SAFEGUARD SCIENTIFICS INC
Form 10-K/A
August 28, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

AMENDMENT NO.1
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2013
Commission File Number 1-5620

Safeguard Scientifics, Inc.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Pennsylvania | 23-1609753 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer ID No.) |
| 435 Devon Park Drive<br>Building 800<br>Wayne, PA | 19087 |
| (Address of principal executive offices) | (Zip Code) |

(610) 293-0600
(Registrant's telephone number, including area code)

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock ($.10 par value) | 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 ý
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ý

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 | ý |
| 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 Exchange Act). Yes ¨ No ý

As of June 30, 2013, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was $334,376,985 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 6, 2014 was 21,556,610.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the "Definitive Proxy Statement") filed with the Securities and Exchange Commission for the Company's 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

EXPLANATORY NOTE REGARDING THIS FORM 10-K/A

This Amendment No. 1 to the Annual Report on Form 10-K (“Form 10-K/A”) of Safeguard Scientifics, Inc. (the “Company”) amends the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which was originally filed on March 7, 2014 (“Original Form 10-K”). This Form 10-K/A is being filed to (1) amend Item 8 of Part II of the Original Form 10-K to include summarized financial information of NuPathe, Inc. (“NuPathe”) in an expanded Note 2, pursuant to Rule 4-08(g) of Regulation S-X, and (2) amend Item 15 of Part IV of the Original Form 10-K to eliminate the incorporation by reference of NuPathe’s financial statements.

On February 21, 2014, NuPathe was acquired by Teva Pharmaceuticals Ltd. (“Teva”). As a result of the merger of NuPathe into a wholly owned subsidiary of Teva, the Company is no longer able to obtain and file the consent of NuPathe’s former auditor when the Company files new registration statements. Accordingly, with the consent of the staff of the SEC, the Company is amending its Original Form 10-K to eliminate the incorporation by reference of NuPathe’s financial statements in the Form 10-K, and instead to include in the notes to the Company’s financial statements summarized financial data of NuPathe.

Except as expressly noted herein, this Form 10-K/A does not modify or update in any way disclosures made in the Original Form 10-K and does not reflect events occurring after the filing of the Original Form 10-K.

Part II

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.

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, 2013, 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, 2013, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 7, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Philadelphia, Pennsylvania
March 7, 2014

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, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2013. 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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, 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, 2013, 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 7, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Philadelphia, Pennsylvania
March 7, 2014

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

| | As of December 31, 2013 | 2012 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $139,318 | $66,029 |
| Cash held in escrow | — | 6,434 |
| Marketable securities | 38,250 | 110,957 |
| Restricted marketable securities | 5 | 10 |
| Prepaid expenses and other current assets | 1,557 | 2,408 |
| Total current assets | 179,130 | 185,838 |
| Property and equipment, net | 138 | 193 |
| Ownership interests in and advances to partner companies and funds (of which $20,057 and $20,972 are measured at fair value at December 31, 2013 and 2012, respectively) | 148,579 | 148,639 |
| Loan participations receivable | 8,135 | 7,085 |
| Available-for-sale securities | 15 | 58 |
| Long-term marketable securities | 6,088 | 29,059 |
| Other assets | 3,911 | 3,272 |
| Total Assets | $345,996 | $374,144 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Convertible senior debentures—current | $470 | $— |
| Accounts payable | 245 | 610 |
| Accrued compensation and benefits | 5,028 | 4,050 |
| Accrued expenses and other current liabilities | 2,431 | 2,601 |
| Total current liabilities | 8,174 | 7,261 |
| Other long-term liabilities | 3,683 | 3,921 |
| Convertible senior debentures—non-current | 49,478 | 48,991 |
| Total Liabilities | 61,335 | 60,173 |
| Commitments and contingencies | | |
| Equity: | | |
| Preferred stock, $0.10 par value; 1,000 shares authorized | — | — |
| Common stock, $0.10 par value; 83,333 shares authorized; 21,553 and 20,968 shares issued and outstanding at December 31, 2013 and 2012, respectively | 2,155 | 2,097 |
| Additional paid-in capital | 822,103 | 815,946 |
| Accumulated deficit | (539,597) | (504,072) |
| Total Equity | 284,661 | 313,971 |
| Total Liabilities and Equity | $345,996 | $374,144 |

See Notes to Consolidated Financial Statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| General and administrative expense | $21,644 | $19,473 | $21,168 |
| Operating loss | (21,644) | (19,473) | (21,168) |
| Other income (loss), net | 383 | 9,338 | (6,145) |
| Interest income | 2,646 | 2,926 | 1,424 |
| Interest expense | (4,303) | (5,636) | (5,971) |
| Equity income (loss) | (12,607) | (26,517) | 142,457 |
| Net income (loss) before income taxes | (35,525) | (39,362) | 110,597 |
| Income tax benefit (expense) | — | — | — |
| Net income (loss) | $(35,525) | $(39,362) | $110,597 |
| Net income (loss) per share: | | | |
| Basic | $(1.66) | $(1.88) | $5.33 |
| Diluted | $(1.66) | $(1.88) | $4.74 |
| Average shares used in computing net income (loss) per share: | | | |
| Basic | 21,362 | 20,974 | 20,764 |
| Diluted | 21,362 | 20,974 | 24,522 |

See Notes to Consolidated Financial Statements.

7

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Net income (loss) | $(35,525) | $(39,362) | $110,597 |
| Other comprehensive income (loss), before taxes: | | | |
| Unrealized net gain (loss) on available-for-sale securities | (43) | 4,388 | (20,308) |
| 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 income (loss) | 43 | 260 | 7,451 |
| Total comprehensive income (loss) | $(35,525) | $(39,321) | $97,740 |

See Notes to Consolidated Financial Statements.

8

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, 2010 | 246,431 | (575,307) | 12,816 | 20,630 | 2,063 | 806,859 | — | — |
| Net income | 110,597 | 110,597 | — | — | — | — | — | — |
| Stock options exercised, net | 918 | — | — | 95 | 10 | 908 | 5 | — |
| Issuance of restricted stock, net | 139 | — | — | 27 | 2 | 137 | (5) | — |
| Stock-based compensation expense | 3,052 | — | — | — | — | 3,052 | — | — |
| Other comprehensive loss | (12,857) | — | (12,857) | — | — | — | — | — |
| 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 | $— |

See Notes to Consolidated Financial Statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Cash Flows from Operating Activities: | | | |
| Net income (loss) | $(35,525) | $(39,362) | $110,597 |
| Adjustments to reconcile to net cash used in operating activities: | | | |
| Depreciation | 92 | 108 | 124 |
| Amortization of debt discount | 995 | 726 | 623 |
| Equity (income) loss | 12,607 | 26,517 | (142,457) |
| Other (income) loss, net | (383) | (9,338) | 6,145 |
| Stock-based compensation expense | 1,821 | 2,014 | 3,052 |
| Changes in assets and liabilities, net of effect of acquisitions and dispositions: | | | |
| Accounts receivable, net | (1,194) | (418) | (429) |
| Accounts payable, accrued expenses, and other | 366 | 3,228 | 4,618 |
| Net cash used in operating activities | (21,221) | (16,525) | (17,727) |
| Cash Flows from Investing Activities: | | | |
| Acquisitions of ownership interests in companies and funds | (41,838) | (46,100) | (85,329) |
| Proceeds from sales of and distributions from companies and funds | 38,974 | 17,596 | 171,268 |
| Advances and loans to companies | (10,464) | (13,665) | (12,127) |
| Repayment of advances to companies | 1,651 | 3,214 | 5,000 |
| Origination fees on mezzanine loans | 42 | 74 | 537 |
| Increase in marketable securities | (69,883) | (242,023) | (240,367) |
| Decrease in marketable securities | 165,379 | 276,392 | 108,393 |
| Release of restricted cash equivalents for interest on convertible senior debentures | — | 7,701 | — |
| Capital expenditures | (37) | (73) | (58) |
| Proceeds from sale of discontinued operations, net | 6,434 | — | 1 |
| Other, net | — | — | 107 |
| Net cash provided by (used in) investing activities | 90,258 | 3,116 | (52,575) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from issuance of convertible senior debentures | — | 55,000 | — |
| Repurchase of convertible senior debentures | (43) | (58,703) | (30,848) |
| Costs of issuance of convertible senior debentures | — | (1,790) | — |
| Issuance of Company common stock, net | 4,417 | 1,744 | 918 |
| Repurchase of Company common stock | (122) | — | — |
| Net cash provided by (used in) financing activities | 4,252 | (3,749) | (29,930) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 73,289 | (17,158) | (100,232) |
| Cash and Cash Equivalents at beginning of period | 66,029 | 83,187 | 183,419 |
| Cash and Cash Equivalents at end of period | $139,318 | $66,029 | $83,187 |

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Significant Accounting Policies

### Description of the Company

Safeguard Scientifics, Inc. (“Safeguard” or the “Company”) seeks to build value in growth-stage businesses by providing capital and strategic, operational and management resources. Safeguard participates principally in growth and expansion financings and at times, early-stage financings. The Company’s vision is to be the preferred source of capital for entrepreneurs and management teams in targeted sectors.

The Company strives to create long-term value for its shareholders by helping its partner companies increase their market penetration, grow revenue and improve cash flow. The Company 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. The Company principally targets companies that operate in two sectors:

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

Technology — companies focused 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 Consolidation

The consolidated financial statements include the accounts of Safeguard 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’s ownership interests in its partner companies and private equity funds are accounted for using one of the following methods: consolidation, equity, cost, fair value and available-for-sale. The accounting method applied is generally determined by the degree of the Company’s influence over the entity, primarily determined by its 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 and funds 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, 2013 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. The Company accounts for its holdings in NuPathe, a publicly traded partner company, under the fair value method of accounting beginning in October 2012. 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.
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

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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. The Company also accounts for its interests in some private equity funds under the equity method of accounting based on its non-controlling general and limited partner interests in such funds. 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 and funds 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 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.

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 and funds on the Consolidated Balance Sheets.

Available-for-Sale Securities. The Company accounts for its ownership interest in former partner company Tengion, Inc. as available-for-sale securities. In addition, for the period from its initial public offering in August 2010 through October 2012, the Company's ownership interest in NuPathe was accounted for as available-for-sale securities. Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains and losses, net of tax, reported as a separate component of equity. Unrealized losses are charged against net income (loss) when a decline in the fair value is determined to be other than temporary.

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 funds 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 and funds could change in the near term and that the effect of such changes on the financial statements could be material. At December 31, 2013, the Company believes the carrying value of the Company's ownership interests in and advances to partner companies and funds 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

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

Restricted Marketable Securities

Restricted marketable securities consist of certificates of deposit with various maturity dates.

Financial Instruments

The Company’s financial instruments (principally cash and cash equivalents, marketable securities, restricted cash equivalents, 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 warrant participations are carried at fair value. The Company’s long-term debt is carried at cost. At December 31, 2013, the market value of the Company’s outstanding debentures was approximately $69.9 million based on the midpoint of bid and ask prices as of that date.

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

In 2011, the Company acquired a 36% ownership interest in the management company and general partner of Penn Mezzanine L.P. Penn Mezzanine is a mezzanine lender focused on lower middle-market, Mid-Atlantic companies. From such acquisition through December 31, 2013, through its relationship with Penn Mezzanine, the Company acquired participating interests in mezzanine loans and related equity interests of the borrowers. In certain instances, these interests also included warrants to purchase common stock of the borrowers. The Company’s accounting policies for these participating interests are as follows:

Loan Participations Receivable

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. The allowance for loan losses at December 31, 2013 and 2012 was $2.3 million and $2.0 million, respectively.

Penn Mezzanine charges fees to borrowers for originating loans. The Company’s participating interest in these fees, net of any loan origination costs, is deferred and amortized to income using the effective interest method, over the term of the loan. If the loan is repaid prior to maturity, the remaining unamortized deferred loan origination fee is recognized in income at the time of repayment. Unamortized deferred loan origination fees are recorded as a contra asset against Loan participations receivable on the Consolidated Balance Sheets.

Equity Participations

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.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Warrant Participations

The Company recognizes its participation in warrants acquired by Penn Mezzanine based on the fair value of the warrants at the balance sheet date. The fair values of warrant participations are bifurcated from the related loan participations receivable based on the relative fair value of the respective instruments at the acquisition date. The resulting discount is amortized to interest income over the term of the loan using the effective interest method. Any gain or loss associated with changes in the fair value of the warrants at the balance sheet date is recorded in Other income (loss), net in the Consolidated Statements of Operations. The fair value of the warrants is determined based on Level 3 inputs and is included in Other assets on the Consolidated Balance Sheets.

Property and Equipment

Property and equipment are stated at cost. Provision for depreciation and amortization is based on the lesser of the estimated useful lives of the assets or the remaining lease term (buildings and leasehold improvements, 5 to 15 years; office equipment, 3 to 15 years) and is computed using the straight-line method.

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

On a periodic basis, but no less frequently than quarterly, the Company evaluates the carrying value of its equity and cost method partner companies and available-for-sale securities 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 or value of available-for-sale securities. 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. The fair value of the Company’s ownership interests in private equity funds generally is determined based on the fair value of its pro rata portion of the funds’ net assets.

Impairment charges related to equity method partner companies and funds are included in Equity income (loss) in the Consolidated Statements of Operations. Impairment charges related to cost method partner companies and funds and available-for-sale securities 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.

Defined Contribution Plans

Defined contribution plans are contributory and cover eligible employees of the Company. The Company’s defined contribution plan allows eligible employees, as defined in the plan, to contribute to the plan up to 75% of their pre-tax compensation, subject to the maximum contributions allowed by the Internal Revenue Code. The Company makes matching contributions under the plan. Expense relating to defined contribution plans was $0.4 million for the year ended December 31, 2013 and $0.3 million in each of the years ended December 31, 2012 and 2011.

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 valuation allowances against the net deferred tax asset for amounts which are not considered more likely than not to be realized.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from non-owner sources. Excluding net income (loss), the Company’s sources of other comprehensive income (loss) are from net unrealized appreciation (depreciation) on available-for-sale securities. Reclassification adjustments result from the recognition in net income (loss) of unrealized gains or losses that were included in comprehensive income (loss) in prior periods.

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.

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

The following summarizes the carrying value of the Company’s ownership interests in and advances to partner companies and private equity funds.

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Fair value | $20,057 | $20,972 |
| Equity Method: | | |
| Partner companies | 108,872 | 102,931 |
| Private equity funds | 1,766 | 3,810 |
| | 110,638 | 106,741 |
| Cost Method: | | |
| Partner companies | 13,480 | 10,000 |
| Private equity funds | 2,418 | 2,634 |
| | 15,898 | 12,634 |
| Advances to partner companies | 1,986 | 8,292 |
| | $148,579 | $148,639 |
| Loan participations receivable | $8,135 | $7,085 |
| Available-for-sale securities | $15 | $58 |

Impairment charges related to equity method partner companies were $11.2 million, $5.0 million and $7.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. The impairment charge in 2013 was related to PixelOptics, Inc. and is reflected in Equity loss in the Consolidated Statements of Operations. The impairment was based on PixelOptics' inability to raise additional capital to continue its operations. The impairment charge in 2012 also related to PixelOptics. The adjusted carrying value of PixelOptics at December 31, 2013 was $0 and the Company believes it will not recover any of its capital. 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 impairment charges in 2011 included $5.7 million related to Swap.com and $1.4 million related to SafeCentral, Inc., both former partner companies.

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 loss in the Consolidated

Statements of Operations. During the quarter ended December 31, 2013, the Company decided that it will not acquire participating interests in any new Penn Mezzanine lending activities.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company recognized impairment charges of $0.3 million and $2.5 million related to its Penn Mezzanine debt and equity participations in the years ended December 31, 2013 and 2012, respectively, which is reflected in Other income (loss), net in the Consolidated Statements of Operations. The charge in 2013 included $0.2 million related to loan participations and $0.1 million representing an adjustment to the fair value of the Company's participation in warrants. The charge in 2012 included $2.0 million related to loan participations, $0.4 million related to equity participations and $0.1 million related to warrant participations.

The Company recognized impairment charges of $0.3 million and $0.4 million related to its cost method interest in a legacy private equity fund in 2013 and 2012, respectively, which are reflected in Other income (loss), net in the Consolidated Statement of Operations.

The Company recognized impairment charges of $0.3 million and $7.5 million for the years ended December 31, 2012 and 2011, respectively, related to available-for-sale securities. The impairment charges are reflected in Other income (loss), net, in the Consolidated Statements of Operations and represent the unrealized loss on the mark-to-market of its ownership interests in Tengion and NuPathe which were previously recorded as a separate component of equity. During the years ended December 2012 and 2011, the Company determined that the decline in the value of its public holdings in Tengion and NuPathe were other than temporary.

On October 23, 2012, the Company purchased preferred stock and warrants from NuPathe for $5.0 million. Each of the 2,500 shares of preferred stock was convertible into 1,000 shares of NuPathe’s common stock at a price of $2.00 per share, subject to antidilution protection. The preferred stock was converted in February 2013. The warrants were exercisable to purchase 2.5 million shares of NuPathe common stock at a price of $2.00 per share. Following the transaction, the Company’s interests in NuPathe’s common stock, preferred stock, warrants and options are accounted for under the fair value option. The Company recognized an unrealized gain of $4.6 million related to the mark-to-market of the Company’s ownership interests in NuPathe’s common stock, previously classified as a separate component of equity. In the period from October 23, 2012 through December 31, 2012, the Company recognized an unrealized gain of $6.4 million on the mark-to-market of its holdings in NuPathe. These gains were included in Other income (loss), net in the Consolidated Statements of Operations. For the year ended December 31, 2013, the Company recognized an unrealized loss of $0.9 million on the mark-to-market of its holdings in NuPathe, which is included in Other income (loss), net in the Consolidated Statements of Operations

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 30, 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.

In July 2011, Portico Systems, Inc. was acquired by McKesson resulting in cash proceeds of approximately $32.8 million in exchange for the Company’s equity interests. In June 2012, the Company received an additional $1.9 million as a result of the achievement of milestones associated with the transaction. In August 2012, the Company received $3.4 million upon the expiration of the escrow period. These amounts were recorded in Equity income (loss) in the Consolidated Statement of Operations.

The following 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.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| | As of June 30, 2013 | As of December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| 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) |
| Total liabilities and shareholders' equity | $4,873 | $5,582 |

| | Six Months Ended June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (In thousands) | |
| Results of Operations: | | |
| Revenue | $800 | $569 |
| Operating loss | $(12,219) | $(16,172) |
| Net loss | $(14,838) | $(16,923) |

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 years ended December 31, 2012 and 2011, have been compiled from the financial statements of NuPathe.

| | As of September 30, 2013 | As of December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Balance Sheets: | | |
| 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 | Year Ended December 31, 2012 | 2011 |
|---|---|---|---|
| | (In thousands) | | |
| Results of Operations: | | | |
| Revenue | $— | $— | $— |
| Operating loss | $(17,238) | $(21,033) | $(21,823) |
| Net loss | $(30,417) | $(37,784) | $(23,187) |

The following summarized financial information for partner companies and funds accounted for under the equity method at December 31, 2013 and 2012 and for each of the three years ended December 31, 2013, 2012 and 2011 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.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| | As of December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Balance Sheets: | | |
| Current assets | $221,001 | $168,246 |
| Non-current assets | 90,042 | 74,555 |
| Total assets | $311,043 | $242,801 |
| Current liabilities | $153,398 | $125,491 |
| Non-current liabilities | 75,324 | 37,384 |
| Shareholders' equity | 82,321 | 79,926 |
| Total liabilities and shareholders' equity | $311,043 | $242,801 |

As of December 31, 2013, 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 $72.2 million. Of this excess, $53.7 million was allocated to goodwill and $18.5 million was allocated to intangible assets.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Results of Operations: | | | |
| Revenue | $273,754 | $191,928 | $117,057 |
| Gross profit | $125,766 | $90,876 | $63,160 |
| Net loss | $(52,489) | $(79,662) | $(38,468) |

3. Acquisitions of Ownership Interests in Partner Companies and Funds

In November 2013, the Company acquired a 22.0% interest in Apprenda, Inc. for $12.1 million. Apprenda makes mobile phone application development software. The Company accounts for its ownership interest in Apprenda under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Apprenda was preliminarily allocated to intangible assets and goodwill as reflected in the carrying value of Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In November 2013, the Company acquired a 8.0% interest in Dabo Health, Inc. ("Dabo") for $0.8 million. Dabo provides the healthcare community with a healthcare information platform that brings clarity to quality metrics, makes them actionable to hospitals and care providers, and facilitates collaboration for quality improvement. The Company accounts for its ownership interest in Dabo under the cost method.

In October and May 2013, the Company funded an aggregate of $0.5 million of a convertible bridge loan to Hoopla Software, Inc. ("Hoopla"). The Company had previously acquired an interest in Hoopla in December 2011 for $1.3 million. Hoopla helps organizations create high performance sales cultures through software-as-a-service solutions that integrate with customer relationship management systems. The Company accounts for its interest in Hoopla under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Hoopla was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

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. The Company accounts for its ownership interest in Alverix under the equity method. Subsequent to year end, the Company sold its interest in Alverix. For further details, see Note 18 to the Consolidated Financial Statements.

In August 2013, the Company acquired a 35.1% primary ownership interest in Quantia, Inc. for $7.5 million. Quantia provides a mobile and web-based physician relationship management platform, QuantiaMD, which enables principal participants throughout the healthcare spectrum, including health systems, payers, pharmaceutical companies and medical device companies, to engage and interact with their physicians. The Company accounts for its interest in Quantia under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Quantia was

18

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

preliminarily allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

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 in 2011 and 2012. DriveFactor is a provider of telematics technology and statistical analysis of driving data. The Company accounts for its interest in DriveFactor under the equity method. The difference between the Company’s cost and its interest in the underlying net assets of DriveFactor was allocated to goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In August 2013, the Company deployed $5.0 million in Clutch Holdings, Inc. (“Clutch”). Clutch is a provider of loyalty and gift card programs to retailers through its proprietary platform, and offers a mobile wallet application to consumers to track and store gift and loyalty cards, coupons and other retail shopping tools. The Company previously had acquired an interest in Clutch in February 2013 for $0.5 million. In conjunction with the most recent funding, the Company’s primary ownership interest in Clutch increased from 6.5% to 24.0%, above the threshold at which the Company believes it exercises significant influence. Accordingly, the Company adopted the equity method of accounting for its holdings in Clutch. The difference between the Company's cost and its interest in the underlying net assets of Clutch was preliminarily allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets. The change in accounting treatment for the Company’s holdings in Clutch from the cost method to the equity method had no effect on the Consolidated Financial Statements of any prior period.

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. The Company accounts for its ownership interest in Crescendo Bioscience under the cost method. Subsequent to year end, the Company sold its interest in Crescendo Bioscience. For further details, see Note 18 to the Consolidated Financial Statements.

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, 2011, the Company funded an aggregate of $9.7 million for participations in certain loans and equity interests. Included in this funding was $8.1 million for participations in loans, $1.3 million for participations in equity and $0.3 million for participations in warrants to acquire common stock of the borrowers. In August 2011, the Company acquired a 36% ownership interest in the management company and general partner of Penn Mezzanine for $3.9 million. Penn Mezzanine is a mezzanine lender focused on lower middle-market, Mid-Atlantic companies. The Company accounts for its interest in Penn Mezzanine under the equity method of accounting.

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 adjusted carrying value of PixelOptics at December 31, 2013 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 acquired an interest in Medivo in November 2011 for $6.3 million. Medivo is a cloud-based health monitoring platform that connects doctors, consumers and clinical labs. The Company accounts for its interest in Medivo under the equity method. The difference between the Company’s cost and its interest in the underlying net assets of Medivo was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In March 2013, the Company deployed an additional $1.7 million in Lumesis, Inc. The Company had previously acquired an interest in Lumesis in February 2012 for $2.2 million. Lumesis is a financial technology company that is dedicated to delivering software solutions and comprehensive, timely data to the municipal bond marketplace. The Company accounts for its interest in Lumesis under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Lumesis was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In February 2013, the Company acquired a 27.6% primary ownership interest in Pneuron Corporation for $5.0 million. Pneuron helps enterprise companies reduce the time and cost of application development by building solutions across heterogeneous databases and applications. The Company accounts for its ownership interest in Pneuron under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Pneuron was allocated to

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In January 2013, the Company acquired a 7.7% primary interest in Sotera Wireless, Inc. The Company deployed $1.3 million into Sotera Wireless and acquired additional shares from a previous investor for $1.2 million. Sotera Wireless is a medical device company that has developed a wireless patient monitoring platform that is designed to keep clinicians connected to their patients. The Company accounts for its interest in Sotera Wireless under the cost method.

In December 2012, the Company acquired a 35% interest in AppFirst, Inc. for $6.5 million. AppFirst delivers application monitoring systems for development operations professionals and technology executives with visibility into systems, applications and business metrics. The Company accounts for its ownership interest in AppFirst under the equity method. The difference between the Company’s cost and its interest in the underlying net assets of AppFirst was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In October and March 2012, the Company deployed an additional $5.2 million in Good Start Genetics, Inc. (“Good Start”). The Company had previously acquired an interest in Good Start in 2010 for $6.8 million. Good Start performs pre-pregnancy genetic tests, which utilize an advanced DNA sequencing technology to screen for a panel of genetic disorders, including those recommended by the American Congress of Obstetricians and Gynecologists and the American College of Medical Genetics. The Company accounts for its interest in Good Start under the equity method. The difference between the Company’s cost and its ownership interest in the underlying net assets of Good Start was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

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 from August 2006 through August 2010. The Company accounts for its ownership interest in NuPathe under the fair value method. Subsequent to year end, the Company sold its interest in NuPathe. For further details, see Note 18 to the Consolidated Financial Statements.

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, ThingWorx was acquired by PTC Inc. resulting in net sale proceeds to the Company of $36.4 million, excluding cash held in escrow of $4.1 million. 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 accounted for its interest in ThingWorx under the equity method.

In August 2012, the Company funded a $1.7 million convertible debt facility to MediaMath, Inc. The Company previously deployed an aggregate of $16.9 million in MediaMath. MediaMath is an online media trading company that enables advertising agencies and their advertisers to optimize their ad spending across various exchanges through its proprietary algorithmic bidding platform and data integration technology. The Company accounts for its interest in MediaMath under the equity method. The difference between the Company's cost and its interest in the underlying net assets of MediaMath was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

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 digital advertising technology company that enhances standard banner ads with rich interactive features. The Company accounts for its ownership interest in Spongecell under the equity method. The difference between the Company's cost and its interest in the underlying net assets of Spongecell was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In September 2011, the Company acquired a 30.1% ownership interest in Putney, Inc. for $10.0 million. Putney is a specialty pharmaceutical company focused on providing generic medicines for pets. The Company accounts for its interest in Putney under the equity method. The difference between the Company's cost and its interest in the underlying net assets of

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Putney was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

In August 2011, the Company funded $2.4 million of a convertible bridge loan to Swap.com. The Company had previously deployed an aggregate of $8.1 million in Swap.com. The Company impaired all of the carrying value of Swap.com in 2011 and no longer holds an active interest in the company. The Company accounted for its interest in Swap.com under the equity method.

In June 2011, the Company acquired a 31.7% ownership interest in NovaSom, Inc. for $20.0 million. NovaSom provides diagnostic devices and services for home testing and evaluation of sleep-disordered breathing, including obstructive sleep apnea. The Company accounts for its interest in NovaSom under the equity method. The difference between the Company’s cost and its interest in the underlying net assets of NovaSom was allocated to intangible assets and goodwill and is reflected in the carrying value in Ownership interests in and advances to partner companies and funds on the Consolidated Balance Sheets.

## 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 or liabilities (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.

The following table provides the carrying value and fair value of certain financial assets and liabilities of the Company measured at fair value on a recurring basis as of December 31, 2013 and 2012:

| | 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 | $— | $— |
| Restricted marketable securities | 5 | 5 | — | — |
| Ownership interest in common stock of NuPathe | 16,874 | 16,874 | — | — |
| Ownership interest in warrants and options of NuPathe | 3,183 | — | — | 3,183 |
| Available-for-sale securities | 15 | 15 | — | — |
| 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 | $— | $— |

21

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

| | Carrying Value | Fair Value Measurement at December 31, 2012 | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | |
| Cash and cash equivalents | $66,029 | $66,029 | $— | $— |
| Cash held in escrow | 6,434 | 6,434 | — | — |
| Restricted marketable securities | 10 | 10 | — | — |
| Ownership interest in common stock of NuPathe | 8,897 | 8,897 | — | — |
| Ownership interest in preferred stock, warrants and options of NuPathe | 12,075 | — | — | 12,075 |
| Available-for-sale securities | 58 | 58 | — | — |
| Warrant participations | 423 | — | — | 423 |
| Marketable securities—held-to-maturity: | | | | |
| Commercial paper | $50,932 | $50,932 | $— | $— |
| U.S. Treasury Bills | 21,352 | 21,352 | — | — |
| Government agency bonds | 45,909 | 45,909 | — | — |
| Certificates of deposit | 21,823 | 21,823 | — | — |
| Total marketable securities | $140,016 | $140,016 | $— | $— |

As of December 31, 2013, $38.3 million of marketable securities had contractual maturities which were less than one year and $6.1 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 recognized impairment charges of $11.2 million and $5.0 million related to PixelOptics for the years ended December 31, 2013 and 2012, respectively. The fair market value of the Company’s equity ownership in PixelOptics was determined to be $0 at December 31, 2013 based on Level 3 inputs as defined above. The inputs and valuation techniques used were primarily an evaluation of discounted cash flows for PixelOptics.

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 gains of $1.1 million and $0.2 million associated with mark-to-market adjustments related to its warrant participations with Penn Mezzanine in 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 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 fair market value of the Company’s ownership interest in Penn Mezzanine was determined to be $1.3 million based on Level 3 inputs as described above. 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 recognized impairment charges of $0.3 million and $2.5 million related to its Penn Mezzanine debt and equity participations in the years ended December 31, 2013 and 2012, respectively, 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 3 inputs as defined above. The inputs and valuation techniques used included discounted cash flows and valuations of comparable public companies.

The Company’s ownership interests in NuPathe are accounted for at fair value. In February 2013, the Company converted its 2,500 shares of preferred stock units, acquired in October 2012, into 2.5 million shares of common stock in NuPathe. The preferred stock units had been valued using Level 3 inputs. The fair value of the Company’s ownership interest in NuPathe's common stock was measured using quoted market prices for NuPathe's common stock as traded on the NASDAQ Capital Market, which is considered a Level 1 input under the valuation hierarchy. The fair value of the Company's ownership interest in NuPathe's warrants and options was measured using a Black-Scholes option pricing model, which is based on Level 3 inputs as defined above.

The Company recognized impairment charges of $0.3 million and $0.4 million related to a legacy private equity fund for the years ended December 31, 2013 and 2012, respectively, measured as the amount by which the carrying value of the

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 $1.7 million at December 31, 2013 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. Property and Equipment

Property and equipment consisted of the following:

| | As of December 31, 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Building and improvements | $607 | $607 |
| Office equipment | 1,039 | 1,002 |
| | 1,646 | 1,609 |
| Accumulated depreciation | (1,508) | (1,416) |
| | $138 | $193 |

6. Convertible Debentures and Credit Arrangements

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

| | As of December 31, 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| Convertible senior debentures due 2018 | $49,478 | $48,483 |
| Convertible senior debentures due 2024 | 441 | 441 |
| Convertible senior debentures due 2014 | 29 | 67 |
| | 49,948 | 48,991 |
| Less: current portion | (470) | — |
| Convertible senior debentures — non-current | $49,478 | $48,991 |

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.

23

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, 2013 was $20.09.

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, 2013, the fair value of the $55.0 million outstanding 2018 Debentures was approximately $69.9 million, based on the midpoint of the bid and ask prices as of such date. At December 31, 2013, 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 $5.5 million and the net carrying value of the liability component was $49.5 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 $1.0 million and $0.1 million of such expense for the years ended December 31, 2013 and 2012, 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"). At December 31, 2013, the fair value of the $0.4 million outstanding 2024 Debentures approximated their carrying value, based on the midpoint of bid and ask prices as of such date. Interest on the 2024 Debentures is payable semi-annually. At the debentures holders' option, the 2024 Debentures are convertible into the Company's common stock through March 14, 2024, subject to certain conditions. The adjusted conversion rate of the 2024 Debentures is $43.3044 of principal amount per share. The remaining 2024 Debentures holders have the right to require the Company to repurchase the 2024 Debentures on March 20, 2014 or March 20, 2019 at a repurchase price equal to 100% of their face amount, plus accrued and unpaid interest. In limited circumstances, the Company has the right to redeem all or some of the 2024 Debentures.

Convertible Senior Debentures due 2014

In March 2010, the Company issued an aggregate of $46.9 million of the 2014 Debentures. As noted above, 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 is due and payable on March 15, 2014.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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 $50 million in the form of borrowings, guarantees and issuances of letters of credit (subject to a $20 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 and the lesser of $80 million or 75% of its investment and securities accounts at the bank. The credit facility, as amended, matures on December 31, 2014. 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, 2013 was $43.7 million.

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

| | As of December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Accrued interest | $366 | $335 |
| Other | 2,065 | 2,266 |
| | $2,431 | $2,601 |

8. Equity

Preferred Stock

Shares of preferred stock, par value $0.10 per share, are voting and are issuable in one or more series with rights and preferences as to dividends, redemption, liquidation, sinking funds and conversion determined by the Board of Directors. At December 31, 2013 and 2012, there were one million shares authorized and none outstanding.

9. Stock-Based Compensation

Equity Compensation Plans

Under the amended and restated 2004 Equity Compensation Plan, employees, executive officers, directors and consultants are eligible for grants of stock options, restricted stock awards, stock appreciation rights, stock units, performance units and other stock-based awards. The 2004 Equity Compensation Plan has 2.2 million shares authorized for issuance. The 2001 Associates Equity Compensation Plan, with 0.9 million shares authorized for issuance, and the 1999 Equity Compensation Plan, with 1.5 million shares authorized for issuance, expired by their terms and no further grants may be made under those plans. During 2013 and 2011, the Company issued 70 thousand and 85 thousand options, respectively, 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, 2013, the Company had reserved 2.9 million shares of common stock for possible future issuance under its 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, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |

| | | | |
|---|---|---|---|
| General and administrative expense | $1,821 | $2,014 | $3,052 |
| | $1,821 | $2,014 | $3,052 |

25

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2013, 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, 2013, 2012 and 2011, the Company did not issue any market-based option awards to employees. During the year ended December 31, 2011, 110 thousand market-based options vested based on achievement of market capitalization targets. No market-based options vested during 2013 or 2012. During the years ended December 31, 2013, 2012 and 2011, respectively, 554 thousand, 6 thousand and 125 thousand market-based options were canceled or forfeited. The Company recorded compensation expense related to these option awards of $0.2 million, $0.4 million and $1.2 million during the years ended December 31, 2013, 2012 and 2011, respectively. Depending on the Company's stock performance, the maximum number of unvested shares at December 31, 2013 attainable under these grants was 402 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, 2013, 2012 and 2011, respectively, the Company issued 41 thousand, 180 thousand and 193 thousand performance-based options to employees. During the years ended December 31, 2012 and 2011, 14 thousand and 56 thousand options vested based on the achievement of capital return targets. During the year ended December 31, 2013, no options vested based on the achievement of capital return targets. During the years ended December 31, 2013, 2012 and 2011, respectively, 398 thousand, 6 thousand and 108 thousand performance-based option awards were canceled or forfeited. The Company recorded compensation expense related to these option awards of $0.0 million, $0.2 million and $0.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. The maximum number of unvested shares at December 31, 2013 attainable under these grants was 452 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, 2013, 2012 and 2011, respectively, the Company issued 43 thousand, 113 thousand and 121 thousand service-based option awards to employees. During the years ended December 31, 2013, 2012 and 2011, respectively, 14 thousand, one thousand and 60 thousand service-based options were canceled or forfeited. The Company recorded compensation expense related to these awards of $0.5 million, $0.7 million and $0.8 million during the years ended December 31, 2013, 2012 and 2011, respectively.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| Service-Based Awards | | | | | | |
| Dividend yield | 0 | % | 0 | % | 0 | % |
| Expected volatility | 52 | % | 56 | % | 57 | % |
| Average expected option life | 5 years | | 5 years | | 5 years | |
| Risk-free interest rate | 1.3 | % | 0.8 | % | 1.4 | % |

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| Performance-Based Awards | | | | | | |
| Dividend yield | 0 | % | 0 | % | 0 | % |
| Expected volatility | 46 | % | 55 | % | 57 | % |
| Average expected option life | 4.7 years | | 5.5 years | | 5.8 years | |
| Risk-free interest rate | 1.8 | % | 0.8 | % | 0.9 | % |

The weighted-average grant date fair value of options issued by the Company during the years ended December 31, 2013, 2012 and 2011 was $6.83, $7.45 and $8.28 per share, respectively.

Option activity of the Company is summarized below:

| | Shares (In thousands) | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (In years) | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|---|
| Outstanding at December 31, 2010 | 3,321 | | $9.83 | | |
| Options granted | 314 | | 16.55 | | |
| Options exercised | (124 | ) | 11.32 | | |
| Options canceled/forfeited | (293 | ) | 11.03 | | |
| 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 | 3.91 | $12,586 |
| Options exercisable at December 31, 2013 | 822 | | 11.67 | 2.52 | 6,334 |
| Options vested and expected to vest at December 31, 2013 | 1,566 | | 12.23 | 3.37 | 11,192 |
| Shares available for future grant | 598 | | | | |

The total intrinsic value of options exercised for the years ended December 31, 2013, 2012 and 2011 was $3.9 million, $1.2 million and $0.9 million, respectively.

At December 31, 2013, total unrecognized compensation cost related to non-vested stock options granted under the plans for service-based awards was $0.7 million. That cost is expected to be recognized over a weighted-average period of 2.7 years.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At December 31, 2013, the Company had recognized substantially all compensation cost related to stock options granted under the plans for market-based awards.
At December 31, 2013, total unrecognized compensation cost related to non-vested stock options granted under the plans for performance-based awards was $2.3 million. That cost is expected to be recognized over a weighted-average period of 1.9 years but would be accelerated if stock price targets are achieved earlier than estimated.
During the years ended December 31, 2013, 2012 and 2011, respectively, the Company issued 83 thousand, 90 thousand and 61 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, 2013, 2012 and 2011, respectively, the Company issued 28 thousand, 30 thousand and 20 thousand restricted shares to employees. The 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. During the years ended December 31, 2013, 2012, and 2011, respectively, the Company issued 48 thousand, 25 thousand and 28 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.

During the years ended December 31, 2013 and 2012, the Company granted eight thousand and five thousand shares, respectively, to members of its advisory boards, and recorded compensation expense of $0.1 million in each year related to these awards. No such awards were granted in 2011.
Total compensation expense for deferred stock units, performance-based stock units and restricted stock was approximately $1.1 million, $0.7 million and $0.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Unrecognized compensation expense related to deferred stock units, performance stock units and restricted stock at December 31, 2013 was $3.3 million. The total fair value of deferred stock units, performance stock units and restricted stock vested during the years ended December 31, 2013, 2012 and 2011 was $1.1 million, $0.9 million and $2.0 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, 2011 | 253 | | $13.10 |
| Granted | 151 | | 15.00 |
| Vested | (53 | ) | 13.58 |
| Forfeited | (4 | ) | 13.67 |
| 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 |

28

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

10. Other Income (Loss), Net

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Loss on repurchase of convertible debentures | $— | $(7,895) | $— |
| Gain on sale of companies and funds, net | — | 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 | (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 | (43) | (260) | (7,451) |
| Other | 740 | 29 | 1,306 |
| | $383 | $9,338 | $(6,145) |

11. Income Taxes

The federal and state provision (benefit) for income taxes was $0.0 million for the years ended December 31, 2013, 2012 and 2011.

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, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| Statutory tax (benefit) expense | (35.0)% | (35.0)% | 35.0% |
| Increase (decrease) in taxes resulting from: | | | |
| Valuation allowance | 34.7 | 34.7 | (35.3) |
| Other adjustments | 0.3 | 0.3 | 0.3 |
| | 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, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Deferred tax asset: | | |
| Carrying values of partner companies and other holdings | $59,045 | $52,602 |
| Tax loss and credit carryforwards | 82,403 | 75,369 |
| Accrued expenses | 2,043 | 1,860 |
| Stock-based compensation | 5,005 | 7,942 |
| Other | 1,560 | 1,557 |
| | 150,056 | 139,330 |
| Valuation allowance | (150,056) | (139,330) |
| Net deferred tax asset | $— | $— |

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

As of December 31, 2013, the Company and its subsidiaries consolidated for tax purposes had federal net operating loss carryforwards of approximately $224.3 million. These carryforwards expire as follows:

| | Total (In thousands) |
|---|---|
| 2014 | $— |
| 2015 | — |
| 2016 | — |
| 2017 | — |
| 2018 and thereafter | 224,307 |
| | $224,307 |

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.

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, 2013, 2012 and 2011.
The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Tax years 2010 and forward remain open for examination for federal tax purposes and tax years 2008 and forward remain open for examination for the Company's more significant state tax jurisdictions. To the extent utilized in future years' tax returns, net operating loss carryforwards at December 31, 2013 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.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## 12. Net Income (Loss) Per Share

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands except per share data) | | |
| Basic: | | | |
| Net income (loss) | $(35,525) | $(39,362) | $110,597 |
| Average common shares outstanding | 21,362 | 20,974 | 20,764 |
| Net income (loss) per share | $(1.66) | $(1.88) | $5.33 |
| Diluted: | | | |
| Net income (loss) | $(35,525) | $(39,362) | $110,597 |
| Interest on convertible senior debentures | — | — | 5,750 |
| Net income (loss) for diluted per share calculation | $(35,525) | $(39,362) | $116,347 |
| Number of shares used in basic per share computation | 21,362 | 20,974 | 20,764 |
| Effect of dilutive securities: | | | |
| Convertible senior debentures | — | — | 3,009 |
| Unvested restricted stock and DSUs | — | — | 60 |
| Employee stock options | — | — | 689 |
| Number of shares used in diluted per share computation | 21,362 | 20,974 | 24,522 |
| Net income (loss) per share | $(1.66) | $(1.88) | $4.74 |

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 loss. Any impact is shown as an adjustment to net income (loss) for purposes of calculating diluted net income (loss) per share.

The following potential shares of common stock and their effects on income were excluded from the diluted net loss per share calculation because their effect would be anti-dilutive:

- At December 31, 2013, 2012 and 2011, options to purchase 1.8 million, 3.3 million and 0.1 million shares of common stock, respectively, at prices ranging from $3.93 to $18.80 per share, $3.93 to $18.80 per share and $18.78 to $21.36 per share were excluded from the calculation.
- At December 31, 2013 and 2012, unvested restricted stock units, performance stock units and DSUs convertible into 0.3 million shares of stock were excluded from the calculations.
- For the years ended December 31, 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.

## 13. 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, 2013, the Company recognized impairment charges against the loan of $15.7 million. The Company’s efforts to collect Mr. Musser’s outstanding loan obligation have included the sale of existing collateral, obtaining and selling additional collateral, litigation and negotiated resolution. Since 2001 and through December 31, 2013, the Company has received a total of $16.9 million in payments on the loan. In December 2011, the loan documents were amended to take into account accumulated unpaid interest and to make certain other changes related to collateral, maturity dates and other terms.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company received cash from the sale of collateral in 2011 in the amount of $0.1 million and no payments in 2013 or 2012. The carrying value of the loan at December 31, 2013 was zero.

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.

14. Commitments and Contingencies

The Company and its partner companies are involved in various claims and legal actions arising in the ordinary course of business. While 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, 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 and office equipment under leases expiring at various dates to 2017. Total rental expense under operating leases was $0.6 million, $0.6 million and $0.5 million in 2013, 2012 and 2011, respectively. At December 31, 2013, the Company has future minimum lease payments of $0.5 million for the year ending December 31, 2014 and $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, 2013 which related to one of the Company's private equity holdings.

The Company also has committed capital of approximately $0.1 million to another private equity fund. This commitment is 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, 2013. 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 connection with the Company's May 2008 sale of its equity and debt interests in Acsis, Inc., Alliance Consulting Group Associates, Inc., Laureate Biopharma, Inc., ProModel Corporation and Neuronyx, Inc. (the "Bundle Transaction"), an aggregate of $6.4 million of the gross proceeds of the sale were placed in escrow pending the expiration of a predetermined notification period, subject to possible extension in the event of a claim against the escrowed amounts. On April 25, 2009, the purchaser in the Bundle Transaction notified the Company of claims being asserted against the entire escrowed amounts. In April 2013, the claim was tried on the merits and the verdict in the case denied the purchaser's claims against the escrowed funds. The escrow funds were released to the Company in June 2013.

In connection with the Bundle Transaction, the Company agreed to continue its guarantee of the Laureate Biopharma, Inc. Princeton, New Jersey facility lease, subject to certain conditions. During the year ended December 31, 2013, the Company obtained the release of its obligation at no expense to the Company.

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 $2.6 million was included in Other long-term liabilities on the Consolidated Balance Sheet at December 31, 2013.

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 $2.4 million at December 31, 2013. During the second quarter of 2013, a Company executive terminated his employment for "good reason." As a result of the termination, the Company

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

recognized a severance charge of $0.9 million. During the year ended December 31, 2013, all the payments required to be made by the Company related to the severance charge were paid.

15. Supplemental Cash Flow Information

During the years ended December 31, 2013 and 2012, the Company converted $1.8 million and $0.4 million, respectively, of advances to partner companies into ownership interests in partner companies. Cash payments for interest in the years ended December 31, 2013, 2012 and 2011 were $2.9 million, $0.8 million and $0.4 million, respectively. In addition, during each of the years ended December 31, 2012 and 2011, 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, 2013, 2012 and 2011 was $0.0 million in each year.

16. Operating Segments

As of December 31, 2013, the Company held interests in 22 non-consolidated partner companies which are included in the Healthcare and Technology segments. Included in the Penn Mezzanine segment are the Company's interests in the Penn Mezzanine management company and the general partner and the Company's participations in mezzanine loans and equity interests initiated by Penn Mezzanine.

The Company’s active partner companies as of December 31, 2013 by segment were as follows for the years ended December 31, 2013, 2012 and 2011:

Healthcare

| | Safeguard Primary Ownership as of December 31, | | | |
|---|---|---|---|---|
| Partner Company | 2013 | 2012 | 2011 | Accounting Method |
| AdvantEdge Healthcare Solutions, Inc. | 40.1% | 40.2% | 40.2% | Equity |
| Alverix, Inc. | 48.5% | 49.2% | 49.6% | Equity |
| Crescendo Bioscience, Inc. | 12.6% | 12.6% | NA | Cost |
| Dabo Health, Inc. | 8.0% | NA | NA | Cost |
| Good Start Genetics, Inc. | 30.0% | 30.0% | 26.3% | Equity |
| Medivo, Inc. | 34.5% | 30.0% | 30.0% | Equity |
| NovaSom, Inc. | 30.3% | 30.3% | 30.3% | Equity |
| NuPathe Inc. | 16.5% | 17.8% | 17.8% | Fair value (1) |
| Putney, Inc. | 27.6% | 27.6% | 27.6% | Equity |
| Quantia, Inc. | 35.1% | NA | NA | Equity |
| Sotera Wireless, Inc. | 7.3% | NA | NA | Cost |

(1) The Company’s ownership interest in NuPathe was accounted for as available-for-sale securities following NuPathe’s completion of an initial public offering in August 2010. In October 2012, the Company participated in a private placement of NuPathe preferred stock units, and in conjunction with this financing the Company placed two persons on NuPathe’s board of directors. As a result, the Company determined that it exercised significant influence over NuPathe which made the equity method of accounting applicable to its ownership interests. Instead, the Company elected the fair value option beginning in October 2012.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Technology

| | Safeguard Primary Ownership as of December 31, | | | |
|---|---|---|---|---|
| Partner Company | 2013 | 2012 | 2011 | Accounting Method |
| AppFirst, Inc. | 34.3% | 35.0% | NA | Equity |
| Apprenda, Inc. | 22.0% | NA | NA | Equity |
| Beyond.com, Inc. | 38.2% | 38.3% | 38.3% | Equity |
| Bridgevine, Inc. | 22.7% | 21.7% | 22.8% | Equity |
| Clutch Holdings, Inc. | 24.0% | NA | NA | Equity |
| DriveFactor, Inc. | 40.6% | 35.4% | 23.9% | Equity |
| Hoopla Software, Inc. | 25.3% | 25.3% | 28.0% | Equity |
| Lumesis, Inc. | 44.2% | 31.6% | NA | Equity |
| MediaMath, Inc. | 22.5% | 22.2% | 22.4% | Equity |
| Pneuron Corporation | 27.6% | NA | NA | Equity |
| Spongecell, Inc. | 23.0% | 23.1% | NA | Equity |

As of December 31, 2013, the Penn Mezzanine segment includes a 36% ownership interest in the management company and general partner of Penn Mezzanine L.P. The Company accounts for its interest under the equity 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 their respective partner companies. Results of the Penn Mezzanine segment includes interest, dividend and participation fees earned on the mezzanine interests in which the Company participates as well as equity income (loss) associated with the Company's management company and general partner interest in the Penn Mezzanine platform.
Management evaluates its Healthcare and Technology segments' performance based on net loss which is based on 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 and any impairment charges or gain (loss) on the sale of, or mark-to-market, of partner companies.

Management evaluates the Penn Mezzanine segment performance based on the performance of the mezzanine interests in which the Company participates. This includes an evaluation of the current and future cash flows associated with interest and dividend payments as well as estimated losses based on evaluating known and inherent risks in the investments in which the Company participates.
Other Items include certain expenses which are not identifiable to the operations of the Company's operating business 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, other income (loss) and equity income (loss) related to certain private equity fund ownership interests. Other Items also include income taxes, which are reviewed by management independent of segment results.
As of December 31, 2013 and 2012, all of the Company's assets were located in the United States.
Segment assets in Other Items included primarily cash, cash equivalents, cash held in escrow and marketable securities of $183.7 million and $212.5 million at December 31, 2013 and 2012, respectively.

34

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following represents segment data from operations:

| | For the Year Ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Healthcare | Technology | Penn Mezzanine | Total Segments | Other Items | Total |
| | (In thousands) | | | | | |
| Operating loss | $— | $— | $(15) | $(15) | $(21,629) | $(21,644) |
| Interest income | — | — | 1,506 | 1,506 | 1,140 | 2,646 |
| Equity income (loss) | (31,706) | 20,899 | (2,096) | (12,903) | 296 | (12,607) |
| Net income (loss) | (32,563) | 20,899 | 888 | (10,776) | (24,749) | (35,525) |
| Segment Assets: | | | | | | |
| December 31, 2013 | 74,939 | 69,471 | 12,783 | 157,193 | 188,803 | 345,996 |

| | For the Year Ended December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Healthcare | Technology | Penn Mezzanine | Total Segments | Other Items | Total |
| | (In thousands) | | | | | |
| Operating loss | $— | $— | $(10) | $(10) | $(19,463) | $(19,473) |
| Interest income | — | — | 1,505 | 1,505 | 1,421 | 2,926 |
| Equity income (loss) | (26,544) | (119) | (317) | (26,980) | 463 | (26,517) |
| Net loss | (6,660) | (119) | (1,136) | (7,915) | (31,447) | (39,362) |
| Segment Assets: | | | | | | |
| December 31, 2012 | 83,500 | 58,753 | 12,153 | 154,406 | 219,738 | 374,144 |

| | For the Year Ended December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Healthcare | Technology | Penn Mezzanine | Total Segments | Other Items | Total |
| | (In thousands) | | | | | |
| Operating loss | $— | $— | $— | $— | $(21,168) | $(21,168) |
| Interest income | — | — | 210 | 210 | 1,214 | 1,424 |
| Equity income (loss) | 121,299 | 21,454 | (71) | 142,682 | (225) | 142,457 |
| Net income (loss) | 114,063 | 21,478 | 139 | 135,680 | (25,083) | 110,597 |

Net loss from Other Items was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Corporate operations | $(24,749) | $(31,447) | $(25,083) |
| Income tax benefit (expense) | — | — | — |
| | $(24,749) | $(31,447) | $(25,083) |

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

17. Selected Quarterly Financial Information (Unaudited)

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| | (In thousands except per share data) | | | |
| 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 |
| 2012: | | | | |
| General and administrative expense | $4,743 | $5,148 | $4,790 | $4,792 |
| Operating loss | (4,743) | (5,148) | (4,790) | (4,792) |
| Other income, net | 3,084 | 4,819 | 91 | 1,344 |
| Interest income | 899 | 595 | 696 | 736 |
| Interest expense | (1,452) | (1,456) | (1,461) | (1,267) |
| Equity loss | (7,448) | (8,947) | (3,293) | (6,829) |
| Net loss before income taxes | (9,660) | (10,137) | (8,757) | (10,808) |
| Income tax benefit (expense) | — | — | — | — |
| Net loss | $(9,660) | $(10,137) | $(8,757) | $(10,808) |
| Net loss per share (a) | | | | |
| Basic | $(0.46) | $(0.48) | $(0.42) | $(0.51) |
| Diluted | $(0.46) | $(0.48) | $(0.42) | $(0.51) |

(a) 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.

18. Subsequent Events

In February 2014, Crescendo Bioscience was acquired by Myriad Genetics, Inc. The Company received approximately $38.4 million in cash proceeds in connection with the transaction, excluding $3.2 million which will be held in escrow for 15 months.

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. The Company received initial net cash proceeds of $23.1 million as a result of the transaction. Depending on the achievement of the milestones, the Company may receive up to an additional $24.2 million.

36

In January 2014, Alverix 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 for approximately 18 months.

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.

| | | Incorporated Filing Reference | |
|---|---|---|---|
| Exhibit Number | Description | 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 | Registration Statement on Form S-4 12/17/10 | 3.1.3 |
| 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 February 18, 2004, between Safeguard Scientifics, Inc. and Wachovia Bank, National Association, as trustee, including the form of 2.625% Convertible Senior Debentures due 2024 | Form 10-K 3/15/04 | 4.10 |
| 4.2 | Indenture, dated as of March 26, 2010, by and between Safeguard Scientifics, Inc. and U.S. Bank, National Association | Form 8-K 3/30/10 | 4.1 |
| 4.3 | Global Note representing 10.125% Convertible Senior Debentures due March 15, 2014 | Form 8-K 3/30/10 | 4.2 |
| 4.4 | Escrow Agreement, dated as of March 26, 2010, by and among Safeguard Scientifics, Inc., U.S. Bank, National Association (as trustee) and U.S. Bank, National Association (in its capacity as | Form 8-K 3/30/10 | 4.3 |

| | | | |
|---|---|---|---|
| | escrow agent) | | |
| 4.5 | 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. 2004 Equity Compensation Plan, as amended and restated on July 13, 2009 (attached to the Company's Definitive Proxy Statement filed on July 23, 2009) | Form 10-K 3/16/10 | 10.3 |

| | | | |
|---|---|---|---|
| 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 |
| 10.6*† | Compensation Summary — Non-employee Directors | — | — |
| 10.7.1* | Letter Agreement between Peter J. Boni and Safeguard Scientifics, Inc. dated as of November 12, 2012 | Form 8-K 11/13/12 | 10.1 |
| 10.8.1* | Agreement by and between Safeguard Scientifics, Inc. and Stephen Zarrilli dated as of May 28, 2008 | Form 8-K 5/29/08 | 10.1 |
| 10.8.2* | 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 |
| 10.8.3* | 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 |
| 10.9.1* | 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 |
| 10.9.2* | 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 |
| 10.9.3* | 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 |
| 10.10.1* | Compensation Agreement by and between Safeguard Scientifics, Inc. and Jeffrey B. McGroarty dated January 6, 2014 | Form 8-K 1/7/14 | 10.1 |
| 10.11.1* | Key Employee Compensation Recoupment Policy | Form 10-Q 7/26/13 | 10.2 |
| 10.12.1 | 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 |
| 10.12.2 | 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 |
| 10.12.3 | 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 |
| 10.12.4 | 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 |
| 10.13 | 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 |
| 10.14 | 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, 2013, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets - December 31, 2013 and 2012; (ii) Consolidated Statements of Operations - Years ended December 31, 2013, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income (Loss) - Years ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Changes in Equity - Years ended December 31, 2013, 2012 and 2011; (v) Consolidated Statements of Cash Flows - Years ended December 31, 2013, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements. | — | — |

† Filed on March 7, 2014 as an exhibit to the Original Form 10-K.
† † 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.

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: August 28, 2014