies and selling our interests in partner companies on terms acceptable to us and in time frames consistent with our expectations.

We cannot provide assurance that material weaknesses in our internal control over financial reporting will not be identified in the future.

We cannot assure you that material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in a material weakness, or could result in material misstatements in our Consolidated Financial Statements. These misstatements could result in a restatement of our Consolidated Financial Statements, cause us to fail to meet our reporting obligations and/or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

### Risks Related to Our Partner Companies

Most of our partner companies have a history of operating losses and/or limited operating history and may never be profitable.

Most of our partner companies have a history of operating losses and/or limited operating history, have significant historical losses and may never be profitable. Many 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



## Table of Contents

partner companies will increase substantially in the foreseeable future as they continue to develop products and services, increase sales and marketing efforts, and expand operations.

Our partner 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 marketplaces, and we expect competition to intensify in the future. Our business, financial condition, results of operations and prospects for growth will be materially adversely affected if our partner companies are not able to compete successfully. Many of the present and potential competitors may have greater financial, technical, marketing and other resources than those of our partner companies.

This may place our partner companies at a disadvantage in responding to the offerings of their competitors, technological changes or changes in client requirements. Also, our partner 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. In addition, our partner companies may compete against one another.

The success or failure of many of our partner companies is dependent upon the ultimate effectiveness of newly-created information technologies, medical devices, healthcare diagnostics, etc.

Our partner companies' business strategies are often highly dependent upon the successful launch and commercialization of an innovative information technology, medical device, healthcare diagnostic, or similar device or technology. Despite all of our efforts to understand the research and development underlying the innovation or creation of such technologies before we deploy capital into a partner company, sometimes the performance of the technology or device does not match our expectations or those of our partner company. In those situations, it is likely that we will incur a partial or total loss of the capital which we deployed in such partner company.

Our partner companies may fail if they do not adapt to changing marketplaces.

If our partner companies fail to adapt to 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 partner companies will achieve or maintain market penetration or commercial success, or that the businesses of our partner companies will be successful.

The healthcare and technology marketplaces are characterized by:

- rapidly changing technology;
- evolving industry standards;
- frequently introducing 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 partner companies' ability to adapt to these evolving marketplaces. 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 partner companies are unable 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 partner companies may not be able to respond to the marketplace changes in an economically efficient manner, and our partner companies may become or remain unprofitable.

Our partner companies may grow rapidly and may be unable to manage their growth.

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

- improve, upgrade and expand their business infrastructures;
- scale up production operations;
- develop appropriate financial reporting controls;
- attract and maintain qualified personnel; and

maintain appropriate levels of liquidity.

If our partner 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.

## Table of Contents

Based on our business model, some or all of our partner companies will need to raise additional capital to fund their operations at any given time. We may not be able to fund some or all of such amounts and such amounts may not be available from third parties on acceptable terms, if at all.

We cannot be certain that our partner companies will be able to obtain additional financing on favorable terms when needed, if at all. Because our resources and our ability to raise capital are not unlimited, we may not be able to provide partner companies with sufficient capital resources to enable them to reach a cash-flow positive position, even if we wish to do so. General economic disruptions and downturns may also negatively affect the ability of some of our partner companies to fund their operations from other stockholders and capital sources. We also may fail to accurately project the capital needs of partner companies. If partner companies need capital but are not able to raise capital from us or other outside sources, then they may need to cease or scale back operations. In such event, our interest in any such partner company will become less valuable.

Economic disruptions and downturns may negatively affect our partner companies' plans and their results of operations.

Many of our partner companies are largely dependent upon outside sources of capital to fund their operations. Disruptions in the availability of capital from such sources will negatively affect the ability of such partner companies to pursue their business models and will force such companies to revise their growth and development plans accordingly. Any such changes will, in turn, negatively affect our ability to realize the value of our capital deployments in such partner companies.

In addition, downturns in the economy as well as possible governmental responses to such downturns and/or to specific situations in the economy could affect the business prospects of certain of our partner companies, including, but not limited to, in the following ways: weaknesses in the financial services industries; reduced business and/or consumer spending; and/or systemic changes in the ways the healthcare system operates in the United States. Some of our partner companies may be unable to protect their proprietary rights and may infringe on the proprietary rights of others.

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

Some of our partner 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 partner 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 partner companies' proprietary rights, with or without merit, could subject the companies to costly litigation and divert their technical and management personnel from other business concerns. If our partner companies incur costly litigation and their personnel are not effectively deployed, the expenses and losses incurred by our partner companies will increase and their profits, if any, will decrease.

Third parties have and may assert infringement or other intellectual property claims against our partner companies based on their patents or other intellectual property claims. Even though we believe our partner companies' products do not infringe any 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 on another person's intellectual property. Our partner 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 partner companies are without merit, defending these types of lawsuits takes significant time, is expensive and may divert management attention from other business concerns.

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

Because manufacture and sale of certain partner company products entail an inherent risk of product liability, certain partner companies maintain product liability insurance. Although none of our current partner companies have experienced any material losses in this regard, 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 a partner company's financial stability, revenues and results of operations. In addition, many of the engagements of our partner companies involve projects that are critical to the operation of their clients' businesses. If our partner 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.

## Table of Contents

Partner company contracts typically include provisions designed to limit their exposure to legal claims relating to their services and products. However, these provisions may not protect our partner companies or may not be enforceable. Also, some of our partner companies depend on their relationships with their clients and their reputation for high-quality services and integrity to retain and attract clients. As a result, claims made against our partner companies' work may damage their reputation, which in turn could impact their ability to compete for new work and negatively impact their revenue and profitability.

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

Our partner companies depend upon their ability to attract and retain senior management and key personnel, including trained technical and marketing personnel. Our partner companies also will need to continue to hire additional personnel as they expand. Although our partner companies have not been the subject of a work stoppage, any future work stoppage could have a material adverse effect on their respective operations. A shortage in the availability of the requisite qualified personnel or work stoppage would limit the ability of our partner 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 partner 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 and operators of laboratory facilities are subject to strict federal and state regulation regarding validation and the quality of manufacturing and laboratory 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. The enactment of any additional laws or regulations that affect healthcare insurance policy and reimbursement (including Medicare reimbursement) could negatively affect some of our partner companies. If Medicare or private payers change the rates at which our partner companies or their customers are reimbursed by insurance providers for their products, such changes could adversely impact our partner companies.

Some of our partner companies may be subject to significant environmental, health and safety regulation.

Some of our partner companies may be subject to licensing and regulation under federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials, as well as to the safety and health of manufacturing and laboratory employees. In addition, the federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety. Compliance with such regulations could increase operating costs at certain of our partner companies, and the failure to comply could negatively affect the operations and results of some of our partner companies.

Catastrophic events may disrupt our partner companies' businesses.

Some of our partner companies are highly automated businesses and rely on their network infrastructure, various software applications and many internal technology systems and data networks for their customer support, development, sales and marketing and accounting and finance functions. Further, some of our partner companies provide services to their customers from data center facilities in multiple locations. Some of these data centers are operated by third parties, and the partner companies have limited control over those facilities. A disruption or failure of these systems or data centers in the event of a natural disaster, telecommunications failure, power outage, cyber-attack, war, terrorist attack or other catastrophic event could cause system interruptions, reputational harm, delays in product development, breaches of data security and loss of critical data. Such an event could also prevent the partner companies from fulfilling customer orders or maintaining certain service level requirements, particularly in respect of their SaaS offerings. While certain of our partner companies have developed certain disaster recovery plans and maintain backup systems to reduce the potentially adverse effect of such events, a catastrophic event that resulted in the destruction or disruption of any of their data centers or their critical business or information technology systems could severely affect their ability to conduct normal business operations and, as a result, their business, operating

results and financial condition could be adversely affected.

We cannot provide assurance that our partner companies' disaster recovery plans will address all of the issues they may encounter in the event of a disaster or other unanticipated issue, and their business interruption insurance may not adequately compensate them for losses that may occur from any of the foregoing. In the event that a natural disaster, terrorist attack or other catastrophic event were to destroy any part of their facilities or interrupt their operations for any extended period of time, or if harsh weather or health conditions prevent them from delivering products in a timely manner, their business, financial condition and operating results could be adversely affected.

Table of Contents

## Risks Related to Initiatives Outside Our Core Business

Our involvement in the mezzanine lending industry through our relationship with Penn Mezzanine could expose us to risks that differ from, and may be in addition to, to the risks that otherwise relate to our other business initiatives. Borrowers may default on their payments, which may have a negative effect on our financial performance. Through our relationship with Penn Mezzanine, we participate in a limited number of loans and in equity securities in private middle-market companies, which involve a high degree of repayment risk. These borrowers have limited financial resources, are relatively highly leveraged and may be unable to obtain financing from other sources. Numerous factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. A borrower's failure to satisfy financial or operating covenants imposed by Penn Mezzanine or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on its secured assets, which could trigger cross defaults under other agreements and jeopardize such borrower's ability to meet its obligations under the participations in loans or debt interests that we hold. In addition, such borrowers may have, or may be permitted to incur, other debt that ranks senior to or equally with our interests. This means that payments on such senior-ranking securities may have to be made before we receive any payments on our interests in subordinated loans or other debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a negative effect on our financial results.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Our corporate headquarters and administrative offices in Wayne, Pennsylvania contain approximately 20,000 square feet of office space in one building. We currently lease our corporate headquarters under a lease expiring in October 2015. In February 2015, we entered into an agreement for the lease of our new principal executive offices to be located at 170 Radnor Chester Road, Radnor, Pennsylvania beginning in November 2015.

## Item 3. Legal Proceedings

We, as well as our partner 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 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 dispositions could have a material adverse effect on our consolidated financial position and results of operations, or that of our partner companies. See Note 12 to the Consolidated Financial Statements for a discussion of ongoing claims and legal actions.

## Item 4. Mine Safety Disclosures

Not applicable.

## ANNEX TO PART I — EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Executive Officer Since
Stephen T. Zarrilli	53	President, Chief Executive Officer and Director	2008
Jeffrey B. McGroarty	45	Senior Vice President and Chief Financial Officer	2012
Brian J. Sisko	54	Chief Operating Officer, Executive Vice President and Managing Director	2007

Mr. Zarrilli joined Safeguard as Senior Vice President and Chief Financial Officer in June 2008 and became President and Chief Executive Officer in November 2012. Prior to joining Safeguard, Mr. Zarrilli co-founded, in 2004, the Penn Valley Group, a middle-market management advisory and private equity firm, and served as a Managing Director there until June 2008. Mr. Zarrilli also served as Acting Senior Vice President, Acting Chief Administrative Officer and Acting Chief Financial Officer of Safeguard from December 2006 to June 2007. Mr. Zarrilli also served as the Chief Financial Officer, from 2001 to 2004, of Fiberlink Communications Corporation, a provider of mobile access

solutions for large enterprises; as the Chief Executive Officer, from 2000 to 2001, of Concellera Software, Inc., a developer of content management software; as the Chief



Table of Contents

Executive Officer, from 1999 to 2000, and Chief Financial Officer, from 1994 to 1998, of US Interactive, Inc. (at the time a public company), a provider of Internet strategy consulting, marketing and technology services; and, previously, with Deloitte & Touche from 1983 to 1994. Mr. Zarrilli is a director and Chairman of the Audit Committee of NutriSystem, Inc. and a director of Virtus Investment Partners, Inc.

Mr. McGroarty joined Safeguard as Vice President and Corporate Controller in December 2005, subsequently became Vice President – Finance and Corporate Controller, and served as Senior Vice President – Finance from November 2012 until his promotion to Senior Vice President and Chief Financial Officer in April 2013. Prior to joining Safeguard, Mr. McGroarty served as Interim Controller of Cephalon, Inc. from October 2005 to December 2005; Vice President-Financial Planning & Analysis and previously Assistant Controller at Exide Technologies from March 2002 to September 2005; and, previously, with PricewaterhouseCoopers from 1991 to 2001.

Mr. Sisko joined Safeguard as Senior Vice President and General Counsel in August 2007 and served as Executive Vice President and Managing Director from November 2012 until his promotion to Chief Operating Officer, Executive Vice President and Managing Director in January 2014. Prior to joining Safeguard, Mr. Sisko served as Chief Legal Officer, Senior Vice President and General Counsel of Traffic.com (at the time, a public company), a former partner company of Safeguard, from February 2006 until June 2007 (following its acquisition by NAVTEQ Corporation in March 2007); Chief Operating Officer from February 2005 to January 2006 of Halo Technology Holdings, Inc., a public holding company for enterprise software businesses (Halo Technology Holdings filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in August 2007); ran B/T Business and Technology, an advisor and strategic management consultant to a variety of public and private companies, from January 2002 to February 2005; and was a Managing Director from April 2000 to January 2002, of Katalyst, LLC, a venture capital and consulting firm. Mr. Sisko also previously served as Senior Vice President—Corporate Development and General Counsel of National Media Corporation, at the time a New York Stock Exchange-listed multi-media marketing company with operations in 70 countries, and as a partner in the corporate finance, mergers and acquisitions practice group of the Philadelphia-based law firm, Klehr, Harrison, Harvey, Branzburg & Ellers LLP.

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Safeguard's common stock is listed on the New York Stock Exchange (Symbol: SFE). The high and low sale prices reported within each quarter of 2014 and 2013 were as follows:

	High	Low
Fiscal year 2014:		
First quarter	\$22.43	\$17.58
Second quarter	22.43	18.54
Third quarter	20.92	18.40
Fourth quarter	20.20	17.83
Fiscal year 2013:		
First quarter	\$16.24	\$14.51
Second quarter	18.00	15.20
Third quarter	16.95	14.14
Fourth quarter	20.12	14.92

The high and low sale prices reported in the first quarter of 2015 through March 4, 2015 were \$20.09 and \$18.02 respectively, and the last sale price reported on March 4, 2015, was \$18.46. No cash dividends have been declared in any of the years presented, and Safeguard has no present intention to declare cash dividends.

As of March 5, 2015, there were approximately 17,000 beneficial holders of Safeguard's common stock.

The following graph compares the cumulative total return on \$100 invested in our common stock for the period from December 31, 2009 through December 31, 2014 with the cumulative total return on \$100 invested for the same period in the Russell 2000 Index and the Wilshire 4500 Index. In light of the diverse nature of Safeguard's business and based on our assessment of available published industry or line-of-business indexes, we determined that no single industry or line-of-business index would provide a meaningful comparison to Safeguard. Further, we did not believe that we could readily identify an appropriate group of industry peer companies for this comparison. Accordingly, under SEC rules, we selected the Wilshire 4500 Index, a published market index in which the median market capitalization of the included companies is similar to our own. Safeguard's common stock is included as a component of the Russell 2000 and Wilshire 4500 indexes.

▲Assumes reinvestment of dividends. We have not distributed cash dividends during this period.

▲Assumes an investment of \$100 on December 31, 2009.

Table of Contents

## Item 6. Selected Consolidated Financial Data

The following table sets forth our selected consolidated financial data for the five-year period ended December 31, 2014. The selected consolidated financial data presented below should be read in conjunction with Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data included in this report. The historical results presented herein may not be indicative of future results.

	December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 111,897	\$ 139,318	\$ 66,029	\$ 83,187	\$ 183,419
Short-term marketable securities	25,263	38,250	110,957	158,098	42,411
Long-term marketable securities	19,365	6,088	29,059	16,287	—
Restricted marketable securities	—	5	10	12,265	16,774
Cash held in escrow	—	—	6,434	6,433	6,434
Working capital	132,287	170,956	178,577	245,420	197,769
Total assets	318,454	345,996	374,144	406,636	336,545
Convertible senior debentures	50,563	49,948	48,991	45,694	75,919
Other long-term liabilities	3,507	3,683	3,921	4,146	5,311
Total equity	257,827	284,661	313,971	348,280	246,431
	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share amounts)				
<b>Consolidated Statements of Operations Data:</b>					
General and administrative expense	\$ 18,970	\$ 21,644	\$ 19,473	\$ 21,168	\$ 20,847
Operating loss	(18,970 )	(21,644 )	(19,473 )	(21,168 )	(20,847 )
Other income (loss), net	31,657	383	9,338	(6,145 )	74,809
Interest income	1,901	2,646	2,926	1,424	718
Interest expense	(4,402 )	(4,303 )	(5,636 )	(5,971 )	(5,737 )
Equity income (loss)	(15,335 )	(12,607 )	(26,517 )	142,457	(22,334 )
Net income (loss) before income taxes	(5,149 )	(35,525 )	(39,362 )	110,597	26,609
Income tax benefit (expense)	—	—	—	—	—
Net income (loss)	\$(5,149 )	\$(35,525 )	\$(39,362 )	\$ 110,597	\$ 26,609
<b>Net income (loss) per share:</b>					
Basic	\$(0.25 )	\$(1.66 )	\$(1.88 )	\$ 5.33	\$ 1.30
Diluted	\$(0.25 )	\$(1.66 )	\$(1.88 )	\$ 4.74	\$ 1.24
<b>Weighted average shares used in computing net income (loss) per share:</b>					
Basic	20,975	21,362	20,974	20,764	20,535
Diluted	20,975	21,362	20,974	24,522	21,507

Table of Contents

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations  
Cautionary Note Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about Safeguard Scientifics, Inc. (“Safeguard” or “we”), 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. For example, when we use words such as “projects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “would,” “could,” “will,” “opportunity,” “potential” or “may,” variations of such words or other words to 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, our ability to make good decisions about the deployment of capital, the fact that our partner companies may vary from period to period, our substantial capital requirements and absence of liquidity from our partner company holdings, fluctuations in the market prices of our publicly traded partner company holdings, competition, our inability to obtain maximum value for our partner company holdings, our ability to attract and retain qualified employees, our ability to execute our strategy, market valuations in sectors in which our partner companies operate, our inability to control our partner companies, our need to manage our assets to avoid registration under the Investment Company Act of 1940, and risks associated with our partner companies and their performance, including the fact that most of our partner companies have a limited history and a history of operating losses, face intense competition and may never be profitable, the effect of economic conditions in the business sectors in which our partner companies operate, compliance with government regulation and legal liabilities, all of which are discussed in Item 1A. “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, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

Overview

Safeguard’s charter is to build value in growth-stage businesses by providing capital as well as strategic, operational and management resources. Safeguard participates principally in growth and expansion financings, and early-stage financings. Our vision is to be the preferred capital source for entrepreneurs and management teams in well-defined industry sectors. Throughout this document, we use the term “partner company” to generally refer to those companies in which we have an equity interest and in which we are actively involved, influencing development through board representation and management support, in addition to the influence we exert through our equity ownership. From time to time, in addition to these partner companies, we also hold relatively small equity interests in other enterprises where we do not exert significant influence and do not participate in management activities. In some cases, these interests relate to former partner companies and in some cases they relate to entities which may later become partner companies.

We strive to create long-term value for our shareholders by helping our partner companies increase their market penetration, grow revenue and improve cash flow. Safeguard focuses principally on companies with initial capital requirements of between \$5 million and \$15 million, and follow-on financing needs of between \$5 million and \$10 million, with a total anticipated deployment of up to \$25 million from Safeguard. Safeguard principally targets companies that operate in two sectors:

Healthcare — companies focused principally on medical technology (“MedTech”), including diagnostics and devices; and healthcare technology (“HealthTech”). Within these areas, Safeguard targets companies that have lesser regulatory risk and have achieved or are near commercialization; and

Technology — companies focused principally on digital media; financial technology (“FinTech”); and Enterprise 3.0, which includes mobile technology, cloud, the “Internet of Things” and big data. Within these areas, Safeguard targets

companies that have transaction-enabling applications with a recurring revenue stream.

**Principles of Accounting for Ownership Interests in Partner Companies**

We account for our interests in our partner companies using one of the following methods: consolidation, fair value, equity, or cost. The accounting method applied is generally determined by the degree of our influence over the entity, primarily determined by our voting interest in the entity.

21

---

Table of Contents

**Consolidation Method.** We account for partner companies in which we maintain a controlling financial interest, generally those in which we directly or indirectly own more than 50% of the outstanding voting securities, using the consolidation method of accounting. Upon consolidation of our partner companies, we reflect the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the parent company as a non-controlling interest in the Consolidated Balance Sheet. The non-controlling interest is presented within equity, separately from the equity of the parent company. Losses attributable to the parent company and the non-controlling interest may exceed their interest in the subsidiary's equity. As a result, the non-controlling interest shall continue to be attributed its share of losses even if that attribution results in a deficit non-controlling interest balance as of each balance sheet date. Revenue, expenses, gains, losses, net income or loss are reported in the Consolidated Statements of Operations at the consolidated amounts, which include the amounts attributable to the parent company's common shareholders and the non-controlling interest. As of December 31, 2014 and for each of the three years in the period then ended, we did not hold a controlling interest in any of our partner companies.

**Fair Value Method.** Unrealized gains and losses on the mark-to-market of our holdings in fair value method companies and realized gains and losses on the sale of any holdings in fair value method companies are recognized in Other income (loss), net in the Consolidated Statements of Operations. We accounted for our holdings in NuPathe Inc., a former publicly traded partner company, under the fair value method of accounting. As of December 31, 2014, we did not account for any of our partner companies under the fair value method.

**Equity Method.** We account for partner companies whose results are not consolidated, but over whom we exercise significant influence, using the equity method of accounting. We also account for our interests in some private equity funds under the equity method of accounting, based on our non-controlling general and limited partner interests. Under the equity method of accounting, our share of the income or loss of the partner company is reflected in Equity income (loss) in the Consolidated Statements of Operations. We report our share of the income or loss of the equity method partner companies on a one quarter lag. We include the carrying value of equity method partner companies in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

When the carrying value of our holdings in an equity method partner company is reduced to zero, no further losses are recorded in our Consolidated Statements of Operations unless we have outstanding guarantee obligations or have committed additional funding to the equity method partner company. When the equity method partner company subsequently reports income, we will not record our share of such income until it equals the amount of our share of losses not previously recognized.

**Cost Method.** We account for partner companies which are not consolidated or accounted for under the equity method or fair value method under the cost method of accounting. Under the cost method, our share of the income or losses of such partner companies is not included in our Consolidated Statements of Operations. We include the carrying value of cost method partner companies in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

**Critical Accounting Policies and Estimates**

Accounting policies, methods and estimates are an integral part of the Consolidated Financial Statements prepared by management and are based upon management's current judgments. These judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly important because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. While there are a number of accounting policies, methods and estimates affecting our financial statements as described in Note 1 to our Consolidated Financial Statements, areas that are particularly significant include the following:

- Impairment of ownership interests in and advances to partner companies;
- Income taxes;
- Commitments and contingencies; and
- Stock-based compensation.

Impairment of Ownership Interests In and Advances to Partner Companies

On a periodic basis, but no less frequently than at the end of each quarter, we evaluate the carrying value of our equity and cost method partner companies for possible impairment based on achievement of business plan objectives and milestones, the financial condition and prospects of the company, market conditions and other relevant factors. The business plan objectives and milestones we consider include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. We then determine whether there has been an other than temporary decline in the value of our ownership interest in the company. For our equity and cost method partner companies,

Table of Contents

impairment to be recognized is measured as the amount by which the carrying value of an asset exceeds its fair value. The adjusted carrying value of a partner company is not increased if circumstances suggest the value of the partner company has subsequently recovered.

The fair value of privately held partner companies is generally determined based on the value at which independent third parties have invested or have committed to invest in these companies, or based on other valuation methods including discounted cash flows, valuations of comparable public companies and valuations of acquisitions of comparable companies.

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

Total impairment charges related to ownership interests in and advances to our equity and cost method partner companies and legacy private equity funds were as follows:

Accounting Method	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Equity	\$—	\$12.9	\$5.0
Cost	0.1	0.3	0.4
Total	\$0.1	\$13.2	\$5.4

Impairment charges related to equity method partner companies are included in Equity income (loss) in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies are included in Other income (loss), net in the Consolidated Statements of Operations.

**Income Taxes**

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

**Commitments and Contingencies**

From time to time, we are a defendant or plaintiff in various legal actions which arise in the normal course of business. Additionally, we have received distributions as both a general partner and a limited partner from private equity funds. In certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a fund for a further distribution to such fund's limited partners ("clawback"). We are also a guarantor of various third-party obligations and commitments and are subject to the possibility of various loss contingencies arising in the ordinary course of business (see Note 12 to our Consolidated Financial Statements). We are required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease our earnings in the period the changes are made.



**Stock-Based Compensation**

We measure all employee stock-based compensation awards using a fair value method and record such expense in our Consolidated Statements of Operations.

23

---

Table of Contents

We estimate the grant date fair value of stock options using the Black-Scholes option-pricing model which requires the input of various assumptions. These assumptions include estimating the expected term of the award and the estimated volatility of our stock price over the expected term. Changes in these assumptions and in the estimated forfeitures of stock option awards can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations. The requisite service periods for performance-based awards are based on our best estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Changes in the requisite service period or the estimated probability of achievement of performance conditions can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations in any one period.

## Results of Operations

Effective December 31, 2014, we operate in two reportable segments: Healthcare and Technology. We no longer present the operations of Penn Mezzanine as a separate reportable operating segment because we do not separately evaluate Penn Mezzanine financial results for purposes of making operating decisions and assessing performance. The results of Penn Mezzanine are now reported within corporate operations under Other items. The amounts, discussion, and presentation of our reportable segments reflect this restatement for all years presented in this Annual Report on Form 10-K.

The results of operations of all of our partner companies are reported in our Healthcare and Technology segments. The Healthcare and Technology segments also include the gain or loss on the sale of interests in our respective partner companies.

Our management evaluates the Healthcare and Technology segments' performance based on equity income (loss) which is based on the number of partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies, and Other income or loss associated with cost method partner companies.

Other items include certain expenses which are not identifiable to the operations of our operating segments. Other items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, interest income, interest expense, other income (loss), equity income (loss) related to our private equity holdings and income taxes. Other items also include interest earned on mezzanine loans, gain (loss) on the mark-to-market of our warrant participations, and impairment on debt and equity interests in which we participate with Penn Mezzanine as well as equity income (loss) associated with our interest in the management company and general partner of Penn Mezzanine.

The following table reflects our consolidated operating data by reportable segment. Segment results include our share of income or losses for entities accounted for under the equity method, when applicable. Segment results also include impairment charges and gains or losses related to the disposition of interests in partner companies. Our operating results, including net income (loss) before income taxes by segment, were as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Healthcare	\$27,876	\$(32,563)	\$(6,660)
Technology	(10,831)	) 20,899	(119)
Total segments	17,045	(11,664)	(6,779)
Other items:			
Corporate operations	(22,194)	) (23,861)	) (32,583)
Income tax benefit (expense)	—	—	—
Total other items	(22,194)	) (23,861)	) (32,583)
Net loss	\$(5,149)	) \$(35,525)	) \$(39,362)

There is intense competition in the markets in which our partner companies operate. Additionally, the markets in which these companies operate are characterized by rapidly changing technology, evolving industry standards, frequent introduction of new products and services, shifting distribution channels, evolving government regulation, frequently changing intellectual property landscapes and changing customer demands. Their future success depends on each company's ability to execute its business plan and to adapt to its respective rapidly changing market.

24

---

Table of Contents

As previously stated, throughout this document, we use the term “partner company” to generally refer to those companies in which we have an economic interest and in which we are actively involved influencing development, usually through board representation in addition to our equity ownership.

The following listings of our Healthcare and Technology partner companies only include entities which were considered partner companies as of December 31, 2014. Certain entities which may have been partner companies in previous periods are omitted if, as of December 31, 2014, they had been sold or are no longer considered a partner company.

## Healthcare

The following active partner companies as of December 31, 2014 were included in Healthcare:

Partner Company	Safeguard Primary Ownership as of December 31,			Accounting Method
	2014	2013	2012	
AdvantEdge Healthcare Solutions, Inc.	40.1%	40.1%	40.2%	Equity
Dabo Health, Inc.	15.3%	8.0%	NA	Cost
Good Start Genetics, Inc.	29.9%	30.0%	30.0%	Equity
InfoBionic, Inc.	27.8%	NA	NA	Equity
Medivo, Inc.	34.5%	34.5%	30.0%	Equity
NovaSom, Inc.	31.7%	30.3%	30.3%	Equity
Propeller Health, Inc.	24.6%	NA	NA	Equity
Putney, Inc.	28.3%	27.6%	27.6%	Equity
Quantia, Inc.	42.3%	35.1%	NA	Equity
Syapse, Inc.	27.0%	NA	NA	Equity
Trice Medical™	31.9%	NA	NA	Equity

Results for the Healthcare segment were as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Other income (loss), net	\$31,820	\$(857	) \$19,884
Equity loss	(3,944	) (31,706	) (26,544
Net income (loss)	\$27,876	\$(32,563	) \$(6,660

Year ended December 31, 2014 versus year ended December 31, 2013

Other Income (Loss), Net. Other income (loss), net increased \$32.7 million for the year ended December 31, 2014, compared to the prior year. The increase was primarily due to the recognition of gains of \$27.4 million and \$3.0 million on the sales of former cost method partner company Crescendo Bioscience, Inc. and former fair value method partner company NuPathe, respectively, in February 2014. The increase also related to the recognition of a gain of \$1.5 million on the sale of our interests in former cost method partner company Sotera Wireless in April 2014. Other income (loss), net for the year ended December 31, 2013 reflected an unrealized loss of \$0.9 million on the mark-to-market of our holdings in NuPathe.

Equity Loss. Equity loss fluctuates with the number of Healthcare partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity of the partner company or we have outstanding commitments or guarantees. Certain amounts recorded to reflect our share of the income or losses of our partner companies accounted for under the equity method are based on estimates and on unaudited results of operations of those partner companies and may require adjustments in the future when audits of these entities are made final. We report our share of the results of our equity method partner companies on a one quarter lag basis.

Equity loss for the Healthcare segment decreased \$27.8 million for the year ended December 31, 2014 compared to the prior year. The decrease was primarily due to the recognition of a gain of \$15.7 million on the sale of former

equity method partner company Alverix, Inc. in January 2014 and an impairment charge for the year ended December 31, 2013 of \$11.2 million related to PixelOptics, a former equity method partner company. The decrease in equity loss was also due to smaller

25

---

Table of Contents

losses incurred by partner companies included in the Healthcare segment partially offset by a \$1.7 million adjustment related to the change in revenue recognition accounting at a partner company as discussed below.

Our share of the earnings or losses of partner companies, as well as any adjustments resulting from prior period finalizations of equity income or loss, are reflected in Equity loss in the Consolidated Statements of Operations. In the year ended December 31, 2014, the amount related to prior periods for a specific partner company was \$1.7 million, of which \$1.4 million related to 2013 and \$0.3 million related to 2012. The adjustments are primarily related to a change in revenue recognition accounting at the partner company. We evaluated the quantitative and qualitative impact of the corrections on previously reported periods as well as on the year ended December 31, 2014. Based on this evaluation, we concluded that these adjustments were not material to our Consolidated Financial Statements.

## Year ended December 31, 2013 versus year ended December 31, 2012

Other Income (Loss), Net. Other income (loss), net decreased \$20.7 million for the year ended December 31, 2013, compared to the prior year. Other income (loss), net for the year ended December 31, 2013 reflected a \$0.9 million unrealized loss on the mark-to-market of our holdings in NuPathe. Other income (loss), net for the year ended December 31, 2012 reflected an \$11.0 million unrealized gain on the mark-to-market of our holdings in NuPathe, a \$3.4 million gain recorded in connection with the expiration of the escrow period associated with the sale of former partner company Avid Radiopharmaceuticals, Inc. (“Avid”) to Eli Lilly and Company in December 2010, as well as a \$5.6 million gain related to the achievement of the initial milestone associated with the Avid transaction. These gains were partially offset by an impairment charge of \$0.3 million on available-for-sale holdings.

Equity Loss. Equity loss for the Healthcare segment increased \$5.2 million for the year ended December 31, 2013, compared to the prior year. We recognized impairment charges of \$11.2 million and \$5.0 million related to PixelOptics in the years ended December 31, 2013 and 2012, respectively. The net increase in impairment charges was partially offset by smaller losses incurred by partner companies in the Healthcare segment in the year ended December 31, 2013 as compared to the year ended December 31, 2012.

## Technology

The following active partner companies as of December 31, 2014 were included in Technology:

Partner Company	Safeguard Primary Ownership as of December 31,			Accounting Method
	2014	2013	2012	
AppFirst, Inc.	34.3%	34.3%	35.0%	Equity
Apprenda, Inc.	21.6%	22.0%	NA	Equity
Beyond.com, Inc.	38.2%	38.2%	38.3%	Equity
Bridgevine, Inc.	17.2%	22.7%	21.7%	Cost (1)
Clutch Holdings, Inc.	29.6%	24.0%	NA	Equity
DriveFactor, Inc.	40.6%	40.6%	35.4%	Equity
Hoopla Software, Inc.	25.6%	25.3%	25.3%	Equity
Lumesis, Inc.	45.7%	44.2%	31.6%	Equity
MediaMath, Inc.	20.7%	22.5%	22.2%	Equity
Pneuron Corporation	27.6%	27.6%	NA	Equity
Spongecell, Inc.	23.0%	23.0%	23.1%	Equity
Transactis, Inc.	24.8%	NA	NA	Equity
WebLinc, Inc.	29.2%	NA	NA	Equity

(1) In the second quarter of 2014, our ownership interest in Bridgevine decreased from 22.7% to 17.3%, below the threshold at which we believe we exercise significant influence. Accordingly, we changed our method of accounting for Bridgevine from the equity method to the cost method.



Table of Contents

Results for the Technology segment were as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Equity income (loss)	\$ (10,831 )	\$ 20,899	\$ (119 )
Net income (loss)	\$ (10,831 )	\$ 20,899	\$ (119 )

Year ended December 31, 2014 versus year ended December 31, 2013

Equity Income (Loss). Equity income (loss) fluctuates with the number of Technology partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the equity partner company or we have outstanding commitments or guarantees. Certain amounts recorded to reflect our share of the income or losses of our partner companies accounted for under the equity method are based on estimates and on unaudited results of operations of those partner companies and may require adjustments in the future when audits of these entities are made final. We report our share of the results of our equity method partner companies on a one quarter lag.

Equity income (loss) for the Technology segment decreased \$31.7 million for the year ended December 31, 2014, compared to the prior year. Equity income (loss) for the year ended December 31, 2013 included the recognition of a gain of \$32.7 million on the sale of former partner company ThingWorx, Inc. to PTC, Inc. in December 2013. The decrease was also due to an increase in losses incurred by partner companies included in the Technology segment partially offset by a \$7.0 million unrealized gain on the decrease of our percentage ownership interest in MediaMath in the year ended December 31, 2014.

Year ended December 31, 2013 versus year ended December 31, 2012

Equity Income (Loss). Equity income (loss) for the Technology segment increased \$21.0 million for the year ended December 31, 2013, compared to the prior year. The increase primarily related to the recognition of a gain of \$32.7 million on the sale of former partner company ThingWorx to PTC in December 2013. The year ended December 31, 2012 included gains of \$3.4 million and \$1.9 million associated with the receipt of the escrowed proceeds and the achievement of performance milestones related to the sale of former partner company, Portico Systems, Inc., respectively. The year ended December 31, 2012 also included a gain of \$0.6 million related to a payment received upon the liquidation of former partner company SafeCentral, Inc. The increase was partially offset by an increase in the number of partner companies included within the Technology segment, all of which incurred net losses.

Corporate Operations

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
General and administrative expense	\$ (16,961 )	\$ (19,731 )	\$ (17,351 )
Stock-based compensation	(1,935 )	(1,821 )	(2,014 )
Depreciation	(74 )	(92 )	(108 )
Interest income	1,901	2,646	2,926
Interest expense	(4,402 )	(4,303 )	(5,636 )
Other income (loss), net	(163 )	1,240	(10,546 )
Equity income (loss)	(560 )	(1,800 )	146
Net loss	\$ (22,194 )	\$ (23,861 )	\$ (32,583 )

Corporate Operations includes interest earned on mezzanine loans, gain (loss) on the mark-to-market of our warrant participations, and impairment on debt and equity interests in which we participate with Penn Mezzanine as well as equity income (loss) associated with our interest in the management company and general partner of Penn Mezzanine. We have determined that we will not be making any further new capital deployments in connection with Penn Mezzanine lending activities. We will continue to collect principal and interest payments from our existing participating interests in Penn Mezzanine loans.





Table of Contents

Year ended December 31, 2014 versus year ended December 31, 2013

**General and Administrative Expense.** Our general and administrative expenses consist primarily of employee compensation, insurance, travel-related costs, office rent and professional services such as consulting, legal and accounting. General and administrative expenses decreased \$2.8 million for the year ended December 31, 2014 compared to the prior year primarily due to a decrease of \$1.6 million in costs associated with a transitional services agreement with our previous Chief Executive Officer, a decrease in severance expense of \$0.9 million related to another former executive and a decrease of \$0.6 million in professional fees. These decreases were partially offset by an increase in employee costs of \$0.3 million.

**Stock-Based Compensation.** Stock-based compensation consists primarily of expense related to grants of stock options, restricted stock and deferred stock units to our employees and directors. Stock-based compensation increased \$0.1 million for the year ended December 31, 2014, compared to the prior year due to a \$0.2 million increase in expense related to performance-based awards and a \$0.1 million increase in expense related to service-based awards, which were partially offset by a \$0.2 million decrease in expense related to market-based awards.

**Interest Income.** Interest income includes all interest earned on cash and marketable securities balances, interest earned on note receivable balances from our partner companies as well as mezzanine loans in which we participate with Penn Mezzanine. Interest income decreased \$0.7 million for the year ended December 31, 2014, compared to the prior year. The decrease was primarily attributable to lower average cash and marketable securities balances, lower average note receivable balances with our partner companies and the repayment of mezzanine loans in which we participate with Penn Mezzanine.

**Interest Expense.** Interest expense is primarily related to our convertible senior debentures. Interest expense remained relatively consistent compared to the prior year.

**Other Income (Loss), Net.** Other income (loss), net for the year ended December 31, 2014 included a loss on the sale of one of our Penn Mezzanine equity interests of \$0.3 million. Other income (loss), net for the year ended December 31, 2013 included a gain of \$1.1 million on the mark-to-market of our Penn Mezzanine warrant participations and a gain on the sale of one of our Penn Mezzanine equity interest participations of \$0.5 million, partially offset by an impairment charge associated with our Penn Mezzanine equity and loan participations of \$0.3 million and an impairment charge of \$0.3 million related to our interest in a legacy private equity fund.

**Equity Income (Loss).** Equity income (loss) consists of our private equity holdings accounted for under the equity method. Equity income (loss) for the year ended December 31, 2014 included losses of \$0.6 million associated with our interest in the management company of Penn Mezzanine. Equity income (loss) for the year ended December 31, 2013 included an impairment charge of \$1.8 million and losses of \$0.3 million associated with our interest in the management company of Penn Mezzanine, partially offset by a \$0.3 million gain upon distribution from one of our private equity holdings.

Year ended December 31, 2013 versus year ended December 31, 2012

**General and Administrative Expense.** General and administrative expenses increased \$2.4 million for the year ended December 31, 2013 compared to the prior year primarily due to an increase of \$1.6 million in costs associated with a transitional services agreement with our previous Chief Executive Officer and severance expense of \$0.9 million related to another former executive.

**Stock-Based Compensation.** Stock-based compensation decreased \$0.2 million for the year ended December 31, 2013, compared to the prior year due to a \$0.2 million decrease in expense related to market-based awards and a \$0.2 million decrease in expense related to performance-based awards, which were partially offset by a \$0.2 million increase in expense related to service-based awards.

**Interest Income.** Interest income decreased \$0.3 million for the year ended December 31, 2013, compared to the prior year. The decrease was primarily attributable to lower average cash and marketable securities balances, lower average note receivable balances with our partner companies and the repayment of mezzanine loans in which we participate with Penn Mezzanine.

Interest Expense. The decrease in interest expense of \$1.3 million in the year ended December 31, 2013 compared to the prior year was due to a lower coupon rate of 5.25% payable on our 2018 Debentures compared to a coupon rate of 10.125% payable on our 2014 Debentures, which were substantially repaid in November 2012.

Other Income (Loss), Net. Other income (loss), net for the year ended December 31, 2013 included a gain of \$1.1 million on the mark-to-market of our Penn Mezzanine warrant participations and a gain on the sale of one of our Penn Mezzanine

Table of Contents

equity interest participations of \$0.5 million, partially offset by an impairment charge associated with our Penn Mezzanine equity and loan participations of \$0.3 million and an impairment charge of \$0.3 million related to our interest in a legacy private equity fund. Other income (loss), net for the year ended December 31, 2012 included a \$7.9 million loss on the repurchase of substantially all of our 2014 Debentures, an impairment charge of \$2.5 million associated with our Penn Mezzanine equity, warrant and loan participations, and an impairment charge of \$0.4 million related to our interest in a legacy private equity fund, partially offset by a gain of \$0.2 million on the mark-to-market of our Penn Mezzanine warrant participations.

Equity Income (Loss). Equity income (loss) for the year ended December 31, 2013 included an impairment charge of \$1.8 million and losses of \$0.3 million associated with our interest in the management company of Penn Mezzanine, partially offset by a \$0.3 million gain upon distribution from one of our private equity holdings. Equity income (loss) for the year ended December 31, 2012 included a \$0.5 million gain upon distribution from one of our private equity holdings, partially offset by a loss of \$0.3 million associated with our interest in the management company of Penn Mezzanine.

Income Tax Benefit (Expense)

Our consolidated net income tax (expense) benefit for 2014, 2013 and 2012 was \$0.0 million in each year. We have recorded a valuation allowance to reduce our net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the income tax (expense) benefit that would have been recognized in each year was offset by changes in the valuation allowance.

Liquidity And Capital Resources

We fund our operations with cash on hand as well as proceeds from sales of and distributions from partner companies, private equity funds and marketable securities. In prior periods, we have also used sales of our equity and the issuance of debt as sources of liquidity and may do so in the future. Our ability to generate liquidity from sales of partner companies, sales of marketable securities and from equity and debt issuances has been adversely affected from time to time by adverse circumstances in the U.S. capital markets and other factors.

As of December 31, 2014, we had \$111.9 million of cash and cash equivalents and \$44.6 million of marketable securities for a total of \$156.5 million.

In April 2014, we sold our ownership interest in Sotera Wireless for approximately \$4.2 million in cash proceeds.

In February 2014, Crescendo Bioscience was acquired by Myriad Genetics, Inc. We received \$38.4 million in cash proceeds in connection with the transaction, excluding \$2.9 million, net of claims paid through December 31, 2014, which will be held in escrow until approximately May 2015.

In February 2014, NuPathe was acquired by Teva Pharmaceutical Industries Ltd. for \$3.65 per share in cash. In addition to the upfront cash payment, NuPathe shareholders received rights to receive additional cash payments of up to \$3.15 per share if specified milestones are achieved over time. We received initial net cash proceeds of \$23.1 million as a result of the transaction. Depending on the achievement of the milestones, we may receive up to an additional \$24.2 million.

In January 2014, Alverix was acquired by Becton, Dickinson and Company. We received cash proceeds of \$15.7 million, excluding \$1.7 million which will be held in escrow until approximately July 2015.

For the year ended December 31, 2014, we received cash proceeds of \$4.7 million from the repayment of loan participations receivable and \$1.3 million from the sale of equity interests initiated by Penn Mezzanine.

In December 2013, ThingWorx was acquired by PTC. We received cash proceeds of \$36.4 million, excluding \$4.1 million which will be held in escrow until December 2015. Depending on the achievement of certain milestones, we may receive up to an additional \$6.5 million in connection with the transaction.

In June 2011, Advanced BioHealing, Inc. was acquired by Shire plc. Prior to the expiration of the escrow period in March 2012, Shire plc filed a claim against \$7.6 million held in escrow related to the sale. No further proceeds will be distributed to us or other former owners until the validity of such claims is determined. We presently view it as unlikely that we will receive any portion of such amount in the short or long-term.

Depending on the achievement of certain difficult commercial and regulatory milestones, we could receive additional proceeds of up to \$54.0 million by the end of 2018 related to the December 2010 sale of our former partner company

Avid. We presently view it as unlikely that we will receive any significant portion of such amount in the short or long-term.

29

---

Table of Contents

We have outstanding \$55.0 million in face amount of our 5.25% convertible senior debentures due 2018 (the "2018 Debentures"). Interest on the 2018 Debentures is payable semi-annually. At the debentures holders' option, the 2018 Debentures are convertible into our common stock prior to November 15, 2017 subject to certain conditions, and at any time after November 15, 2017. The conversion rate of the 2018 Debentures is 55.17 shares of common stock per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$18.13 per share of common stock. The closing price per share of our common stock at December 31, 2014 was \$19.82. The 2018 Debentures holders have the right to require us to repurchase the 2018 Debentures if we undergo a fundamental change as defined in the debenture agreement, including the sale of all or substantially all of our common stock or assets, liquidation, or dissolution; a change in control, the delisting of our common stock from the New York Stock Exchange or the NASDAQ Global Market (or any of their respective successors); or a substantial change in the composition of our board of directors as defined in the agreement. On or after November 15, 2016, we may redeem for cash some or all of the debentures, subject to certain conditions. Upon any redemption of the 2018 Debentures, we will pay a redemption price of 100% of their principal amount, plus accrued and unpaid interest. Upon the conversion of the 2018 Debentures we have the right to settle the conversion in stock, cash or a combination thereof.

In February 2014, our Board of Directors authorized us, from time to time and depending on market conditions, to repurchase up to \$25.0 million of our outstanding common stock. During the year ended December 31, 2014, we repurchased 1.2 million shares at an aggregate cost of \$25.0 million. This share repurchase program was completed in May 2014.

We are party to a loan agreement with a commercial bank which provides us with a revolving credit facility in the maximum aggregate amount of \$25.0 million in the form of borrowings, guarantees and issuances of letters of credit, subject to a \$20.0 million sublimit. Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as the value of our public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, we are required to maintain all of our depository and operating accounts at the bank. The credit facility, as amended December 22, 2014, matures on December 21, 2015. Under the credit facility, we provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters which has been required in connection with the sale of CompuCom Systems in 2004. Availability under our revolving credit facility at December 31, 2014 was \$18.7 million.

At December 31, 2014, we had committed capital of approximately \$0.2 million to private equity funds. These commitments are expected to be funded in the next 12 months.

In May 2001, we entered into a \$26.5 million loan agreement with Warren V. Musser, a former Chairman and Chief Executive Officer of the Company. Since 2001 and through December 31, 2014, we have received a total of \$17.0 million in payments on the loan. The carrying value of the loan at December 31, 2014 was zero. We received payments of \$0.1 million on this loan agreement in 2014 and did not receive any payments in 2013 or 2012.

Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a private equity fund for further distribution to such fund's limited partners ("clawback"). The maximum clawback we could be required to return related to our general partner interest is \$1.3 million, of which \$1.0 million was reflected in Accrued expenses and other current liabilities and \$0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets at December 31, 2014. Our ownership in the fund is 19%. The clawback liability is joint and several, such that we may be required to fund the clawback for other general partners should they default. We believe our potential liability due to the possibility of default by other general partners is remote.

The transactions we enter into in pursuit of our strategy could increase or decrease our liquidity at any point in time. As we seek to acquire interests in new partner companies, provide additional funding to existing partner companies, or commit capital to other initiatives, we may be required to expend our cash or incur debt, which will decrease our liquidity. Conversely, as we dispose of our interests in partner companies from time to time, we may receive proceeds from such sales, which could increase our liquidity. From time to time, we are engaged in discussions concerning acquisitions and dispositions which, if consummated, could impact our liquidity, perhaps significantly.

For the reasons we have presented above, we believe our cash and cash equivalents at December 31, 2014, availability under our revolving credit facility and other internal sources of cash flow will be sufficient to fund our cash

requirements for at least the next 12 months, including interest payments, commitments to our existing partner companies and funds, possible additional funding of existing partner companies and our general corporate requirements. Our acquisition of new partner company interests is always contingent upon our availability of cash to fund such deployments, and our timing of monetization events directly affects our availability of cash.

Table of Contents

## Analysis of Consolidated Cash Flows

Cash flow activity was as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Net cash used in operating activities	\$ (20,189	) \$ (21,221	) \$ (16,525
Net cash provided by investing activities	16,956	90,258	3,116
Net cash provided by (used in) financing activities	(24,188	) 4,252	(3,749
	\$ (27,421	) \$ 73,289	\$ (17,158
Net Cash Used In Operating Activities			

Year ended December 31, 2014 versus year ended December 31, 2013. Net cash used in operating activities decreased \$1.0 million in 2014 compared to the prior year. The decrease was primarily related to a decrease in cash used for professional fees of \$1.4 million and a decrease in cash severance payments of \$0.9 million. These decreases were partially offset by an increase of \$1.1 million related to final payments associated with a transitional services agreement with our previous Chief Executive Officer and an increase of \$0.4 million in cash used for management incentive plan payments.

Year ended December 31, 2013 versus year ended December 31, 2012. Net cash used in operating activities increased \$4.7 million in 2013 compared to the prior year. The increase primarily related to \$2.9 million in cash interest payments on our 2018 Debentures. In the prior year, interest payments related to the 2014 Debentures were funded from a restricted escrow account. Interest payments made out of the restricted escrow account on the 2014 Debentures were considered non-cash investing activities. The change also related to an increase in cash severance payments of \$0.9 million and an increase of \$0.6 million in cash used for professional fees. These increases were partially offset by a \$0.7 million decrease in cash used for management incentive plan payments.

## Net Cash Provided by Investing Activities

Year ended December 31, 2014 versus year ended December 31, 2013. Net cash provided by investing activities decreased by \$73.3 million for the year ended December 31, 2014 compared to the prior year. The decrease primarily related to a \$95.7 million decrease in cash proceeds from the net change in marketable securities, a \$17.6 million increase in acquisitions of ownership interests in companies and a decrease in proceeds from the sale of discontinued operations of \$6.4 million which related to the release of escrow funds in June 2013. These decreases were partially offset by a \$43.8 million increase in proceeds from the sales of and distributions from companies and funds, primarily related to the 2014 sales of our interests in Crescendo Bioscience, Alverix, NuPathe and Sotera Wireless, and an increase of \$3.0 million in repayments of advances and loans to companies.

Year ended December 31, 2013 versus year ended December 31, 2012. Net cash provided by investing activities increased \$87.1 million in 2013 compared to the prior year. The increase primarily related to a \$61.1 million increase in cash received from the net change in marketable securities, an increase of \$21.4 million in proceeds from sales of and distributions from companies and funds, primarily related to the 2013 sale of our interests in ThingWorx, an increase in proceeds from the sale of discontinued operations of \$6.4 million which related to the release of escrow funds in June 2013, a decrease in acquisitions of ownership interests in companies of \$4.3 million and a decrease in advances and loans to companies of \$3.2 million. These increases were partially offset by a \$7.7 million decrease from the release in 2012 of cash from escrow as a result of the repurchase of the 2014 Debentures and a decrease of \$1.6 million related to repayments of advances to partner companies.

## Net Cash Provided by (Used In) Financing Activities

Year ended December 31, 2014 versus year ended December 31, 2013. Net cash provided by (used in) financing activities decreased \$28.4 million in 2014 compared to the prior year. The decrease primarily related to \$25.0 million



in repurchases of our common stock, the repurchase of \$0.4 million of our 2024 Debentures and a \$3.1 million decrease in the proceeds received from the exercise of stock options.

Year ended December 31, 2013 versus year ended December 31, 2012. Net cash provided by (used in) financing activities increased \$8.0 million in 2013 compared to the prior year. The increase related to the cash outflow of \$58.7 million

31

---

Table of Contents

associated with the repurchase of the 2014 Debentures in 2012 as well as \$1.8 million in costs associated with the issuance of our 2018 Debentures in 2012 partially offset by the issuance of \$55.0 million in the face amount of our 2018 Debentures. The increase also related to a \$2.7 million increase in the proceeds received from the exercise of stock options.

**Contractual Cash Obligations and Other Commercial Commitments**

The following table summarizes our contractual obligations and other commercial commitments as of December 31, 2014, by period due or expiration of the commitment.

	Payments Due by Period				
	Total	2015	2016 and 2017	2018 and 2019	After 2019
	(In millions)				
<b>Contractual Cash Obligations:</b>					
Convertible senior debentures (a)	\$55.0	\$—	\$—	\$55.0	\$—
Interest payments on long-term debt	10.1	2.9	5.8	1.4	—
Operating leases	0.4	0.4	—	—	—
Funding commitments (b)	0.2	0.2	—	—	—
Potential clawback liabilities (c)	1.3	1.0	—	0.3	—
Other long-term obligations (d)	3.3	0.8	1.6	0.9	—
<b>Total Contractual Cash Obligations</b>	<b>\$70.3</b>	<b>\$5.3</b>	<b>\$7.4</b>	<b>\$57.6</b>	<b>\$—</b>
	Amount of Commitment Expiration by Period				
	Total	2015	2016 and 2017	2018 and 2019	After 2019
	(In millions)				
<b>Other Commitments:</b>					
Letters of credit (e)	\$6.3	\$—	\$—	\$6.3	\$—

(a) We have outstanding \$55.0 million of our 5.25% convertible senior debentures due May 15, 2018.

(b) This represents funding commitments to private equity funds based on estimated timing of capital calls provided to us by the funds' management.

Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a private equity fund for a further distribution to such fund's limited partners ("clawback"). The

(c) maximum clawback we could be required to return is approximately \$1.3 million, of which \$1.0 million was reflected in Accrued expenses and other current liabilities and \$0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheet as of December 31, 2014.

(d) Reflects the estimated amount payable to a former Chairman and CEO under an ongoing agreement.

(e) A \$6.3 million letter of credit is provided to the landlord of CompuCom's Dallas headquarters lease as required in connection with our sale of CompuCom in 2004.

We have agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or if the employee terminates his employment for "good reason." The maximum aggregate cash exposure under the agreements was approximately \$3.0 million at December 31, 2014.

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position or results of operations.

Table of Contents

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

At December 31, 2014, we had \$55.0 million outstanding of our 5.25% convertible senior debentures due May 15, 2018.

Liabilities	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value at December 31, 2014
2018 Debentures due by year (in millions)	\$—	\$—	\$—	\$55.0	\$—	\$—	\$55.0	\$70.8
Fixed interest rate	5.25	% 5.25	% 5.25	% 5.25	%		5.25	%

Table of Contents

Item 8. Financial Statements and Supplementary Data

The following Consolidated Financial Statements, and the related Notes thereto, of Safeguard Scientifics, Inc. and the Reports of Independent Registered Public Accounting Firm are filed as a part of this Form 10-K.

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>35</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>36</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	<u>37</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012</u>	<u>38</u>
<u>Consolidated Statements of Comprehensive Loss for the years ended December 31, 2014, 2013 and 2012</u>	<u>39</u>
<u>Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012</u>	<u>40</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012</u>	<u>41</u>
<u>Notes to Consolidated Financial Statements</u>	<u>42</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Safeguard Scientifics, Inc.:

We have audited Safeguard Scientifics, Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Safeguard Scientifics, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A.(b)). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Safeguard Scientifics, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Safeguard Scientifics, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 6, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 6, 2015

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Safeguard Scientifics, Inc.:

We have audited the accompanying consolidated balance sheets of Safeguard Scientifics, Inc. (the Company) and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Safeguard Scientifics, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Safeguard Scientifics, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 6, 2015

Table of Contents

SAFEGUARD SCIENTIFICS, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share data)

	As of December 31,	
	2014	2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 111,897	\$ 139,318
Marketable securities	25,263	38,250
Prepaid expenses and other current assets	1,684	1,562
Total current assets	138,844	179,130
Property and equipment, net	123	138
Ownership interests in and advances to partner companies (of which \$0 and \$20,057 are measured at fair value at December 31, 2014 and 2013, respectively)	154,192	148,579
Loan participations receivable	3,855	8,135
Long-term marketable securities	19,365	6,088
Other assets	2,075	3,926
Total Assets	\$318,454	\$345,996
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Convertible senior debentures—current	\$—	\$470
Accounts payable	226	245
Accrued compensation and benefits	3,997	5,028
Accrued expenses and other current liabilities	2,334	2,431
Total current liabilities	6,557	8,174
Other long-term liabilities	3,507	3,683
Convertible senior debentures—non-current	50,563	49,478
Total Liabilities	60,627	61,335
Commitments and contingencies		
Equity:		
Preferred stock, \$0.10 par value; 1,000 shares authorized	—	—
Common stock, \$0.10 par value; 83,333 shares authorized; 21,573 and 21,553 shares issued at December 31, 2014 and 2013, respectively	2,157	2,155
Additional paid-in capital	819,757	822,103
Treasury stock, at cost; 921 and 4 shares at December 31, 2014 and 2013, respectively	(19,341	) —
Accumulated deficit	(544,746	) (539,597
Total Equity	257,827	284,661
Total Liabilities and Equity	\$318,454	\$345,996
See Notes to Consolidated Financial Statements.		

Table of Contents

SAFEGUARD SCIENTIFICS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
General and administrative expense	\$18,970	\$21,644	\$19,473
Operating loss	(18,970	) (21,644	) (19,473
Other income (loss), net	31,657	383	9,338
Interest income	1,901	2,646	2,926
Interest expense	(4,402	) (4,303	) (5,636
Equity loss	(15,335	) (12,607	) (26,517
Net loss before income taxes	(5,149	) (35,525	) (39,362
Income tax benefit (expense)	—	—	—
Net loss	\$(5,149	) \$(35,525	) \$(39,362
Net loss per share:			
Basic	\$(0.25	) \$(1.66	) \$(1.88
Diluted	\$(0.25	) \$(1.66	) \$(1.88
Weighted average shares used in computing net loss per share:			
Basic	20,975	21,362	20,974
Diluted	20,975	21,362	20,974
See Notes to Consolidated Financial Statements.			



Table of Contents

## SAFEGUARD SCIENTIFICS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Net loss	\$ (5,149	) \$ (35,525	) \$ (39,362
Other comprehensive income (loss), before taxes:			
Unrealized net gain (loss) on available-for-sale securities	(14	) (43	) 4,388
Reclassification adjustment for gain from available-for-sale securities changed to fair value	—	—	(4,607
Reclassification adjustment for other than temporary impairment of available-for-sale securities included in net loss	14	43	260
Total comprehensive loss	\$ (5,149	) \$ (35,525	) \$ (39,321
See Notes to Consolidated Financial Statements.			

Table of Contents

SAFEGUARD SCIENTIFICS, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In thousands)

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount
Balance — December 31, 2011	\$348,280	\$ (464,710 )	\$ (41 )	20,752	\$2,075	\$810,956	—	\$—
Net loss	(39,362 )	(39,362 )	—	—	—	—	—	—
Stock options exercised, net	1,741	—	—	181	19	1,722	—	—
Issuance of restricted stock, net	94	—	—	35	3	91	—	—
Stock-based compensation expense	2,014	—	—	—	—	2,014	—	—
Repurchase of equity component of convertible senior debentures	(5,283 )	—	—	—	—	(5,283 )	—	—
Equity component of convertible senior debentures issued, net of issuance costs	6,446	—	—	—	—	6,446	—	—
Other comprehensive income	41	—	41	—	—	—	—	—
Balance — December 31, 2012	313,971	(504,072 )	—	20,968	2,097	815,946	—	—
Net loss	(35,525 )	(35,525 )	—	—	—	—	—	—
Stock options exercised, net	4,417	—	—	559	55	4,261	(7 )	101
Issuance of restricted stock, net	99	—	—	26	3	75	3	21
Stock-based compensation expense	1,821	—	—	—	—	1,821	—	—
Repurchase of common stock	(122 )	—	—	—	—	—	8	(122 )
Balance — December 31, 2013	284,661	(539,597 )	—	21,553	2,155	822,103	4	—
Net loss	(5,149 )	(5,149 )	—	—	—	—	—	—
Stock options exercised, net	1,289	—	—	18	2	(2,716 )	(198 )	4,003
Issuance of restricted stock, net	98	—	—	—	—	(1,594 )	(79 )	1,692
Stock-based compensation expense	1,935	—	—	—	—	1,935	—	—
	(25,036 )	—	—	—	—	—	1,194	(25,036 )

Repurchase of common stock								
Conversion of convertible senior debentures to common stock	29	—	—	2	—	29	—	—
Balance — December 31, 2014	\$257,827	\$ (544,746 )	\$ —	21,573	\$2,157	\$819,757	921	\$(19,341)

See Notes to Consolidated Financial Statements.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net loss	\$(5,149	) \$(35,525	) \$(39,362
Adjustments to reconcile to net cash used in operating activities:			
Depreciation	74	92	108
Amortization of debt discount	1,085	995	726
Equity loss	15,335	12,607	26,517
Other (income) loss, net	(31,657	) (383	) (9,338
Stock-based compensation expense	1,935	1,821	2,014
Changes in assets and liabilities:			
Accounts receivable, net	(369	) (1,194	) (418
Accounts payable, accrued expenses, and other	(1,443	) 366	3,228
Net cash used in operating activities	(20,189	) (21,221	) (16,525
Cash Flows from Investing Activities:			
Acquisitions of ownership interests in companies	(59,476	) (41,838	) (46,100
Proceeds from sales of and distributions from companies	82,822	38,974	17,596
Advances and loans to companies	(10,968	) (10,464	) (13,665
Repayment of advances and loans to companies	4,684	1,651	3,214
Increase in marketable securities	(55,594	) (69,883	) (242,023
Decrease in marketable securities	55,410	165,379	276,392
Release of restricted cash equivalents for interest on convertible senior debentures	5	—	7,701
Capital expenditures	(59	) (37	) (73
Proceeds from sale of discontinued operations, net	—	6,434	—
Other, net	132	42	74
Net cash provided by investing activities	16,956	90,258	3,116
Cash Flows from Financing Activities:			
Proceeds from issuance of convertible senior debentures	—	—	55,000
Repurchase of convertible senior debentures	(441	) (43	) (58,703
Costs of issuance of convertible senior debentures	—	—	(1,790
Issuance of Company common stock, net	1,289	4,417	1,744
Repurchase of Company common stock	(25,036	) (122	) —
Net cash provided by (used in) financing activities	(24,188	) 4,252	(3,749
Net change in cash and cash equivalents	(27,421	) 73,289	(17,158
Cash and cash equivalents at beginning of period	139,318	66,029	83,187
Cash and cash equivalents at end of period	\$111,897	\$139,318	\$66,029
See Notes to Consolidated Financial Statements.			

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Safeguard (the "Company") and all of its subsidiaries in which a controlling financial interest is maintained. All intercompany accounts and transactions are eliminated in consolidation.

Principles of Accounting for Ownership Interests in Companies

The Company accounts for its interests in its partner companies using one of the following methods: consolidation, fair value, equity, or cost. The accounting method applied is generally determined by the degree of the Company's influence over the entity, primarily determined by our voting interest in the entity.

In addition to holding voting and non-voting equity and debt securities, the Company also periodically makes advances to its partner companies in the form of promissory notes which are included in the Ownership interests in and advances to partner companies line item in the Consolidated Balance Sheets.

**Consolidation Method.** The Company generally accounts for partner companies in which it directly or indirectly owns more than 50% of the outstanding voting securities under the consolidation method of accounting. Under this method, the Company includes the partner companies' financial statements within the Company's Consolidated Financial Statements, and all significant intercompany accounts and transactions are eliminated. The Company reflects participation of other stockholders in the net assets and in the income or losses of these consolidated partner companies in Equity in the Consolidated Balance Sheets and in Net income (loss) attributable to non-controlling interest in the Statements of Operations. Net income (loss) attributable to non-controlling interest adjusts the Company's consolidated operating results to reflect only the Company's share of the earnings or losses of the consolidated partner company. The Company accounts for results of operations and cash flows of a consolidated partner company through the latest date in which it holds a controlling interest. If the Company subsequently relinquishes control but retains an interest in the partner company, the accounting method is adjusted to the equity, cost or fair value method of accounting, as appropriate. As of December 31, 2014 and for each of the three years in the period then ended, the Company did not hold a controlling interest in any of its partner companies.

**Fair Value Method.** Unrealized gains and losses on the mark-to-market of the Company's holdings in fair value method companies and realized gains and losses on the sale of any holdings in fair value method companies are recognized in Other income (loss), net in the Consolidated Statements of Operations. The Company accounted for its holdings in NuPathe Inc., a former publicly traded partner company, under the fair value method of accounting. As of December 31, 2014, the Company did not account for any of its partner companies under the fair value method.

**Equity Method.** The Company accounts for partner companies whose results are not consolidated, but over which it exercises significant influence, under the equity method of accounting. Whether or not the Company exercises significant influence with respect to a partner company depends on an evaluation of several factors including, among others, representation of the Company on the partner company's board of directors and the Company's ownership level, which is generally a 20% to 50% interest in the voting securities of a partner company, including voting rights associated with the Company's holdings in common, preferred and other convertible instruments in the company. Under the equity method of accounting, the Company does not reflect a partner company's financial statements within the Company's Consolidated Financial Statements; however, the Company's share of the income or loss of such partner company is reflected in Equity income (loss) in the Consolidated Statements of Operations. The Company includes the carrying value of equity method partner companies in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets. Any excess of the Company's cost over its underlying interest in the net assets of equity method partner companies that is allocated to intangible assets is amortized over the estimated useful lives of the related intangible assets. The Company reflects its share of the income or loss of the equity method partner companies on a one quarter lag. This reporting lag could result in a delay in recognition of the impact of changes in the business or operations of these partner companies.

When the Company's carrying value in an equity method partner company is reduced to zero, the Company records no further losses in its Consolidated Statements of Operations unless the Company has an outstanding guarantee obligation or has committed additional funding to such equity method partner company. When such equity method partner company subsequently reports income, the Company will not record its share of such income until it exceeds the amount of the Company's share of losses not previously recognized.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**Cost Method.** The Company accounts for partner companies not consolidated or accounted for under the equity method or fair value method under the cost method of accounting. Under the cost method, the Company does not include its share of the income or losses of partner companies in the Company's Consolidated Statements of Operations. The Company includes the carrying value of cost method partner companies in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

**Accounting Estimates**

The preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates. These estimates include the evaluation of the recoverability of the Company's ownership interests in and advances to partner companies and investments in marketable securities, income taxes, stock-based compensation and commitments and contingencies. Management evaluates its estimates on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances.

Certain amounts recorded to reflect the Company's share of income or losses of partner companies accounted for under the equity method are based on unaudited results of operations of those companies and may require adjustments in the future when audits of these entities' financial statements are completed.

It is reasonably possible that the Company's accounting estimates with respect to the ultimate recoverability of the carrying value of the Company's ownership interests in and advances to partner companies could change in the near term and that the effect of such changes on the financial statements could be material. At December 31, 2014, the Company believes the carrying value of the Company's ownership interests in and advances to partner companies is not impaired, although there can be no assurance that the Company's future results will confirm this assessment, that a significant write-down or write-off will not be required in the future, or that a significant loss will not be recorded in the future upon the sale of a company.

**Cash and Cash Equivalents and Marketable Securities**

The Company considers all highly liquid instruments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of deposits that are readily convertible into cash. The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. Held-to-maturity securities are carried at amortized cost, which approximates fair value. Marketable securities consist of held-to-maturity securities, primarily consisting of government agency bonds, commercial paper and certificates of deposits. Marketable securities with a maturity date greater than one year from the balance sheet date are considered long-term. The Company has not experienced any significant losses on cash equivalents and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

**Financial Instruments**

The Company's financial instruments (principally cash and cash equivalents, marketable securities, accounts receivable, notes receivable, accounts payable and accrued expenses) are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The Company's long-term debt is carried at cost.

**Accounting for Participating Interests in Mezzanine Loans Receivable and Related Equity Interests**

The Company's participating interests in Penn Mezzanine loans are included in Loan participations receivable on the Consolidated Balance Sheets. On a periodic basis, but no less frequently than at the end of each quarter, the Company evaluates the carrying value of each loan participation receivable for impairment. A loan participation receivable is considered impaired when it is probable that the Company will be unable to collect all amounts (principal and interest) due according to the contractual terms of the participation agreement and related agreements with the borrowers. The Company maintains an allowance to provide for estimated loan losses based on evaluating known and inherent risks in the loans. The allowance is provided based upon management's analysis of the pertinent factors underlying the quality

of the loans. These factors include an analysis of the financial condition of the individual borrowers, delinquency levels, actual loan loss experience, current economic conditions and other relevant factors. The Company's analysis includes methods to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The Company does not accrue interest when a loan is considered impaired. All cash receipts from an impaired loan are applied to reduce the original principal amount of such loan until the principal has been fully recovered and would be recognized as interest income thereafter.



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's participation in equity interests acquired by Penn Mezzanine is accounted for under the cost method of accounting. On a periodic basis, but no less frequently than at the end of each quarter, the Company evaluates the carrying value of its participation in these equity interests for possible impairment based on achievement of business plan objectives and milestones, the fair value of the equity interest relative to its carrying value, the financial condition and prospects of the underlying company and other relevant factors. The Company's participating interests in equity interests acquired by Penn Mezzanine are included in Other assets on the Consolidated Balance Sheets.

**Impairment of Ownership Interests In and Advances to Partner Companies**

On a periodic basis, but no less frequently than quarterly, the Company evaluates the carrying value of its equity and cost method partner companies for possible impairment based on achievement of business plan objectives and milestones, the fair value of each partner company relative to its carrying value, the financial condition and prospects of the partner company and other relevant factors. The business plan objectives and milestones the Company considers include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships. Management then determines whether there has been an other than temporary decline in the value of its ownership interest in the company. Impairment is measured as the amount by which the carrying value of an asset exceeds its fair value.

The fair value of privately held companies is generally determined based on the value at which independent third parties have invested or have committed to invest in these companies or based on other valuation methods, including discounted cash flows, valuation of comparable public companies and the valuation of acquisitions of similar companies.

Impairment charges related to equity method partner companies are included in Equity income (loss) in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies and funds are included in Other income (loss), net in the Consolidated Statements of Operations.

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

**Income Taxes**

The Company accounts for income taxes under the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company measures deferred tax assets and liabilities using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. The Company recognizes the effect on deferred tax assets and liabilities of a change in tax rates in income in the period of the enactment date. The Company provides a valuation allowance against the net deferred tax asset for amounts which are not considered more likely than not to be realized.

**Net Income (Loss) Per Share**

The Company computes net income (loss) per share using the weighted average number of common shares outstanding during each year. The Company includes in diluted net income (loss) per share common stock equivalents (unless anti-dilutive) which would arise from the exercise of stock options and conversion of other convertible securities and adjusted, if applicable, for the effect on net income (loss) of such transactions. Diluted net income (loss) per share calculations adjust net income (loss) for the dilutive effect of common stock equivalents and convertible securities issued by the Company's consolidated or equity method partner companies.

**Segment Information**

The Company reports segment data based on the management approach which designates the internal reporting used by management for making operating decisions and assessing performance as the source of the Company's reportable operating segments.



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 2. Ownership Interests in and Advances to Partner Companies

The following summarizes the carrying value of the Company's ownership interests in and advances to partner companies.

	December 31, 2014 (In thousands)	December 31, 2013
Fair value	\$—	\$20,057
Equity Method:		
Partner companies	134,861	108,872
Private equity funds	1,128	1,766
	135,989	110,638
Cost Method:		
Partner companies	6,774	13,480
Private equity funds	2,364	2,418
	9,138	15,898
Advances to partner companies	9,065	1,986
	\$154,192	\$148,579
Loan participations receivable	\$3,855	\$8,135

The Company's share of the earnings or losses of partner companies, as well as any adjustments resulting from prior period finalizations of equity income or loss, are reflected in Equity income (loss) on the Consolidated Statements of Operations. For the year ended December 31, 2014, adjustments at a partner company primarily related to revenue recognition amounted to \$1.7 million, of which \$1.4 million related to 2013 and \$0.3 million related to 2012.

Management evaluated the quantitative and qualitative impact of the corrections on previously reported periods as well as on the year ended December 31, 2014. Based on this evaluation, management concluded that these adjustments were not material to the Company's Consolidated Financial Statements.

The Company recognized impairment charges of \$11.2 million and \$5.0 million related to PixelOptics, Inc., formerly an equity method partner company, for the years ended December 31, 2013 and 2012, respectively, which are reflected in Equity income (loss) in the Consolidated Statements of Operations. The impairments were based on PixelOptics' inability to raise additional capital to continue its operations. On November 4, 2013, PixelOptics filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The adjusted carrying value of PixelOptics is \$0 and the Company believes it will not recover any of its capital.

The Company recognized an impairment charge of \$1.8 million for the year ended December 31, 2013 related to its interest in the management company of Penn Mezzanine which is reflected in Equity income (loss) in the Consolidated Statements of Operations. The Company has determined that it will not be making any further new capital deployments in connection with Penn Mezzanine lending activities.

For the years ended December 31, 2014, 2013 and 2012, the Company received cash proceeds of \$4.7 million, \$1.3 million and \$2.5 million, respectively, from the repayment of loan participations receivable initiated by Penn Mezzanine. For the years ended December 31, 2014 and 2013, the Company received cash proceeds of \$1.3 million and \$0.8 million, respectively, from the sale of equity interests initiated by Penn Mezzanine. The Company recognized impairment charges of \$0.3 million and \$2.5 million related to its Penn Mezzanine debt and equity participations for the years ended December 31, 2013 and 2012, respectively, which are reflected in Other income (loss), net in the Consolidated Statements of Operations.

The Company recognized impairment charges of \$0.1 million, \$0.3 million and \$0.4 million related to its interest in a legacy private equity fund for the years ended December 31, 2014, 2013 and 2012, respectively, which are reflected in

Other income (loss), net in the Consolidated Statement of Operations.

In April 2014, the Company sold its ownership interests in Sotera Wireless, Inc., formerly a cost method partner company. The Company received \$4.2 million in cash proceeds in connection with the transaction and recognized a gain of \$1.5 million, which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2014.

45

---

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In February 2014, Crescendo Bioscience, Inc., formerly a cost method partner company, was acquired by Myriad Genetics, Inc. The Company received \$38.4 million in cash proceeds in connection with the transaction, excluding \$2.9 million, net of claims paid through December 31, 2014, which will be held in escrow until approximately May 2015. The Company recognized a gain of \$27.4 million on the transaction, which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2014.

In February 2014, NuPathe, formerly a fair value method partner company, was acquired by Teva Pharmaceutical Industries Ltd. for \$3.65 per share in cash. In addition to the upfront cash payment, NuPathe shareholders received rights to receive additional cash payments of up to \$3.15 per share if specified milestones are achieved over time. The Company received initial net cash proceeds of \$23.1 million as a result of the transaction. Depending on the achievement of certain milestones, the Company may receive up to an additional \$24.2 million. The Company recognized a gain of \$3.0 million, which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2014. For the years ended December 31, 2013 and 2012, the Company recognized an unrealized loss of \$0.9 million and an unrealized gain of \$11.0 million, respectively, on the mark-to-market of its holdings in NuPathe, which are included in Other income (loss), net in the Consolidated Statements of Operations.

In January 2014, Alverix, Inc., formerly an equity method partner company, was acquired by Becton, Dickinson and Company. The Company received cash proceeds of \$15.7 million, excluding \$1.7 million which will be held in escrow until approximately July 2015. The Company recognized a gain of \$15.7 million on the transaction, which is included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2014.

In the second quarter of 2014, the Company's primary ownership interest in Bridgevine, Inc. decreased from 22.7% to 17.3%. As a result, the Company recognized an unrealized loss of \$0.1 million which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2014.

In December 2013, ThingWorx, Inc., formerly an equity method partner company, was acquired by PTC, Inc. The Company received cash proceeds of \$36.4 million, excluding \$4.1 million which will be held in escrow until December 2015. Depending on the achievement of certain milestones, the Company may receive up to an additional \$6.5 million in connection with the transaction. The Company recognized a gain of \$32.7 million on the transaction which is recorded in Equity income (loss) in the Consolidated Statement of Operations for the year ended December 31, 2013.

The following unaudited summarized balance sheets for PixelOptics at June 30, 2013 and December 31, 2012 and the results of operations for the six months ended June 30, 2013 and 2012, have been compiled from the financial statements of PixelOptics. The results of PixelOptics are reported on a one quarter lag basis.

	As of June 30, 2013 (In thousands)	As of December 31, 2012
Balance Sheets:		
Current assets	\$ 285	\$ 323
Non-current assets	4,588	5,259
Total assets	\$4,873	\$ 5,582
Current liabilities	\$56,721	\$ 34,184
Non-current liabilities	1,818	10,228
Shareholders' equity	(53,666	) (38,830 )

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-K

Total liabilities and shareholders' equity	\$4,873	\$5,582
	Six Months Ended June 30,	Year Ended December 31,
	2013	2012
	(In thousands)	
Results of Operations:		
Revenue	\$800	\$1,092
Operating loss	\$(12,219	) \$(32,225
Net loss	\$(14,838	) \$(35,472

46

---

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following summarized balance sheets for NuPathe at September 30, 2013 and December 31, 2012 and the results of operations for the nine months ended September 30, 2013 and the year ended December 31, 2012, have been compiled from the financial statements of NuPathe.

	As of September 30, 2013 (In thousands)	As of December 31, 2012
<b>Balance Sheets:</b>		
Current assets	\$ 11,281	\$ 23,020
Non-current assets	10,140	7,587
Total assets	\$ 21,421	\$ 30,607
Current liabilities	\$ 8,411	\$ 3,173
Non-current liabilities	5,802	24,421
Shareholders' equity	7,208	3,013
Total liabilities and shareholders' equity	\$ 21,421	\$ 30,607
	Nine Months Ended September 30, 2013 (In thousands)	Year Ended December 31, 2012
<b>Results of Operations:</b>		
Revenue	\$—	\$—
Operating loss	\$(17,238	) \$(21,033
Net loss	\$(30,417	) \$(37,784

The following summarized financial information for partner companies and funds accounted for under the equity method at December 31, 2014 and 2013 and for each of the three years ended December 31, 2014, 2013 and 2012 has been compiled from the financial statements of our respective partner companies and funds and reflects certain historical adjustments. Results of operations of the partner companies and funds are excluded for periods prior to their acquisition and subsequent to their disposition. The financial information below does not include information pertaining to PixelOptics or NuPathe.

	As of December 31, 2014	2013 (In thousands)
<b>Balance Sheets:</b>		
Current assets	\$ 312,621	\$ 221,001
Non-current assets	90,469	90,042
Total assets	\$ 403,090	\$ 311,043
Current liabilities	\$ 163,016	\$ 153,398
Non-current liabilities	80,050	75,324
Shareholders' equity	160,024	82,321
Total liabilities and shareholders' equity	\$ 403,090	\$ 311,043

As of December 31, 2014, the Company's carrying value in equity method partner companies, in the aggregate, exceeded the Company's share of the net assets of such companies by approximately \$94.0 million. Of this excess, \$70.7 million was allocated to goodwill and \$23.3 million was allocated to intangible assets.





Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Results of Operations:			
Revenue	\$320,702	\$273,764	\$191,928
Gross profit	\$102,803	\$123,234	\$90,876
Net loss	\$(108,458)	\$(63,452)	\$(79,662)

## 3. Acquisitions of Ownership Interests in Partner Companies

In December 2014, the Company funded \$0.3 million of a convertible bridge loan to Noble Medical, LLC ("Noble"). The Company had previously deployed \$0.5 million in Noble. Noble has developed a platform to change patient behaviors through digital health interventions at the point of care. The Company accounts for its interest in Noble under the cost method.

In November and May 2014, the Company deployed an aggregate of \$1.3 million into Dabo Health, Inc. The Company had previously deployed \$0.8 million in Dabo Health. Dabo Health provides the healthcare community with an online visualization platform to view and track improvement in key performance metrics, collaborate across hospitals and healthcare systems, and identify and share learnings. The Company accounts for its interest in Dabo Health under the cost method.

In November and March 2014, the Company acquired a 27.8% interest in InfoBionic, Inc. for an aggregate of \$8.0 million. InfoBionic is an emerging digital health company focused on creating patient monitoring solutions for chronic disease management with an initial market focus on cardiac arrhythmias. The Company accounts for its interest in InfoBionic under the equity method.

During 2014, the Company funded an aggregate of \$5.1 million of convertible bridge loans to Quantia, Inc. The Company had previously deployed an aggregate of \$7.5 million in Quantia. Quantia provides a mobile and web-based physician relationship management platform, QuantiaMD, which enables principal participants in healthcare to reach and engage high-value physicians in ways that ultimately reduce costs, save time, and improve quality of care. The Company accounts for its interest in Quantia under the equity method.

In September and July 2014, the Company acquired a 31.9% interest in Trice Medical™ for an aggregate of \$5.0 million. Trice Medical is a diagnostics company focused on micro invasive technologies. The Company accounts for its interest in Trice Medical under the equity method.

In August 2014, the Company acquired a 24.6% interest in Propeller Health, Inc. for \$9.0 million. Propeller Health provides digital solutions to improve respiratory health. The Company accounts for its interest in Propeller Health under the equity method.

In August 2014, the Company acquired a 24.8% interest in Transactis, Inc. for \$9.5 million. Transactis is a provider of electronic billing and payment solutions. The Company accounts for its interest in Transactis under the equity method.

In August 2014, the Company acquired a 29.2% interest in WebLinc, Inc. for \$6.0 million. WebLinc is a commerce platform provider for fast growing online retailers. The Company accounts for its interest in WebLinc under the equity method.

In June 2014, the Company acquired a 27.0% interest in Syapse, Inc. for \$5.8 million. Syapse is a software company that enables healthcare providers to deploy precision medicine programs. The Company accounts for its interest in Syapse under the equity method.

In June and April 2014, the Company deployed an aggregate of \$5.0 million into Putney, Inc. The Company had previously deployed \$10.0 million in Putney. Putney is a pet pharmaceutical company focused on developing high-quality generic prescription medicines for pets. The Company accounts for its interest in Putney under the equity method.

In May and January 2014, the Company deployed an aggregate of \$1.7 million into Lumesis, Inc. The Company had previously deployed an aggregate of \$3.9 million in Lumesis. Lumesis is a technology company focused on providing business efficiency, data and regulatory solutions to the municipal bond marketplace. The Company accounts for its interest in Lumesis under the equity method.

In May 2014, the Company funded \$0.1 million into New York Digital Health Accelerator II in exchange for a 12.5% limited partnership interest in the fund which is run by the New York eHealth Collaborative and the New York City Investment Fund for early- and growth-stage digital health companies that are developing technology products in care coordination, patient

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

engagement, analytics and message alerts for healthcare providers. The Company accounts for its interest in New York Digital Health Accelerator II under the equity method.

In May 2014, the Company deployed an additional \$2.0 million into Clutch Holdings, Inc. ("Clutch"). The Company had previously deployed an aggregate of \$5.5 million in Clutch. Clutch is a leading provider of Consumer Management technology that delivers customer intelligence and customer engagement solutions to premium brands. The Company accounts for its interest in Clutch under the equity method.

In May 2014, the Company funded \$1.1 million of a convertible bridge loan to NovaSom, Inc. The Company had previously deployed \$20.0 million in NovaSom. NovaSom is a medical device company that has developed an FDA-cleared wireless home sleep test for Obstructive Sleep Apnea called AccuSom<sup>®</sup> home sleep test. The Company accounts for its interest in NovaSom under the equity method.

In May 2014, the Company deployed an additional \$7.0 million into MediaMath, Inc. In connection with the May 2014 financing, the Company's primary ownership interest decreased from 22.5% to 20.6%. As a result, the Company recognized an unrealized gain of \$7.0 million which is reflected in Equity income (loss) in the Consolidated Statements of Operations. The Company had previously deployed an aggregate of \$18.6 million in MediaMath. MediaMath is a global technology company that is leading the movement to revolutionize traditional marketing and drive transformative results for marketers through its TerminalOne Marketing Operating System<sup>™</sup>. The Company accounts for its interest in MediaMath under the equity method.

In May 2014, the Company funded \$2.1 million of a convertible bridge loan to AppFirst, Inc. The Company had previously deployed \$6.5 million in AppFirst. AppFirst's technology provides global organizations the ability to achieve unmatched visibility into the real-time relationships between distributed applications and the global assets which support their execution. The Company accounts for its interest in AppFirst under the equity method.

In March 2014, the Company funded \$0.2 million of a convertible bridge loan to Sotera Wireless, Inc. The Company previously deployed \$1.3 million into Sotera Wireless and acquired additional shares from a previous investor for \$1.2 million. In April 2014, the Company sold its equity and debt interests in Sotera Wireless for \$4.2 million. The Company accounted for its interest in Sotera Wireless under the cost method.

In January 2014, the Company deployed an additional \$1.4 million into Hoopla Software, Inc. ("Hoopla"). The Company had previously deployed an aggregate of \$1.8 million in Hoopla. Hoopla provides cloud-based software that helps sales organizations inspire and motivate sales team performance. The Company accounts for its interest in Hoopla under the equity method.

In November 2013, the Company acquired a 22.0% interest in Apprenda, Inc. for \$12.1 million. Apprenda is an enterprise platform-as-a-service company powering the next generation of enterprise software development in public, private and hybrid clouds. The Company accounts for its ownership interest in Apprenda under the equity method.

In September and June 2013, the Company funded an aggregate of \$0.6 million of convertible bridge loans to Alverix, Inc. The Company had previously deployed an aggregate of \$8.8 million in Alverix. In January 2014, the Company sold its equity and debt interests in Alverix for \$15.7 million. The Company accounted for its interest in Alverix under the equity method.

In August 2013, the Company deployed an additional \$1.1 million in DriveFactor, Inc. The Company previously deployed an aggregate of \$3.5 million in DriveFactor. DriveFactor provides auto insurance companies and original equipment manufacturers with a SaaS platform for telematics-driven usage based insurance and rewards programs. The Company accounts for its interest in DriveFactor under the equity method.

In July 2013, the Company funded \$1.0 million of a convertible bridge loan to Crescendo Bioscience, Inc. The Company previously had acquired an interest in Crescendo Bioscience in December 2012 for \$10.0 million. In February 2014, the Company sold its equity interest in Crescendo Bioscience for \$38.4 million. The Company accounted for its interest in Crescendo Bioscience under the cost method.

During the year ended December 31, 2013, the Company funded \$2.3 million for participations in loan and equity interests initiated by Penn Mezzanine. Included in this funding were \$2.2 million for participations in loans and \$0.1

million for participations in equity of the borrower acquired by Penn Mezzanine. During the year ended December 31, 2012, the Company funded \$4.2 million for participations in loan and equity interests initiated by Penn Mezzanine. Included in this funding was \$3.8 million for participations in loans, \$0.3 million for participations in equity of the borrowers, and \$0.1 million for participations in warrants to acquire common stock of the borrowers. During the year ended December 31, 2013, the Company funded an aggregate of \$5.3 million of a convertible bridge loan to PixelOptics. The Company previously deployed an aggregate of \$31.6 million in PixelOptics. The Company fully impaired

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

its ownership interest in PixelOptics in 2013 based on PixelOptics' inability to raise additional capital to continue its operations. The adjusted carrying value of PixelOptics at December 31, 2014 was \$0. The Company accounted for its interest in PixelOptics under the equity method.

In June 2013, the Company deployed an additional \$5.3 million in Medivo, Inc. The Company had previously deployed \$6.3 million in Medivo. Medivo's mission is to improve the health of patients by using lab data and analytics to enable better treatment decisions. The Company accounts for its interest in Medivo under the equity method.

In February 2013, the Company acquired a 27.6% interest in Pneuron Corporation for \$5.0 million. Pneuron enables organizations to rapidly solve business problems through a distributed approach that cuts across data, applications and processes. The Company accounts for its ownership interest in Pneuron under the equity method.

In October and March 2012, the Company deployed an additional \$5.2 million in Good Start Genetics, Inc. The Company had previously deployed \$6.8 million in Good Start Genetics. Good Start Genetics is a commercial-stage molecular genetic information company focused on transforming the standard of care in reproductive medicine by providing physicians and their patients with clinically relevant and actionable information concerning inherited genetic disorders. The Company accounts for its interest in Good Start Genetics under the equity method.

In October 2012, the Company purchased 2,500 preferred stock units and warrants to purchase 2.5 million shares of common stock from NuPathe for \$5.0 million. The preferred stock was converted into 2.5 million shares of common stock of NuPathe in February 2013. The Company previously deployed \$18.3 million in NuPathe. In February 2014, the Company sold its equity interest in NuPathe for \$23.1 million. The Company accounted for its ownership interest in NuPathe under the fair value method.

In September 2012, the Company deployed an additional \$5.0 million in ThingWorx. The Company previously deployed \$5.0 million in ThingWorx in February 2011. In December 2013, the Company sold its equity interest in ThingWorx for \$36.4 million. The Company accounted for its interest in ThingWorx under the equity method.

In August 2012, the Company funded \$0.4 million into New York Digital Health Accelerator in exchange for a 9.4% limited partnership interest in the fund which is run by the New York eHealth Collaborative and the New York City Investment Fund for early- and growth-stage digital health companies that are developing technology products in care coordination, patient engagement, analytics and message alerts for healthcare providers. The Company accounts for its interest in New York Digital Health Accelerator under the equity method.

In February 2012, the Company acquired a 23.1% ownership interest in Spongecell, Inc. for \$10.0 million. Spongecell is a programmatic creative solution that leverages data-driven technology to automate the production and delivery of high-quality ads at scale across display, mobile and video. The Company accounts for its ownership interest in Spongecell under the equity method.

#### 4. Fair Value Measurements

The Company categorizes its financial instruments into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. Financial assets recorded at fair value on the Company's Consolidated Balance Sheets are categorized as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table provides the carrying value and fair value of certain financial assets of the Company measured at fair value on a recurring basis as of December 31, 2014 and 2013:

	Carrying Value (in thousands)	Fair Value Measurement at December 31, 2014		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$111,897	\$111,897	\$—	\$—
Warrant participations	61	—	—	61
Marketable securities—held-to-maturity:				
Commercial paper	\$6,596	\$6,596	\$—	\$—
U.S. Treasury Bills	1,503	1,503	—	—
Government agency bonds	503	503	—	—
Certificates of deposit	36,026	36,026	—	—
Total marketable securities	\$44,628	\$44,628	\$—	\$—

	Carrying Value (In thousands)	Fair Value Measurement at December 31, 2013		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$139,318	\$139,318	\$—	\$—
Ownership interest in common stock of NuPathe	16,874	16,874	—	—
Ownership interest in warrants and options of NuPathe	3,183	—	—	3,183
Warrant participations	1,563	—	—	1,563
Marketable securities—held-to-maturity:				
Commercial paper	\$13,599	\$13,599	\$—	\$—
U.S. Treasury Bills	8,014	8,014	—	—
Government agency bonds	9,945	9,945	—	—
Certificates of deposit	12,780	12,780	—	—
Total marketable securities	\$44,338	\$44,338	\$—	\$—

As of December 31, 2014, \$25.3 million of marketable securities had contractual maturities which were less than one year and \$19.4 million of marketable securities had contractual maturities greater than one year. Held-to-maturity securities are carried at amortized cost, which, due to the short-term maturity of these instruments, approximates fair value using quoted prices in active markets for identical assets or liabilities defined as Level 1 inputs under the fair value hierarchy.

The Company recorded an impairment charge of \$11.2 million related to PixelOptics, formerly an equity method partner company, for the year ended December 31, 2013 measured as the amount by which PixelOptics' carrying value exceeded its estimated fair value. On November 4, 2013, PixelOptics filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The carrying value of the Company's equity ownership in PixelOptics is \$0 and the Company believes it will not recover any of its capital.

The Company's Penn Mezzanine warrant participations are carried at fair value. The value of the Company's holdings in warrant participations is measured by reference to Level 3 inputs. The inputs and valuation techniques used include discounted cash flows and valuation of comparable public companies. The Company recognized a gain of \$1.1 million associated with mark-to-market adjustment related to its warrant participations with Penn Mezzanine for the year ended December 31, 2013, which is reflected in Other income (loss), net in the Consolidated Statements of Operations.

The Company recognized an impairment charge of \$1.8 million related to its ownership interest in the management company of Penn Mezzanine for the year ended December 31, 2013. The inputs and valuation techniques used were primarily an evaluation of the future cash flows associated with the Company's interest in the management company of Penn Mezzanine.

The Company recorded an impairment charge of \$0.3 million related to its Penn Mezzanine debt and equity participations for the year ended December 31, 2013 measured as the amount by which the carrying value of the Company's participation in the debt and equity interests acquired by Penn Mezzanine exceeded their estimated fair values. The fair market values of the Company's participating interests in debt and equity acquired by Penn Mezzanine were determined based on Level



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

3 inputs as defined above. The inputs and valuation techniques used included discounted cash flows and valuations of comparable public companies.

The Company recognized impairment charges of \$0.1 million and \$0.3 million related to a legacy private equity fund for the years ended December 31, 2014 and 2013, respectively, measured as the amount by which the carrying value of the Company's interest in the fund exceeded its estimated fair value. The fair market value of the Company's interest in the fund was determined to be \$1.6 million at December 31, 2014 based on the fair value of the Company's pro rata portion of the fund's net assets, which is a Level 3 input under the fair value hierarchy.

## 5. Convertible Debentures and Credit Arrangements

The carrying values of the Company's convertible senior debentures were as follows:

	As of December 31,	
	2014	2013
	(In thousands)	
Convertible senior debentures due 2018	\$50,563	\$49,478
Convertible senior debentures due 2024	—	441
Convertible senior debentures due 2014	—	29
	50,563	49,948
Less: current portion	—	(470)
Convertible senior debentures — non-current	\$50,563	\$49,478
Convertible Senior Debentures due 2018		

In November 2012, Safeguard issued \$55.0 million principal amount of its 5.25% convertible senior debentures due 2018 (the "2018 Debentures"). Proceeds from the offering were used to repurchase substantially all of the Company's then outstanding 10.125% convertible senior debentures due 2014 (the "2014 Debentures"). The repurchase of the 2014 Debentures resulted in a loss on repurchase of \$7.9 million which is reflected in Other income (loss), net in the Consolidated Statement of Operations for the year ended December 31, 2012. Interest on the 2018 Debentures is payable semi-annually on May 15 and November 15.

Holders of the 2018 Debentures may convert their notes prior to November 15, 2017 at their option only under the following circumstances:

during any calendar quarter commencing after the calendar quarter ending on December 31, 2012, if the last reported sale price of the common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day;

• if the notes have been called for redemption; or

• upon the occurrence of specified corporate events.

On or after November 15, 2017 until the close of business on the second business day immediately preceding the maturity date, holders may convert their notes at any time, regardless of whether any of the foregoing conditions have been met. Upon conversion, the Company will satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at the

Company's election.

The conversion rate of the 2018 Debentures is 55.17 shares of common stock per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$18.13 per share of common stock. The closing price of the Company's common stock at December 31, 2014 was \$19.82.

52

---

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

On or after November 15, 2016, the Company may redeem for cash any of the 2018 Debentures if the last reported sale price of the Company's common stock exceeds 140% of the conversion price for at least 20 trading days during the period of 30 consecutive trading days ending on the trading day before the date that notice of redemption is given, including the last trading day of such period. Upon any redemption of the 2018 Debentures, the Company will pay a redemption price of 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the date of redemption, and additional interest, if any.

The 2018 Debentures holders have the right to require the Company to repurchase the 2018 Debentures if the Company undergoes a fundamental change, which includes the sale of all or substantially all of the Company's common stock or assets; liquidation; dissolution; a greater than 50% change in control; the delisting of the Company's common stock from the New York Stock Exchange or the NASDAQ Global Market (or any of their respective successors); or a substantial change in the composition of the Company's board of directors as defined in the governing agreement. Holders may require that the Company repurchase for cash all or part of their debentures at a fundamental change repurchase price equal to 100% of the principal amount of the debentures to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Because the 2018 Debentures may be settled in cash or partially in cash upon conversion, the Company separately accounts for the liability and equity components of the 2018 Debentures. The carrying amount of the liability component was determined at the transaction date by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option was determined by deducting the fair value of the liability component from the initial proceeds of the 2018 Debentures as a whole. At December 31, 2014, the fair value of the \$55.0 million outstanding 2018 Debentures was approximately \$70.8 million, based on the midpoint of the bid and ask prices as of such date. At December 31, 2014, the carrying amount of the equity component was \$6.4 million, the principal amount of the liability component was \$55.0 million, the unamortized discount was \$4.4 million and the net carrying value of the liability component was \$50.6 million. The Company is amortizing the excess of the face value of the 2018 Debentures over their carrying value over their term as additional interest expense using the effective interest method and recorded \$1.1 million and \$1.0 million of such expense for the years ended December 31, 2014 and 2013, respectively. The effective interest rate on the 2018 Debentures is 8.7%.

**Convertible Senior Debentures due 2024**

In 2004, the Company issued an aggregate of \$150.0 million in face value of convertible senior debentures with a stated maturity date of March 15, 2024 (the "2024 Debentures"). The Company repurchased or redeemed all of the remaining 2024 Debentures in the second quarter of 2014.

**Convertible Senior Debentures due 2014**

In 2010, the Company issued an aggregate of \$46.9 million of the 2014 Debentures. In November 2012, the Company repurchased substantially all of the 2014 Debentures for \$58.7 million plus accrued interest. The remaining \$29 thousand outstanding principal amount of the 2014 Debentures was converted into the Company's common stock in March 2014.

**Credit Arrangements**

The Company is party to a loan agreement with a commercial bank which provides it with a revolving credit facility in the maximum aggregate amount of \$25.0 million in the form of borrowings, guarantees and issuances of letters of credit, subject to a \$20.0 million sublimit. Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as the value of the Company's public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, the Company is required to maintain all of its depository and operating accounts at the bank. The credit facility, as amended December 22, 2014, matures on December 21, 2015. Under the credit facility, the Company provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of

CompuCom Systems, Inc.'s Dallas headquarters which has been required in connection with the sale of CompuCom Systems in 2004. Availability under the Company's revolving credit facility at December 31, 2014 was \$18.7 million.

#### 6. Equity

In February 2014, the Company's Board of Directors authorized the Company, from time to time and depending on market conditions, to repurchase up to \$25.0 million of the Company's outstanding common stock. During the year ended December 31, 2014, the Company repurchased 1.2 million shares at an aggregate cost of \$25.0 million. This share repurchase program was completed in May 2014.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 7. Stock-Based Compensation

## Equity Compensation Plans

In May 2014, the Company's shareholders approved an amendment and restatement of the 2004 Equity Compensation Plan to increase the number of shares of common stock reserved for issuance by 2.2 million shares, to rename the plan the 2014 Equity Compensation Plan, and to make certain other clarifying changes and updates to the plan. The 2014 Equity Compensation Plan has 4.1 million shares authorized for issuance. During 2013, the Company issued 70 thousand options outside of existing plans as inducement awards in accordance with New York Stock Exchange rules. To the extent allowable, service-based options are incentive stock options. Options granted under the plans are at prices equal to or greater than the fair market value at the date of grant. Upon exercise of stock options, the Company issues shares first from treasury stock, if available, then from authorized but unissued shares. At December 31, 2014, the Company had reserved 4.6 million shares of common stock for possible future issuance under its 2014 Equity Compensation Plan, and other previously expired equity compensation plans.

## Classification of Stock-Based Compensation Expense

Stock-based compensation expense was recognized in the Consolidated Statements of Operations as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
General and administrative expense	\$1,935	\$1,821	\$2,014
	\$1,935	\$1,821	\$2,014

At December 31, 2014, the Company had outstanding options that vest based on three different types of vesting schedules:

- 1) market-based;
- 2) performance-based; and
- 3) service-based.

Market-based awards entitle participants to vest in a number of options determined by achievement by the Company of certain target market capitalization increases (measured by reference to stock price increases on a specified number of outstanding shares) over an eight-year period. The requisite service periods for the market-based awards are based on the Company's estimate of the dates on which the market conditions will be met as determined using a Monte Carlo simulation model. Compensation expense is recognized over the requisite service periods using the straight-line method but is accelerated if market capitalization targets are achieved earlier than estimated. During the years ended December 31, 2014, 2013 and 2012, the Company did not issue any market-based awards to employees. During the year ended December 31, 2014, 22 thousand market-based awards vested. No market-based awards vested during 2013 or 2012. During the years ended December 31, 2014, 2013 and 2012, respectively, 155 thousand, 554 thousand and 6 thousand market-based awards were canceled or forfeited. The Company recorded compensation expense related to market-based awards of \$0.0 million, \$0.2 million and \$0.4 million during the years ended December 31, 2014, 2013 and 2012, respectively. There is no further expense to be recognized related to market-based awards. Depending on the Company's stock performance, the maximum number of unvested shares at December 31, 2014 attainable under these grants was 226 thousand shares.

Performance-based awards entitle participants to vest in a number of awards determined by achievement by the Company of target capital returns based on net cash proceeds received by the Company upon the sale, merger or other exit transaction of certain identified partner companies. Vesting may occur, if at all, once per year. The requisite service periods for the performance-based awards are based on the Company's estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Compensation expense is recognized over the requisite service periods using the straight-line method but is accelerated if capital return targets are achieved earlier than estimated. During the years ended December 31, 2014, 2013 and 2012, respectively, the Company issued 8 thousand, 67

thousand and 180 thousand performance-based awards to employees. During the years ended December 31, 2014, 2013 and 2012, 7 thousand, 0 thousand and 14 thousand performance-based awards vested. During the years ended December 31, 2014, 2013 and 2012, respectively, 16 thousand, 398 thousand and 6 thousand performance-based awards were canceled or forfeited. The Company recorded compensation expense related to performance-based awards of \$0.1 million, \$0.0 million and \$0.2 million for the years ended December 31, 2014, 2013 and

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2012, respectively. The maximum number of unvested shares at December 31, 2014 attainable under these grants was 462 thousand shares.

All other outstanding options are service-based awards that generally vest over four years after the date of grant and expire eight years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period for service-based awards is the period over which the award vests. During the years ended December 31, 2014, 2013 and 2012, respectively, the Company issued 23 thousand, 52 thousand and 113 thousand service-based awards to employees. During the years ended December 31, 2014, 2013 and 2012, respectively, 8 thousand, 14 thousand and 1 thousand service-based awards were canceled or forfeited. The Company recorded compensation expense related to these awards of \$0.3 million, \$0.5 million and \$0.7 million during the years ended December 31, 2014, 2013 and 2012, respectively.

The fair value of the Company's stock-based awards to employees was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate is based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected term of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility measured using weekly price observations of the Company's common stock for a period equal to the stock option's expected term. Assumptions used in the valuation of options granted in each period were as follows:

	Year Ended December 31,			
	2014	2013	2012	
<b>Service-Based Awards</b>				
Dividend yield	0	% 0	% 0	%
Expected volatility	32	% 52	% 56	%
Average expected option life	5 years	5 years	5 years	
Risk-free interest rate	1.7	% 1.3	% 0.8	%
	Year Ended December 31,			
	2014	2013	2012	
<b>Performance-Based Awards</b>				
Dividend yield	0	% 0	% 0	%
Expected volatility	32	% 46	% 55	%
Average expected option life	4.8 years	4.7 years	5.5 years	
Risk-free interest rate	1.7	% 1.8	% 0.8	%

The weighted-average grant date fair value of options issued by the Company during the years ended December 31, 2014, 2013 and 2012 was \$7.02, \$6.83 and \$7.45 per share, respectively.





Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Option activity of the Company is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2011	3,218	\$ 10.32		
Options granted	293	14.91		
Options exercised	(211 )	10.22		
Options canceled/forfeited	(13 )	13.48		
Outstanding at December 31, 2012	3,287	10.72		
Options granted	120	15.61		
Options exercised	(612 )	8.44		
Options canceled/forfeited	(967 )	9.38		
Outstanding at December 31, 2013	1,828	12.51		
Options granted	31	19.38		
Options exercised	(365 )	11.48		
Options canceled/forfeited	(178 )	13.58		
Outstanding at December 31, 2014	1,316	12.81	3.99	\$ 9,402
Options exercisable at December 31, 2014	537	12.13	2.54	4,201
Options vested and expected to vest at December 31, 2014	964	12.33	2.65	7,350
Shares available for future grant	2,638			

The total intrinsic value of options exercised for the years ended December 31, 2014, 2013 and 2012 was \$2.4 million, \$3.9 million and \$1.2 million, respectively.

At December 31, 2014, total unrecognized compensation cost related to non-vested service-based stock options was \$0.6 million. That cost is expected to be recognized over a weighted-average period of 2.6 years.

At December 31, 2014, the Company had recognized all compensation cost related to market-based stock options.

At December 31, 2014, total unrecognized compensation cost related to non-vested performance-based stock options was \$0.5 million. That cost is expected to be recognized over a weighted-average period of 3.2 years but would be accelerated if stock price targets are achieved earlier than estimated.

During the years ended December 31, 2014, 2013 and 2012, respectively, the Company issued 119 thousand, 83 thousand and 90 thousand performance-based stock units to employees which vest based on achievement by the Company of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies, as described above related to performance-based option awards. Performance-based stock units represent the right to receive shares of the Company's common stock, on a one-for-one basis. During the years ended December 31, 2014, 2013 and 2012, respectively, the Company issued 59 thousand, 28 thousand and 30 thousand restricted shares to employees. The 2013 and 2012 restricted shares issued vest 25% on the first anniversary of grant and the remaining 75% thereafter in equal monthly installments over the next three years. The 2014 restricted shares vest 25% on March 1, 2016 and in twelve quarterly installments thereafter, commencing on March 15, 2016.

Under the 2014 performance-based award plan, once performance-based awards are fully vested, participants are entitled to receive cash payments equal to their performance grant values in excess of target capital returns described above.

During the years ended December 31, 2014, 2013, and 2012, respectively, the Company issued 46 thousand, 48 thousand and 25 thousand deferred stock units to non-employee directors for annual service grants or fees earned during the preceding quarter. Deferred stock units issued to directors in lieu of directors fees are 100% vested at the

grant date; matching deferred stock units equal to 25% of directors' fees deferred vest one year following the grant date or, if earlier, upon reaching age 65. Deferred stock units are payable in stock on a one-for-one basis. Payments related to the deferred stock units are generally distributable following termination of employment or service, death or permanent disability.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

During the years ended December 31, 2014, 2013 and 2012, the Company granted 8 thousand, 8 thousand and 5 thousand shares, respectively, to members of its advisory boards, and recorded compensation expense of \$0.1 million in each year related to these awards.

Total compensation expense for deferred stock units, performance-based stock units and restricted stock was approximately \$1.5 million, \$1.1 million and \$0.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. Unrecognized compensation expense related to deferred stock units, performance stock units and restricted stock at December 31, 2014 was \$4.1 million. The total fair value of deferred stock units, performance stock units and restricted stock vested during the years ended December 31, 2014, 2013 and 2012 was \$1.4 million, \$1.1 million and \$0.9 million, respectively.

Deferred stock unit, performance-based stock unit and restricted stock activity are summarized below:

	Shares	Weighted Average Grant Date Fair Value		
	(In thousands)			
Unvested at December 31, 2012	347		\$13.85	
Granted	167		17.45	
Vested	(67	)	16.73	
Forfeited	(130	)	13.35	
Unvested at December 31, 2013	317		15.34	
Granted	231		19.67	
Vested	(78	)	17.91	
Forfeited	(15	)	15.61	
Unvested at December 31, 2014	455		17.09	
8. Other Income (Loss), Net		Year Ended December 31,		
		2014	2013	2012
		(In thousands)		
Loss on repurchase of convertible debentures		\$—	\$—	\$(7,895 )
Gain on sale of ownership interests in companies and funds, net		31,835	—	9,004
Gain (loss) on mark-to-market of holdings in fair value method partner companies		—	(915	) 11,035
Impairment charges on cost method partner companies and private equity funds	(54	)	(250	) (350 )
Gain on mark-to-market of Penn Mezzanine warrants	—		1,146	264
Impairment charges on Penn Mezzanine loan and equity participations	—		(295	) (2,489 )
Other than temporary impairment on available-for-sale securities	(14	)	(43	) (260 )
Other	(110	)	740	29
		\$31,657	\$383	\$9,338

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 9. Income Taxes

The federal and state provision (benefit) for income taxes was \$0.0 million for the years ended December 31, 2014, 2013 and 2012.

The total income tax provision (benefit) differed from the amounts computed by applying the U.S. federal income tax rate of 35% to net income (loss) before income taxes as a result of the following:

	Year Ended December 31,					
	2014		2013		2012	
Statutory tax (benefit) expense	(35.0	)%	(35.0	)%	(35.0	)%
Increase (decrease) in taxes resulting from:						
Stock-based compensation	1.5		0.2		0.2	
Nondeductible expenses	2.9		0.1		0.1	
Valuation allowance	30.6		34.7		34.7	
	0.0	%	0.0	%	0.0	%

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets were as follows:

	As of December 31,	
	2014	2013
	(In thousands)	
Deferred tax asset:		
Carrying values of partner companies and other holdings	\$68,557	\$59,045
Tax loss and credit carryforwards	76,766	82,403
Accrued expenses	1,484	2,043
Stock-based compensation	4,761	5,005
Other	1,353	1,560
	152,921	150,056
Valuation allowance	(152,921	) (150,056
Net deferred tax asset	\$—	\$—

As of December 31, 2014, the Company and its subsidiaries consolidated for tax purposes had federal net operating loss carryforwards of approximately \$208.2 million. These carryforwards expire as follows:

	Total (In thousands)
2015	\$—
2016	—
2017	—
2018	—
2019 and thereafter	208,201
	\$208,201

In assessing the recoverability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has determined that it is more likely than not that certain future tax benefits may not be realized as a result of current and future income. Accordingly, a valuation allowance has been recorded against substantially all of the Company's deferred tax assets.

The Company recognizes in its Consolidated Financial Statements the impact of a tax position if that position is more likely than not to be sustained upon examination, based on the technical merits of the position. All uncertain tax positions relate to unrecognized tax benefits that would impact the effective tax rate when recognized.



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company does not expect any material increase or decrease in its income tax expense, in the next twelve months, related to examinations or changes in uncertain tax positions.

There were no changes in the Company's uncertain tax positions for the years ended December 31, 2014, 2013 and 2012.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Tax years 2011 and forward remain open for examination for federal tax purposes and the Company's more significant state tax jurisdictions. To the extent utilized in future years' tax returns, net operating loss carryforwards at December 31, 2014 will remain subject to examination until the respective tax year is closed. The Company recognizes penalties and interest accrued related to income tax liabilities in income tax benefit (expense) in the Consolidated Statements of Operations.

## 10. Net Loss Per Share

The calculations of net loss per share were:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Basic:			
Net loss	\$(5,149 )	\$(35,525 )	\$(39,362 )
Weighted average common shares outstanding	20,975	21,362	20,974
Net loss per share	\$(0.25 )	\$(1.66 )	\$(1.88 )
Diluted:			
Net loss	\$(5,149 )	\$(35,525 )	\$(39,362 )
Weighted average common shares outstanding	20,975	21,362	20,974
Net loss per share	\$(0.25 )	\$(1.66 )	\$(1.88 )

Basic and diluted average common shares outstanding for purposes of computing net income (loss) per share includes outstanding common shares and vested deferred stock units (DSUs).

If a consolidated or equity method partner company has dilutive stock options, unvested restricted stock, DSUs, or warrants, diluted net income (loss) per share is computed by first deducting from net income (loss) the income attributable to the potential exercise of the dilutive securities of the partner company from net income (loss). Any impact is shown as an adjustment to net income (loss) for purposes of calculating diluted net income (loss) per share. Diluted loss per share for the years ended December 31, 2014, 2013 and 2012 do not reflect the following potential shares of common stock that would have an anti-dilutive effect or have unsatisfied performance or market conditions:

At December 31, 2014, 2013 and 2012, options to purchase 1.3 million, 1.8 million and 3.3 million shares of common stock, respectively, at prices ranging from \$7.14 to \$19.95 per share, \$3.93 to \$18.80 per share and \$3.93 to \$18.80 per share, respectively, were excluded from the calculation.

At December 31, 2014, unvested restricted stock units, performance-based stock units and DSUs convertible into 0.5 million shares of stock were excluded from the calculations. At December 31, 2013 and 2012, unvested restricted stock units, performance-based stock units and DSUs convertible into 0.3 million shares of stock were excluded from the calculations.

For the years ended December 31, 2014, 2013, and 2012, 3.0 million shares of common stock representing the effect of assumed conversion of the 2018 Debentures were excluded from the calculations.



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

11. Related Party Transactions

In May 2001, the Company entered into a \$26.5 million loan agreement with Warren V. Musser, a former Chairman and Chief Executive Officer of the Company. Through December 31, 2014, the Company recognized impairment charges against the loan of \$15.7 million. Since 2001 and through December 31, 2014, the Company has received a total of \$17.0 million in payments on the loan. The carrying value of the loan at December 31, 2014 was zero. The Company received payments of \$0.1 million on this loan agreement in 2014 and did not receive any payments on this loan agreement in 2013 or 2012.

In the normal course of business, the Company's directors, officers and employees hold board positions with partner and other companies in which the Company has a direct or indirect ownership interest.

12. Commitments and Contingencies

The Company and its partner companies are involved in various claims and legal actions arising in the ordinary course of business. In the current opinion of the Company, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations, however, no assurance can be given as to the outcome of these actions, and one or more adverse rulings could have a material adverse effect on the Company's consolidated financial position and results of operations or that of its partner companies. The Company records costs associated with legal fees as such services are rendered.

The Company leases its corporate headquarters under a lease expiring in 2015 and office equipment under leases expiring at various dates to 2017. Total rental expense under operating leases was \$0.6 million for each of the years ended December 31, 2014, 2013 and 2012. At December 31, 2014, the Company has future minimum lease payments of \$0.4 million for the year ending December 31, 2015 under non-cancelable operating leases with initial or remaining terms of one year or more.

The Company had outstanding guarantees of \$3.8 million at December 31, 2014 which related to one of the Company's private equity holdings.

The Company also has committed capital of approximately \$0.2 million to other private equity funds. These commitments are expected to be funded during the next 12 months.

Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner of a private equity fund ("clawback"). The maximum clawback the Company could be required to return due to our general partner interest is approximately \$1.3 million, of which \$1.0 million was reflected in Accrued expenses and other current liabilities and \$0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets at December 31, 2014. The Company's ownership in the fund is 19%. The clawback liability is joint and several; therefore the Company may be required to fund the clawback for other general partners should they default. The Company believes its potential liability due to the possibility of default by other general partners is remote.

In October 2001, the Company entered into an agreement with a former Chairman and Chief Executive Officer of the Company, to provide for annual payments of \$0.65 million per year and certain health care and other benefits for life. The related current liability of \$0.8 million was included in Accrued expenses and other current liabilities and the long-term portion of \$2.5 million was included in Other long-term liabilities on the Consolidated Balance Sheet at December 31, 2014.

The Company provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters as required in connection with the sale of CompuCom Systems in 2004.

The Company has agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or an employee terminates his employment for "good reason." The maximum aggregate exposure under the agreements was approximately \$3.0 million at December 31, 2014.

13. Supplemental Cash Flow Information



During the years ended December 31, 2014 and 2013, the Company converted \$2.7 million and \$1.8 million, respectively, of advances to partner companies into ownership interests in partner companies. Cash paid for interest in the years ended December 31, 2014 and 2013 was \$2.9 million. Cash paid for interest in the year ended December 31, 2012 was \$0.8 million. In addition, during the year ended December 31, 2012, interest payments of \$4.8 million on the 2014 Debentures were made using restricted cash equivalents. Cash paid for taxes in the years ended December 31, 2014, 2013 and 2012 was \$0.0 million in each year.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 14. Operating Segments

Effective December 31, 2014, the Company operates in two reportable segments: Healthcare and Technology. The Company no longer presents the operations of Penn Mezzanine as a separate reportable operating segment because management of the Company does not separately evaluate Penn Mezzanine financial results for purposes of making operating decisions and assessing performance. The results of Penn Mezzanine are now reported within corporate operations under Other Items. The amounts, discussion, and presentation of the Company's reportable segments reflect this restatement for all years presented.

As of December 31, 2014, the Company held interests in 24 non-consolidated partner companies which are included in the Healthcare and Technology segments. The Company's active partner companies as of December 31, 2014 by segment were as follows for the years ended December 31, 2014, 2013 and 2012:

## Healthcare

Partner Company	Safeguard Primary Ownership as of December 31,			Accounting Method
	2014	2013	2012	
AdvantEdge Healthcare Solutions, Inc.	40.1%	40.1%	40.2%	Equity
Dabo Health, Inc.	15.3%	8.0%	NA	Cost
Good Start Genetics, Inc.	29.9%	30.0%	30.0%	Equity
InfoBionic, Inc.	27.8%	NA	NA	Equity
Medivo, Inc.	34.5%	34.5%	30.0%	Equity
NovaSom, Inc.	31.7%	30.3%	30.3%	Equity
Propeller Health, Inc.	24.6%	NA	NA	Equity
Putney, Inc.	28.3%	27.6%	27.6%	Equity
Quantia, Inc.	42.3%	35.1%	NA	Equity
Syapse, Inc.	27.0%	NA	NA	Equity
Trice Medical™	31.9%	NA	NA	Equity

## Technology

Partner Company	Safeguard Primary Ownership as of December 31,			Accounting Method
	2014	2013	2012	
AppFirst, Inc.	34.3%	34.3%	35.0%	Equity
Apprenda, Inc.	21.6%	22.0%	NA	Equity
Beyond.com, Inc.	38.2%	38.2%	38.3%	Equity
Bridgevine, Inc.	17.2%	22.7%	21.7%	Cost (1)
Clutch Holdings, Inc.	29.6%	24.0%	NA	Equity
DriveFactor, Inc.	40.6%	40.6%	35.4%	Equity
Hoopla Software, Inc.	25.6%	25.3%	25.3%	Equity
Lumesis, Inc.	45.7%	44.2%	31.6%	Equity
MediaMath, Inc.	20.7%	22.5%	22.2%	Equity
Pneuron Corporation	27.6%	27.6%	NA	Equity
Spongecell, Inc.	23.0%	23.0%	23.1%	Equity
Transactis, Inc.	24.8%	NA	NA	Equity
WebLinc, Inc.	29.2%	NA	NA	Equity

(1) In the second quarter of 2014, the Company's ownership interest in Bridgevine decreased from 22.7% to 17.3%, below the

threshold at which the Company believes it exercises significant influence. Accordingly, the Company changed its method of accounting for Bridgevine from the equity method to the cost method.

Results of the Healthcare and Technology segments reflect the equity income (loss) of their respective equity method partner companies, other income (loss) associated with fair value method and cost method partner companies and the gains or losses on the sale of the interests in their respective partner companies.

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Management evaluates the Healthcare and Technology segments' performance based on net income (loss) which is impacted by the number of partner companies accounted for under the equity method, the Company's voting ownership percentage in these partner companies and the net results of operations of these partner companies, any impairment charges and gain (loss) on the sale of the interests in equity and cost method partner companies. Other Items include certain expenses which are not identifiable to the operations of the Company's operating segments. Other Items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, including legal and finance, interest income, interest expense and other income (loss), equity income (loss) related to certain private equity fund ownership interests and income taxes. Other items also include interest earned on mezzanine loans, gain (loss) on the mark-to-market of our warrant participations, and impairment on debt and equity participation interests in which the Company participates with Penn Mezzanine as well as equity income (loss) associated with the Company's interest in the management company and general partner of Penn Mezzanine.

As of December 31, 2014 and 2013, all of the Company's assets were located in the United States.

Segment assets in Other Items included primarily cash, cash equivalents, and marketable securities of \$156.5 million and \$183.7 million at December 31, 2014 and 2013, respectively.

The following represents segment data from operations:

	For the Year Ended December 31, 2014				
	Healthcare	Technology	Total Segments	Other Items	Total
	(In thousands)				
Operating loss	\$—	\$—	\$—	\$(18,970)	\$(18,970)
Other income (loss), net	31,820	—	31,820	(163)	31,657
Interest income	—	—	—	1,901	1,901
Equity loss	(3,944)	(10,831)	(14,775)	(560)	(15,335)
Net income (loss)	27,876	(10,831)	17,045	(22,194)	(5,149)
Segment Assets:					
December 31, 2014	62,292	88,408	150,700	167,754	318,454
	For the Year Ended December 31, 2013				
	Healthcare	Technology	Total Segments	Other Items	Total
	(In thousands)				
Operating loss	\$—	\$—	\$—	\$(21,644)	\$(21,644)
Other income (loss), net	(857)	—	(857)	1,240	383
Interest income	—	—	—	2,646	2,646
Equity income (loss)	(31,706)	20,899	(10,807)	(1,800)	(12,607)
Net income (loss)	(32,563)	20,899	(11,664)	(23,861)	(35,525)
Segment Assets:					
December 31, 2013	74,939	69,471	144,410	201,586	345,996
	For the Year Ended December 31, 2012				
	Healthcare	Technology	Total Segments	Other Items	Total
	(In thousands)				
Operating loss	\$—	\$—	\$—	\$(19,473)	\$(19,473)

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-K

Other income (loss), net	19,884	—	19,884	(10,546	) 9,338	
Interest income	—	—	—	2,926	2,926	
Equity income (loss)	(26,544	) (119	) (26,663	) 146	(26,517	)
Net loss	(6,660	) (119	) (6,779	) (32,583	) (39,362	)

62

---

Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Net loss from Other Items was as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Corporate operations	\$ (22,194	) \$ (23,861	) \$ (32,583
Income tax benefit (expense)	—	—	—
	\$ (22,194	) \$ (23,861	) \$ (32,583

## 15. Selected Quarterly Financial Information (Unaudited)

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2014:				
General and administrative expense	\$ 5,239	\$ 5,069	\$ 4,177	\$ 4,485
Operating loss	(5,239	) (5,069	) (4,177	) (4,485
Other income (loss), net	30,374	1,452	(246	) 77
Interest income	470	542	482	407
Interest expense	(1,094	) (1,098	) (1,103	) (1,107
Equity income (loss)	6,808	(3,175	) (8,962	) (10,006
Net income (loss) before income taxes	31,319	(7,348	) (14,006	) (15,114
Income tax benefit (expense)	—	—	—	—
Net income (loss)	\$ 31,319	\$ (7,348	) \$ (14,006	) \$ (15,114
Net income (loss) per share (a)				
Basic	\$ 1.44	\$ (0.35	) \$ (0.68	) \$ (0.73
Diluted	\$ 1.29	\$ (0.35	) \$ (0.68	) \$ (0.73
2013:				
General and administrative expense	\$ 5,374	\$ 6,715	\$ 4,835	\$ 4,720
Operating loss	(5,374	) (6,715	) (4,835	) (4,720
Other income (loss), net	757	(2,724	) (4,224	) 6,574
Interest income	734	790	572	550
Interest expense	(1,069	) (1,074	) (1,077	) (1,083
Equity income (loss)	(6,987	) (18,400	) (9,866	) 22,646
Net income (loss) before income taxes	(11,939	) (28,123	) (19,430	) 23,967
Income tax benefit (expense)	—	—	—	—
Net income (loss)	\$ (11,939	) \$ (28,123	) \$ (19,430	) \$ 23,967
Net income (loss) per share (a)				
Basic	\$ (0.57	) \$ (1.33	) \$ (0.90	) \$ 1.10
Diluted	\$ (0.57	) \$ (1.33	) \$ (0.90	) \$ 0.99

Per share amounts for the quarters have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average common shares outstanding during each period. Additionally, in regard to diluted per share amounts only, quarterly amounts may not add to the annual amounts because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive, and because of the adjustments to net income (loss) for the dilutive effect of partner company common stock equivalents and convertible securities.



Table of Contents

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

16. Subsequent Events

On February 11, 2015, the Company entered into an agreement effective as of February 2, 2015 for the lease of the Company's new principal executive offices to be located at 170 Radnor Chester Road, Radnor, Pennsylvania. The term of the lease is estimated to commence on November 1, 2015, the date the Company expects to take possession of the leased property, and will extend through April 30, 2026.

64

---



Table of Contents

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including the Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures as of December 31, 2014 are functioning effectively.

Our business strategy involves the acquisition of new businesses on an ongoing basis, most of which are young, growing companies. Typically, these companies historically have not had all of the controls and procedures they would need to comply with the requirements of the Exchange Act and the rules promulgated thereunder. These companies also frequently develop new products and services. Following an acquisition, or the launch of a new product or service, we work with the company’s management to implement all necessary controls and procedures.

(b) Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014. In making this assessment, management used the framework established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of December 31, 2014, the Company’s internal control over financial reporting was effective.

Our independent registered public accounting firm, KPMG LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2014. Their opinion on the effectiveness of our internal control over financial reporting and their opinion on our Consolidated Financial Statements are included in Item 8 in this Form 10-K.

(c) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

65

---

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated by reference to the portions of our Definitive Proxy Statement entitled “Election of Directors,” “Corporate Governance and Board Matters” and “Section 16(a) Beneficial Ownership Reporting Compliance.” Information about our Executive Officers is included in Annex to Part I above.

Item 11. Executive Compensation

Incorporated by reference to the portions of our Definitive Proxy Statement entitled “Compensation Discussion and Analysis,” “Compensation Committee Report” and “Executive Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Our equity compensation plans provide a broad-based program designed to attract and retain talent while creating alignment with the long-term interests of our shareholders. Employees at all levels participate in our equity compensation plans. In addition, members of our Board and members of our Advisory Board receive equity grants for their service on our Board and Advisory Board, respectively. Members of our Board also receive deferred stock unit (“DSU”) awards and are eligible to defer directors’ fees and receive DSUs with a value equal to the directors’ fees deferred and matching DSUs equal to 25% of the directors’ fees deferred.

Our 2001 Associates Equity Compensation Plan (“2001 Plan”) provided for the grant of nonqualified stock options, stock appreciation rights, restricted stock, performance units, and other stock-based awards to employees, consultants or advisors of Safeguard and its subsidiaries, provided that no grants could be made under this plan to executive officers or directors of Safeguard. Under the NYSE rules that were in effect at the time this plan was adopted in 2001, shareholder approval of the plan was not required. Except for the persons eligible to participate in the 2001 Plan and the inability to grant incentive stock options under the 2001 Plan, the terms of the 2001 Plan are substantially the same as the other equity compensation plans approved by our shareholders (which are described herein or have been described in previous filings).

A total of 900,000 shares of our common stock were authorized for issuance under the 2001 Plan. At December 31, 2014, 171,224 shares were subject to outstanding options and performance stock units (“PSUs”), no shares were available for future issuance, and 543,707 shares had been issued under the 2001 Plan. The 2001 Plan expired by its terms on February 21, 2011. Equity grants previously awarded under this plan that have not yet expired or otherwise become unexercisable continue to be administered in accordance with the terms of the grants. Any portions of outstanding equity grants under the 2001 Plan that expire or become unexercisable for any reason shall be canceled and shall be unavailable for future issuance.

During 2007, 2008, 2011 and 2013, the Compensation Committee granted “employee inducement” awards to four newly hired executives. The awards were granted outside of Safeguard’s existing equity compensation plans in accordance with NYSE rules and consisted of options to purchase up to an aggregate of 571,666 shares of Safeguard common stock. All of these “employee inducement” awards were granted with a per share exercise price equal to the average of the high and low prices of Safeguard common stock on the grant date. 455,416 of such awards were granted with an eight-year term and 116,250 of such awards were granted with a 10-year term. Of the shares underlying the “employee inducement” awards that were outstanding at December 31, 2014, 142,916 shares are subject to time-based vesting, with an aggregate of 33,543 shares vesting on the first anniversary of the grant date and 100,623 shares vesting in 36 equal monthly installments thereafter, and 2,188 shares vesting on the second anniversary of the grant date and 6,562 shares vesting in 36 equal monthly installments thereafter. Of the remaining shares underlying the “employee inducement” awards that were outstanding at December 31, 2014, 312,500 vest incrementally based upon the achievement of certain specified levels of increase in Safeguard’s stock price and 116,250 vest based on the aggregate cash produced as a result of monetizations involving certain of our partner companies relative to the amount of cash deployed in connection with such partner companies. With the exception of the market-based vesting or capital-return based vesting provisions, the terms and provisions of the employee inducement awards are substantially the same as options previously awarded to other executives under Safeguard’s equity compensation plans.

The following table provides information as of December 31, 2014 about the securities authorized for issuance under our equity compensation plans. The material features of our equity compensation plans are described in Note 7 to the Consolidated Financial Statements filed as part of our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

## Equity Compensation Plan Information

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)(a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2)(b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))(c)
Equity compensation plans approved by security holders (3)	1,201,933	\$13.9482	2,637,940
Equity compensation plans not approved by security holders (4)	742,890	\$11.7935	—
Total	1,944,823	\$12.8049	2,637,940

(1) Includes a total of 529,337 shares underlying PSUs and DSUs awarded for no consideration and 99,633 shares underlying DSUs awarded to directors in lieu of all or a portion of directors' fees.

(2) The weighted average exercise price calculation excludes 628,970 shares underlying outstanding DSUs and PSUs included in column (a) which are payable in stock, on a one-for-one basis.

(3) Represents awards granted under the 1999 Equity Compensation Plan and the 2014 Plan and shares available for issuance under the 2014 Plan.

(4) Includes awards granted under the 2001 Plan and 571,666 "employee inducement" awards.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference to the portions of the Definitive Proxy Statement entitled "Corporate Governance Principles and Board Matters – 'Board Independence' and 'Review and Approval of Transactions with Related Persons.'"

## Item 14. Principal Accountant Fees and Services

Incorporated by reference to the portion of the Definitive Proxy Statement entitled "Independent Public Accountant – Audit Fees."

Table of Contents

## PART IV

## Item 15. Exhibits and Financial Statement Schedules

## (a) Consolidated Financial Statements and Schedules

Incorporated by reference to Item 8 of this Report on Form 10-K.

## (b) Exhibits

The exhibits required to be filed as part of this Report are listed in the exhibit index below.

## (c) Financial Statement Schedules

The financial statements as of and for the years ended December 31, 2012 and 2011 and as of and for the six months ended June 30, 2013 of PixelOptics, Inc., a former equity method partner company, are included in this Form 10-K pursuant to Rule 3-09 of Regulation S-X.

The financial statements of PixelOptics for periods subsequent to June 30, 2013 are not being filed with this Form 10-K because they are not available. PixelOptics filed for Chapter 7 bankruptcy on November 4, 2013 and released all employees. The financial statements of PixelOptics as of and for the year ended December 31, 2012 are unaudited because PixelOptics does not have any employees to provide necessary representations and respond to inquiries from PixelOptics' auditor.

## Exhibits

The following is a list of exhibits required by Item 601 of Regulation S-K filed as part of this Report. For exhibits that previously have been filed, the Registrant incorporates those exhibits herein by reference. The exhibit table below includes the Form Type and Filing Date of the previous filing and the location of the exhibit in the previous filing which is being incorporated by reference herein. Documents which are incorporated by reference to filings by parties other than the Registrant are identified in footnotes to this table.

Exhibit Number	Description	Incorporated Filing Reference	
		Form Type & Filing Date	Original Exhibit Number
3.1.1	Seconded Amended and Restated Articles of Incorporation of Safeguard Scientifics, Inc.	Form 8-K 10/25/07	3.1
3.1.2	Amendment to Seconded Amended and Restated Articles of Incorporation of Safeguard Scientifics, Inc.	Form 8-K 8/27/09	3.1
3.1.3	Statement with Respect to Shares	Form 10-Q 4/25/2014	3.1
3.2	Amended and Restated By-laws of Safeguard Scientifics, Inc.	Form 8-K 10/25/07	3.2
4.1	Indenture, dated as of November 19, 2012, between Safeguard Scientifics, Inc. and U.S. Bank National Association, as trustee	Form 8-K 11/20/12	4.1
10.1*	Safeguard Scientifics, Inc. 1999 Equity Compensation Plan, as amended and restated on October 21, 2008	Form 10-Q 11/6/08	10.4
10.2	Safeguard Scientifics, Inc. 2001 Associates Equity Compensation Plan, as amended and restated on October 21, 2008	Form 10-Q 11/6/08	10.5
10.3*	Safeguard Scientifics, Inc. 2014 Equity Compensation Plan, as amended and restated on March 5, 2014	Form 10-Q 7/25/14	10.1
10.4*	Safeguard Scientifics, Inc. Executive Deferred Compensation Plan (amended and restated as of January 1, 2009)	Form 10-K 3/19/09	10.4
10.5*	Management Incentive Plan	Form 8-K 4/25/08	10.1

Edgar Filing: SAFEGUARD SCIENTIFICS INC - Form 10-K

10.6*	Compensation Summary — Non-employee Directors	Form 10-K 3/7/14	10.6
10.7.1*	Agreement by and between Safeguard Scientifics, Inc. and Stephen Zarrilli dated as of May 28, 2008	Form 8-K 5/29/08	10.1
10.7.2*	Letter Amendment dated December 9, 2008, to Agreement by and between Safeguard Scientifics, Inc. and Stephen Zarrilli dated as of May 28, 2008	Form 10-K 3/19/09	10.9.2
10.7.3*	Compensation Agreement by and between Safeguard Scientifics, Inc. and Stephen T. Zarrilli dated December 28, 2012	Form 10-K 3/11/13	10.9.3

68

---

Table of Contents

10.8.1*	Amended and Restated Letter Agreement by and between Safeguard Scientifics, Inc. and Brian J. Sisko dated December 3, 2008	Form 10-K 3/19/09	10.12
10.8.2*	Compensation Agreement by and between Safeguard Scientifics, Inc. and Brian J. Sisko dated December 14, 2009	Form 10-K 3/16/10	10.11.2
10.8.3*	Compensation Agreement by and between Safeguard Scientifics, Inc. and Brian J. Sisko dated December 28, 2012	Form 10-K 3/11/13	10.10.3
10.9.1*	Compensation Agreement by and between Safeguard Scientifics, Inc. and Jeffrey B. McGroarty dated January 6, 2014	Form 8-K 1/7/14	10.1
10.10.1*	Key Employee Compensation Recoupment Policy	Form 10-Q 7/26/13	10.2
10.11.1	Amended and Restated Loan and Security Agreement dated as of May 27, 2009, by and among Silicon Valley Bank, Safeguard Scientifics, Inc., Safeguard Delaware, Inc. and Safeguard Scientifics (Delaware), Inc.	Form 8-K 5/28/09	10.1
10.11.2	Joinder and First Loan Modification Agreement dated as of December 31, 2010, by and among Silicon Valley Bank, Safeguard Scientifics, Inc., Safeguard Delaware, Inc., Safeguard Scientifics (Delaware), Inc. and Safeguard Delaware II, Inc.	Form 8-K 1/4/11	10.1
10.11.3	Second Loan Modification Agreement dated as of April 29, 2011, by and among Silicon Valley Bank, Safeguard Scientifics, Inc., Safeguard Delaware, Inc., Safeguard Scientifics (Delaware), Inc. and Safeguard Delaware II, Inc.	Form 10-Q 7/28/11	10.2
10.11.4	Third Loan Modification Agreement dated as of December 21, 2012, by and among Silicon Valley Bank, Safeguard Scientifics, Inc., Safeguard Delaware, Inc., Safeguard Delaware II, Inc. and Safeguard Scientifics (Delaware), Inc.	Form 8-K 12/27/12	10.1
10.11.5	Fourth Loan Modification Agreement dated as of December 22, 2014, by and among Silicon Valley Bank, Safeguard Scientifics, Inc., Safeguard Delaware, Inc., Safeguard Delaware II, Inc. and Safeguard Scientifics (Delaware), Inc.	Form 8-K 12/23/14	10.1
10.12	Purchase and Sale Agreement dated as of December 9, 2005 by and among HarbourVest VII Venture Ltd., Dover Street VI L.P. and several subsidiaries and affiliated limited partnerships of Safeguard Scientifics, Inc.	Form 10-K 3/13/06	10.36
10.13	Consent Agreement, dated as of May 17, 2011, by and among Shire Pharmaceuticals, Inc. and certain stockholders of Advanced BioHealing, Inc.	Form 8-K 5/18/11	10.1
14.1 †	Code of Business Conduct and Ethics	—	—
21.1 †	List of Subsidiaries	—	—
23.1 †	Consent of Independent Registered Public Accounting Firm — KPMG LLP	—	—
31.1 †	Certification of Stephen T. Zarrilli pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934	—	—
31.2 †	Certification of Jeffrey B. McGroarty pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934	—	—
32.1 ‡	Certification of Stephen T. Zarrilli pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—
32.2 ‡		—	—



Certification of Jeffrey B. McGroarty pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 †	Unaudited Financial Statements of PixelOptics	—	—
99.2 †	Unaudited Condensed Financial Statements of PixelOptics	—	—
101	The following materials from Safeguard Scientifics, Inc. Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets - December 31, 2014 and 2013; (ii) Consolidated Statements of Operations - Years ended December 31, 2014, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Loss - Years ended December 31, 2014, 2013 and 2012; (iv) Consolidated Statements of Changes in Equity - Years ended December 31, 2014, 2013 and 2012; (v) Consolidated Statements of Cash Flows - Years ended December 31, 2014, 2013 and 2012; and (vi) Notes to Consolidated Financial Statements.	—	—

† Filed herewith

‡ Furnished herewith

\* These exhibits relate to management contracts or compensatory plans, contracts or arrangements in which directors and/or executive officers of the Registrant may participate.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAFEGUARD SCIENTIFICS, INC.

By: STEPHEN T. ZARRILLI  
 STEPHEN T. ZARRILLI  
 President and Chief Executive Officer

Dated: March 6, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
STEPHEN T. ZARRILLI Stephen T. Zarrilli	President and Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2015
JEFFREY B. MCGROARTY Jeffrey B. McGroarty	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2015
MARA G. ASPINALL Mara G. Aspinall	Director	March 6, 2015
JULIE A. DOBSON Julie A. Dobson	Director	March 6, 2015
ANDREW E. LIETZ Andrew E. Lietz	Chairman of the Board of Directors	March 6, 2015
GEORGE MACKENZIE George MacKenzie	Director	March 6, 2015
JACK L. MESSMAN Jack L. Messman	Director	March 6, 2015
JOHN J. ROBERTS John J. Roberts	Director	March 6, 2015
ROBERT J. ROSENTHAL Robert J. Rosenthal	Director	March 6, 2015