

SAFEGUARD SCIENTIFICS INC
Form 10-K
March 07, 2014
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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
Building 800 19087
Wayne, PA
(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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate 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 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.

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

Large accelerated filer Accelerated filer

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

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

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”) to be 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.

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PART I

Cautionary Note Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about Safeguard Scientifics, Inc. (“Safeguard” or “we”), the industries in which we operate and other matters, as well as management’s beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as “projects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “would,” “could,” “will,” “opportunity,” “potential” or “may,” variations of such words or other words to convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our forward-looking statements are subject to risks and uncertainties. Factors that could cause actual results to differ materially include, among others, our ability to make good decisions about the deployment of capital, the fact that our partner companies may vary from period to period, our substantial capital requirements and absence of liquidity from our partner company holdings, fluctuations in the market prices of our publicly traded partner company holdings, competition, our inability to obtain maximum value for our partner company holdings, our ability to attract and retain qualified employees, our ability to execute our strategy, market valuations in sectors in which our partner companies operate, our inability to control our partner companies, our need to manage our assets to avoid registration under the Investment Company Act of 1940, and risks associated with our partner companies and their performance, including the fact that most of our partner companies have a limited history and a history of operating losses, face intense competition and may never be profitable, the effect of economic conditions in the business sectors in which our partner companies operate, compliance with government regulation and legal liabilities, all of which are discussed in Item 1A. “Risk Factors.” Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

Item 1. Business

Business Overview

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

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

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

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.

In 2013, our management team continued to focus on the following objectives:

• Deploy capital in companies within our strategic focus;

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

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

To meet our strategic objectives during 2014, Safeguard will continue to focus on:

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

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

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

Significant 2013 Highlights

Here are our key developments from 2013:

During 2013, we deployed an aggregate of \$34.1 million of capital into six new partner companies and in other early stage enterprises. In addition, we deployed \$15.3 million of additional capital to support the growth of the partner companies in which we already had an interest at December 31, 2012.

- In January 2013, Safeguard deployed \$1.3 million as part of a \$14.8 million financing for Sotera Wireless, Inc. (“Sotera”). In addition, Safeguard paid \$1.2 million to acquire additional shares in Sotera from a previous investor. Sotera is a medical device company that has developed a new wireless patient monitoring platform called ViSi Mobile®.

In February and August 2013, Safeguard deployed an aggregate of \$5.5 million in Clutch Holdings, Inc., a mobile commerce platform that unifies gifting, loyalty programs and shopping by bringing the most relevant information to consumers and the most targeted customers to merchants.

In February 2013, Safeguard deployed \$5.0 million as part of a \$6.0 million financing for Pneuron Corporation. Pneuron’s lightweight, cloud-ready enterprise-class platform provides a suite of high-performance “pneurons” that enables enterprises to build, deploy and manage distributed analytics, applications and operating models directly against source systems and centrally integrates insights.

In August 2013, Safeguard deployed \$7.5 million as part of a \$10.0 million financing for Quantia, Inc. Quantia’s mobile and web-based physician relationship management platform, called QuantiaMD, enables principal participants throughout the healthcare spectrum including health systems, payers, pharmaceutical companies, and medical device companies to reach, engage and interact with their high-value physicians in a way that ultimately creates revenue opportunities, reduces costs, saves time, and improves quality of care.

In November 2013, Safeguard deployed \$12.1 million as part of a \$16.0 million financing for Apprenda Inc., which powers the next generation of enterprise software development in public, private and hybrid clouds. As a foundational software layer and application run-time environment, Apprenda abstracts away the complexities of building and delivering modern software applications, enabling enterprises to turn ideas into innovations faster. With Apprenda, enterprises can securely deliver an entire ecosystem of data, services, applications and application programming interfaces to both internal and external customers across any infrastructure.

In November 2013, Safeguard deployed \$0.8 million as part of a \$1.5 million financing for Dabo Health, Inc. Dabo Health provides the healthcare community with a platform to view and track improvement in key performance metrics, collaborate across hospitals and healthcare systems, and identify and share learnings to save lives providing a solution which enables providers and payers to improve patient care, reduce per capita cost and maximize reimbursements.

In December 2013, Safeguard received \$36.4 million in initial proceeds from the successful sale of Safeguard partner company ThingWorx, Inc. to PTC Inc. (NASDAQ:PTC). The \$36.4 million excludes \$4.1 million which will be held in escrow until December 30, 2015. Under the terms of the definitive agreement, PTC acquired ThingWorx for approximately \$112.0 million, plus an earn-out of up to \$18.0 million. Under the earn-out, Safeguard has the opportunity to receive up to an additional \$6.5 million based on certain milestones that may be achieved over future periods. This would increase Safeguard’s total proceeds to approximately \$47.0 million. It is difficult to assess the

likelihood of receiving some or all of such amounts, or the timing thereof.

Our Strategy

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

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As a visionary for the development of growth-stage healthcare and technology companies, Safeguard is a proven partner for entrepreneurs looking to accelerate growth and build long-term value in their businesses. Leveraging Safeguard's rich and colorful history of building market leaders, along with our team's collective operational expertise and successful entrepreneurial endeavors, Safeguard has built a powerful-and actionable-platform of resources to support our partner companies with the strategies and relationships that are most vital for success. We provide value that extends beyond capital and work as a team to foster growth.

Our corporate staff of 30 employees is dedicated to creating long-term value for our shareholders by helping our partner companies build value and by finding additional capital deployment opportunities.

Identifying Partner Company Opportunities

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

- operating in large and/or growing markets;
- with barriers to entry by competitors, such as proprietary technology and intellectual property, or other competitive advantages;
- with initial capital requirements between of \$5 million and \$15 million, and follow-on financing needs of between \$5 million and \$10 million, with the total anticipated deployment of up to \$25 million from Safeguard; and
- with a compelling growth strategy.

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

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

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

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

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

- responsive operational assistance, including strategy design and execution, business development, corporate development, sales, marketing, finance, risk management, talent recruitment and legal support;
- the flexibility to structure transactions, with or without debt;
- occasional liquidity opportunities for founders and existing investors;
- a focus on maximizing risk-adjusted value growth, rather than absolute value growth within a narrow or predetermined time frame;
- interim C-level management support, as needed; and
- opportunities to leverage Safeguard's balance sheet for borrowing and stability.

Helping Our Partner Companies Build Value

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

- applying our expertise to support a partner company's introduction of new products and services;

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•leveraging our market knowledge to generate additional growth opportunities;

•leveraging our business contacts and relationships; and

•identifying and evaluating potential acquisitions and providing capital to pursue potential acquisitions to accelerate growth.

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

•defining short and long-term strategic goals;

•identifying and planning for the critical success factors to reach these goals;

•identifying and addressing the challenges and operational improvements required to achieve the critical success factors and, ultimately, the strategic goals;

•identifying and implementing the business measurements that we and others will apply to measure a company's success; and

•providing capital to drive growth.

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

Realizing Value

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

Our Partner Companies

An understanding of our partner companies is important to understanding Safeguard and its value-building strategy. Following are descriptions of our partner companies in which we owned interests at December 31, 2013. The indicated ownership percentage is presented as of December 31, 2013 and reflects the percentage of the vote we were entitled to cast at that date based on issued and outstanding voting securities (on a common stock equivalent basis), excluding the effect of options, warrants and convertible debt (primary ownership).

HEALTHCARE PARTNER COMPANIES

AdvantEdge Healthcare Solutions, Inc.

(Safeguard Ownership: 40.1%)

AdvantEdge Healthcare Solutions ("AdvantEdge"), with offices in multiple locations in the Eastern and Mid-Western United States, is a technology-enabled provider of healthcare revenue cycle and business management solutions that improve decision-making, maximize financial performance, streamline operations and eliminate compliance risks for healthcare providers. AdvantEdge continues to gain meaningful scale through organic growth and strategic acquisitions, having completed eight acquisitions since 2007. AdvantEdge has more than 675 employees in eight regional offices in the U.S. and one office in Bangalore, India. www.ahsrcm.com

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Alverix, Inc.

(Safeguard Ownership: 48.5%)

Alverix designs, develops and manufactures next-generation instrument and connectivity platforms for Point-of-Care diagnostic testing. Alverix's systems enable laboratory class performance in a mobile, inexpensive format, extending testing beyond high volume sites to physician office labs, retail clinics, emerging markets and the home, where immediate results are critical to patient care. Becton, Dickinson and Company acquired Alverix in January 2014. For further details, see Note 18 to the Consolidated Financial Statements. www.alverix.com

Crescendo Bioscience, Inc.

(Safeguard Ownership: 12.6%)

Crescendo Bioscience is a molecular diagnostics company that is currently focused on improving the treatment of rheumatoid arthritis ("RA"), a debilitating, chronic inflammatory disease characterized by bone erosions and cartilage degradation. Current tools for assessing the status of RA in individual cases are largely subjective, imprecise and cumbersome to administer in daily practice. Working with collaborators from academic medical institutions, Crescendo Bioscience is building a comprehensive understanding of the underlying biology of RA, including the characterization of protein, gene expression and genetic biomarkers, to provide molecular analysis of the disease to help guide the treatment of individual patients. Through its lead product, Vectra[®]DA, Crescendo Bioscience is establishing long-term relationships with clinicians to help improve outcomes throughout the continuum of care. All testing is performed at Crescendo Bioscience's own specialized, CLIA-certified laboratory. Myriad Genetics acquired Crescendo in February 2014. For further details, see Note 18 to the Consolidated Financial Statements. www.crescendobio.com

Dabo Health, Inc.

(Safeguard Ownership: 8.0%)

Headquartered in San Francisco, California, Dabo Health provides the healthcare community with a platform to view and track improvement in key performance metrics, collaborate across hospitals and healthcare systems, and identify and share learnings to save lives - providing a solution which enables providers and payers to improve patient care, reduce per capita cost and maximize reimbursements. www.dabohealth.com

Good Start Genetics, Inc.

(Safeguard Ownership: 30.0%)

Headquartered in Cambridge, Massachusetts, Good Start Genetics is an innovative molecular genetic information company that has developed more accurate and comprehensive genetic carrier screening tests. Good Start Genetics' sequencing-based carrier screening test, GoodStart Select[™], screens for all 23 genetic disorders recommended for screening by leading medical societies and influential advocacy groups. Good Start Genetics' next-generation DNA sequencing technology, combined with other proven genetic screening technologies, results in higher carrier detection rates regardless of ethnicity. www.goodstartgenetics.com

Medivo, Inc.

(Safeguard Ownership: 34.5%)

Headquartered in New York, New York, Medivo is a health monitoring company that enables physicians and payers to better track and improve outcomes, while providing services for life science companies to more effectively target and measure impact. Medivo's lab results search and lab analytics platform give healthcare providers access to more complete patient and practice-level profiles sourced from more than 150 labs, while the company's suite of mobile apps increase patient engagement and lab testing compliance. Medivo's services enable physicians and payers to better track and improve outcomes, while providing services for life science companies to more effectively target and measure impact. www.medivo.com

NovaSom, Inc.

(Safeguard Ownership: 30.3%)

Headquartered in Glen Burnie, Maryland, NovaSom is a medical device company that has developed the first and only FDA-cleared wireless home sleep test for Obstructive Sleep Apnea ("OSA"), called AccuSom[®] Home Sleep Test. The NovaSom home sleep testing technology and MediTrack[®] portal have been shown to provide in-home, clinically equivalent diagnosis of OSA at a significantly reduced cost compared to in-facility testing for uncomplicated adult OSA. www.novasom.com

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NuPathe Inc. (NASDAQ: PATH)

(Safeguard Ownership: 16.5%)

NuPathe is a specialty pharmaceutical company focused on the development and commercialization of branded therapeutics for diseases of the central nervous system. Teva Pharmaceuticals acquired NuPathe in February 2014. For further details, see Note 18 to the Consolidated Financial Statements. www.nupathe.com

Putney, Inc.

(Safeguard Ownership: 27.6%)

Headquartered in Portland, Maine, Putney is a specialty pharmaceutical company developing high-quality, cost-effective generic medicines for pets. Putney's mission is to partner with veterinary practices to provide high-quality medicines that meet pet medical needs and offer cost-effective alternatives for pet owners. www.putneyvet.com

Quantia, Inc.

(Safeguard Ownership: 35.1%)

Headquartered in Waltham, Massachusetts, Quantia is a leader in physician engagement and alignment. Quantia's web-based and mobile platform, called QuantiaMD, enables principal participants in healthcare to reach and engage high-value physicians in ways that ultimately reduce costs, save time, and improve quality of care. The platform blends social media, game mechanics and engagement science to help its clients, organizations such as health systems, payers, pharmaceutical companies and medical device companies, collaborate with physicians. www.quantia-inc.com

Sotera Wireless, Inc.

(Safeguard Ownership: 7.3%)

Headquartered in San Diego, California, Sotera is a medical device company that has developed a wireless patient monitoring platform called ViSi Mobile®. The FDA-approved ViSi Mobile System continuously monitors all core vital signs - heart rate or pulse rate, electrocardiogram, blood pressure, blood oxygenation level, respiration rate and skin temperature - all with a monitoring accuracy typically found in intensive care units while not restricting the patient's mobility. www.soterawireless.com

TECHNOLOGY PARTNER COMPANIES

AppFirst, Inc.

(Safeguard Ownership: 34.3%)

Headquartered in New York, New York, AppFirst delivers an application-aware operational intelligence platform that enables organizations to see key information across their entire IT ecosystem. AppFirst's data collection and aggregation is a powerful big data solution, collecting data across every process within any application, across all servers in real time. Customers are using AppFirst to lower IT costs, enhance security and compliance, make better business decisions based on proactive intelligence, and drive toward a new quality of service. www.appfirst.com

Apprenda, Inc.

(Safeguard Ownership: 22.0%)

Headquartered in Clifton Park, New York, Apprenda powers the next generation of enterprise software development in public, private and hybrid clouds. As a hybrid cloud software layer that aligns IT resources and public cloud with efficiency and innovation goals, Apprenda helps customers reinvent their business more profitably, enabling the emergence of the software-defined enterprises. www.apprenda.com

Beyond.com, Inc.

(Safeguard Ownership: 38.2%)

Headquartered in King of Prussia, Pennsylvania, Beyond.com is a career network that is focused on helping people grow and succeed professionally. Beyond.com helps employers and more than 30 million job seekers pinpoint the most relevant opportunities based on location, industry and expertise. This is achieved through 75 unique career channels, 2,500 industry communities, and 500 professional communities which reach more than 100 countries in the Beyond.com global network. www.beyond.com

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Bridgevine, Inc.	(Safeguard Ownership: 22.7%)
Headquartered in Vero Beach, Florida, Bridgevine is a performance-based digital marketing company that has consolidated the fragmented digital ecosystem through a proprietary up-sell and cross-sell optimization platform. Bridgevine utilizes its proprietary optimization platform, Acquisition and Merchandising Platform, to (a) provide insight and attribution across the digital marketing landscape of search engine optimization, search engine marketing, mobile, social and display media, and (b) perform superior up-sell and cross-sell for brands to better monetize their customers through complimentary offers delivered seamlessly into third party web and customer relationship management environments. www.bridgevine.com	
Clutch Holdings, Inc.	(Safeguard Ownership: 24.0%)
Headquartered in Ambler, Pennsylvania, Clutch is the first and only end-to-end platform that helps brands connect, manage, engage and measure success across all touch points with their customers via in-store, online, mobile and social media. Through its Consumer Lifecycle Success platform, Clutch enables retailers to maximize the value they get from their customers by providing a comprehensive set of modular solutions to drive loyalty, increase consumer spend and reward brand advocacy. www.clutch.com	
DriveFactor, Inc.	(Safeguard Ownership: 40.6%)
Headquartered in Richmond, Virginia, DriveFactor provides insurance companies with a turn-key software platform that enables usage based insurance (“UBI”) programs. DriveFactor has created a UBI platform that is statistically more predictive and financially more attractive for insurance companies to implement. It is also a more privacy-sensitive, financially equitable offering for consumers. DriveFactor’s smartphone telematics engine, which is fully integrated into the DriveFactor telematics platform, is available for iOS and Android, and can be embedded into existing or new smartphone apps for the purpose of gathering driving data and generating leads while supporting an engaging customer experience. DriveFactor is currently available in the United States, Canada and Europe. www.drivefactor.com	
Hoopla Software, Inc.	(Safeguard Ownership: 25.3%)
Headquartered in San Jose, California, Hoopla has developed a complete employee engagement system designed to increase motivation and steer employee actions and behaviors. Hoopla’s subscription-based software as a service (“SaaS”) application leverages enterprise data, advanced game mechanics and sophisticated communication tools to cultivate a high performance culture and drive results. Hoopla’s SaaS applications are licensed for a subscription fee and are available on the Salesforce.com AppExchange. www.hoopla.net	
Lumesis, Inc.	(Safeguard Ownership: 44.2%)
Headquartered in Stamford, Connecticut, Lumesis is a SaaS, cloud-based financial technology company that is dedicated to delivering software solutions and comprehensive, timely data to the municipal bond marketplace. Through sophisticated analytical tools, real-time alerts, proprietary visualization technology and content-rich reporting, Lumesis’ DIVER solutions allow professionals across the municipal market to easily identify portfolio risks and opportunities, improve customer satisfaction, ensure compliance and enable growth. www.lumesis.com	
MediaMath, Inc.	(Safeguard Ownership: 22.5%)
Headquartered in New York, New York, MediaMath provides enterprise-class technology and services to advertisers and their agencies to make more efficient, effective and profitable marketing decisions. MediaMath’s TerminalOne Marketing Operating System™ enables marketers to leverage data insights, media optimization and algorithmic decisioning to execute smarter marketing campaigns. MediaMath’s clients include top-tier agencies, holding companies and brands like Havas, Hill Holiday, 1-800-Flowers.com and Pitney Bowes, which use the platform to buy billions of highly targeted ads per month. MediaMath serves more than 3,500 clients with more than 300 employees in twelve locations worldwide. www.mediamath.com	

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Pneuron Corporation

(Safeguard Ownership: 27.6%)

Headquartered in Woburn, Massachusetts, Pneuron helps Fortune 5000 enterprise companies reduce the time and cost of application development by building solutions across heterogeneous databases, and applications. Pneuron's lightweight, cloud-ready enterprise-class platform provides a suite of high-performance "pneurons" that enables enterprises to build, deploy and manage distributed analytics, applications and operating models directly against source systems and centrally integrate insights. Instead of bringing all the data, IP and assets into one place, then analyzing them, Pneuron takes the analytics to the data. This approach eliminates the need for large costly failure-prone systems and data integration projects. Pneuron is initially focused on some of the most pressing and complex areas of financial services, including global regulations, risk, conversion management and revenue generation. The company is also starting to gain traction in insurance and healthcare with emerging partnerships. www.pneuron.com

Spongecell, Inc.

(Safeguard Ownership: 23.0%)

Headquartered in New York, New York, Spongecell builds online ads that are data-driven, responsive, customizable and scalable across the web. Spongecell's dynamic creative technology helps advertisers and their agencies build interactive ads that can be personalized to the individual consumer automatically and in real time. Spongecell builds digital ads in as little as 72 hours, allowing creative agencies to quickly deploy interactive ad campaigns that boost engagement and result in higher conversions. www.spongecell.com

Other Initiatives To Expand Our Platform

In 2011, Safeguard acquired a 36% ownership interest in Penn Mezzanine, a mezzanine lending enterprise. As of December 31, 2013, Safeguard had an aggregate of \$12.0 million in carrying value related to its ownership interest in Penn Mezzanine and in its lending activities in which Safeguard has participated. We have determined that we will not be making any further new capital deployments in connection with Penn Mezzanine lending activities. We will continue to collect principal and interest payments from our existing participating interests in Penn Mezzanine loans. In 2014, we will continue to consider other opportunities to expand our platform and leverage our core capabilities.

FINANCIAL INFORMATION ABOUT OPERATING SEGMENTS

Information on operating income (loss), equity income (loss) and net income (loss) for each operating segment of Safeguard's business for each of the three years in the period ended December 31, 2013 and assets as of December 31, 2013 and 2012 is contained in Note 16 to the Consolidated Financial Statements.

OTHER INFORMATION

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

AVAILABLE INFORMATION

Safeguard is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Therefore, we file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with, and furnish other reports to, the Securities and Exchange Commission ("SEC"). You can read and copy such documents at the SEC's public reference facilities in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. Such material may also be accessed electronically by means of the SEC's home page on the Internet at www.sec.gov or through Safeguard's website at www.safeguard.com. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. Copies of these reports (excluding exhibits) also may be obtained free of charge, upon written request to: Investor Relations, Safeguard Scientifics, Inc., 435 Devon Park Drive, Building 800, Wayne, Pennsylvania 19087.

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

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

Item 1A. Risk Factors

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

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

If we make poor decisions regarding the deployment of capital into new or existing partner companies, our business model will not succeed. Our success as a company ultimately depends on our ability to choose the right partner companies. If our partner companies do not succeed, the value of our assets could be significantly reduced and require substantial impairments or write-offs and our results of operations and the price of our common stock would be adversely affected. The risks relating to our partner companies include:

- most of our partner companies have a history of operating losses and/or limited operating history;
- the intense competition affecting the products and services our partner companies offer could adversely affect their businesses, financial condition, results of operations and prospects for growth;
- the inability to adapt to changing marketplaces;
- the inability to manage growth;
- the need for additional capital to fund their operations, which we may not be able to fund or which may not be available from third parties on acceptable terms, if at all;
- the inability to protect their proprietary rights and/or infringing on the proprietary rights of others;
- that our partner companies could face legal liabilities from claims made against them based upon their operations, products or work;
- the impact of economic downturns on their operations, results and growth prospects;
- the inability to attract and retain qualified personnel;
- the existence of government regulations and legal uncertainties may place financial burdens on the businesses of our partner companies; and
- the inability to plan for and manage catastrophic events.

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

Our partner companies (and the nature of our interests in them) could vary widely from period to period.

As part of our strategy, we continually assess the value to our shareholders of our interests in our partner companies.

We also regularly evaluate alternative uses for our capital resources. As a result, depending on market conditions, growth prospects and other key factors, we may at any time:

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

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

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

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

Our partner companies generally provide us with no cash flow from their operations. We rely on cash on hand, liquidity events and our ability to generate cash from capital raising activities to finance our operations.

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

operations, they generally retain the funds to develop their own businesses. As a result, we must rely on cash on hand, partner company liquidity events and new capital raising activities to meet our cash needs. If we are unable to find ways of monetizing our holdings or raising additional

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capital on attractive terms, we may face liquidity issues that will require us to curtail our new business efforts, constrain our ability to execute our business strategy and limit our ability to provide financial support to our existing partner companies.

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

Fluctuations in the market prices of the common stock of our publicly traded holdings may affect the price of our common stock. The market prices of our publicly traded holdings have been highly volatile and subject to fluctuations unrelated or disproportionate to operating performance.

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

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

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

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

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

Our success is dependent on our senior management.

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

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

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

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

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

of our interests and our operating results to suffer, including:

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

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

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Our inability to control our partner companies also could prevent us from assisting them, financially or otherwise, or could prevent us from liquidating our interests in them at a time or at a price that is favorable to us. Additionally, our partner companies may not act in ways that are consistent with our business strategy. These factors could hamper our ability to maximize returns on our interests and cause us to incur losses on our interests in these partner companies. We may have to buy, sell or retain assets when we would otherwise not wish to do so in order to avoid registration under the Investment Company Act.

The Investment Company Act of 1940 regulates companies which are engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities. Under the Investment Company Act, a company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of the value of its total assets (excluding government securities and cash items) on an unconsolidated basis, unless an exemption or safe harbor applies. We refer to this test as the “40% Test.” Securities issued by companies other than consolidated partner companies are generally considered “investment securities” for purposes of the Investment Company Act, unless other circumstances exist which actively involve the company holding such interests in the management of the underlying company. We are a company that partners with growth-stage companies to build value; we are not engaged primarily in the business of investing, reinvesting or trading in securities. We are in compliance with the 40% Test.

Consequently, we do not believe that we are an investment company under the Investment Company Act.

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

Economic disruptions and downturns may have negative repercussions for us.

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

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

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

Risks Related to Our Partner Companies

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

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

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

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

This may place our partner companies at a disadvantage in responding to the offerings of their competitors, technological changes or changes in client requirements. Also, our partner companies may be at a competitive disadvantage because many of their competitors have greater name recognition, more extensive client bases and a broader range of product offerings. In addition, our partner companies may compete against one another.

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

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

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

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

The healthcare and technology marketplaces are characterized by:

- rapidly changing technology;
- evolving industry standards;
- frequently introducing new products and services;
- shifting distribution channels;
- evolving government regulation;
- frequently changing intellectual property landscapes; and
- changing customer demands.

Our future success will depend on our partner companies' ability to adapt to these evolving marketplaces. They may not be able to adequately or economically adapt their products and services, develop new products and services or establish and maintain effective distribution channels for their products and services. If our partner companies are unable to offer competitive products and services or maintain effective distribution channels, they will sell fewer products and services and forego potential revenue, possibly causing them to lose money. In addition, we and our partner companies may not be able to respond to the marketplace changes in an economically efficient manner, and our partner companies may become or remain unprofitable.

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

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

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

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

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

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

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

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

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

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

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

Third parties have and may assert infringement or other intellectual property claims against our partner companies based on their patents or other intellectual property claims. Even though we believe our partner companies' products do not infringe any third party's patents, they may have to pay substantial damages, possibly including treble damages, if it is ultimately determined that they do. They may have to obtain a license to sell their products if it is determined that their products infringe on another person's intellectual property. Our partner companies might be prohibited from selling their products before they obtain a license, which, if available at all, may require them to pay substantial royalties. Even if infringement claims against our partner companies are without merit, defending these types of lawsuits takes significant time, is expensive and may divert management attention from other business concerns.

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

Because manufacture and sale of certain partner company products entail an inherent risk of product liability, certain partner companies maintain product liability insurance. Although none of our current partner companies have experienced any material losses in this regard, there can be no assurance that they will be able to maintain or acquire adequate product liability insurance in the future and any product liability claim could have a material adverse effect on a partner company's financial stability, revenues and results of operations. In addition, many of the engagements of our partner companies involve projects that are critical to the operation of their clients' businesses. If our partner companies fail to meet their contractual obligations, they could be subject to legal liability, which could adversely affect their business, operating results and financial condition.

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

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

Our partner companies depend upon their ability to attract and retain senior management and key personnel, including trained technical and marketing personnel. Our partner companies also will need to continue to hire additional personnel as they expand. Although our partner companies have not been the subject of a work stoppage, any future work stoppage could have a material adverse effect on their respective operations. A shortage in the availability of the requisite qualified personnel or work stoppage would limit the ability of our partner companies to grow, to increase sales of their existing products and services, and to launch new products and services.

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

Failure to comply with applicable requirements of the FDA or comparable regulation in foreign countries can result in fines, recall or seizure of products, total or partial suspension of production, withdrawal of existing product approvals or clearances, refusal to approve or clear new applications or notices and criminal prosecution. Manufacturers of pharmaceuticals and medical diagnostic devices and operators of laboratory facilities are subject to strict federal and state regulation regarding validation and the quality of manufacturing and laboratory facilities. Failure to comply with these quality regulation systems requirements could result in civil or criminal penalties or enforcement proceedings, including the recall of a product or a "cease distribution" order. The enactment of any additional laws or regulations that affect healthcare insurance policy and reimbursement (including Medicare reimbursement) could negatively affect some of our partner companies. If Medicare or private payers change the rates at which our partner companies or their customers are reimbursed by insurance providers for their products, such changes could adversely impact our partner companies.

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

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

Catastrophic events may disrupt our partner companies' businesses.

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

results and financial condition could be adversely affected.

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

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Risks Related to Initiatives Outside Our Core Business

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

We may become subject to additional laws and regulations, including the laws and regulations of other countries, as we engage in platform expansion activities.

In connection with our platform expansion activities, we may manage the deployment of capital that originates other than on our balance sheet, which could include capital originating from international sources. If we were engaged in such activities, we could become subject to additional laws and regulations, including the laws and regulations of countries other than the United States, which could increase our expenses and the costs associated with legal and regulatory compliance as well as the risk of noncompliance.

Subordination

The loans and other vehicles in which we participate will typically be subordinated to the senior obligations of our borrowers (all or a significant portion of which may be secured), either contractually or structurally, in the case of debt securities, or because of the nature of the security, in the case of preferred stock, common stock, warrants or other equity securities. Such subordinated instruments may be characterized by greater credit risk than those associated with senior obligations of the same borrower. Adverse changes in the financial condition of a borrower, general economic conditions, or both may impair the ability of such borrower to make payments on the subordinated instruments and result in defaults on such instruments more quickly than in the case of the senior obligations of such borrower.

Debt securities

Our participation in debt instruments and obligations entails normal credit risks (i.e., the risk of non-payment of interest and principal), as well as other creditor risks, including (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws, (ii) so-called "lender liability" claims by the borrower, and (iii) environmental liabilities that may arise with respect to collateral securing the obligations. A debt instrument or obligation may also be subject to prepayment or redemption at the option of the borrower. Pursuant to rights granted to Penn Mezzanine by borrowers, Penn Mezzanine will often oversee or play a role in the management of its borrowers. If a court were to find that Penn Mezzanine's influence on the management of a borrower caused the borrower to take actions that were in Penn Mezzanine's interests and not in the best interests of the creditors and stockholders of the borrower as a whole, the court could cause Penn Mezzanine's claims, which normally would be subordinated only to any senior debt of the borrower, to be subordinated to the claims of all creditors of the borrower and, in certain circumstances, the claims of the stockholders. Since we participate in the loans and other transactions entered into by Penn Mezzanine, we would be adversely affected by any such circumstance.

Leverage

Our Penn Mezzanine participations include borrowers with significant levels of debt. Such situations are inherently more sensitive than others to declines in revenues and to increases in expenses and interest rates. The leveraged capital

structure of such borrowers will increase the exposure of those borrowers to bad business planning, adverse economic factors (or other factors) such as downturns in the economy or deterioration in the condition of the borrower or its industry. Because these

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participations involve subordinated obligations, among the most junior in a borrower's capital structure, the inability of a borrower to service its debt obligations could result in a loss of our principal.

Minority positions

The loans in which we participate generally represent minority interests in borrowers. Penn Mezzanine will not likely be able to control or exercise substantial influence over such borrowers.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters and administrative offices in Wayne, Pennsylvania contain approximately 20,000 square feet of office space in one building. We currently lease our corporate headquarters under a lease expiring in October 2015.

Item 3. Legal Proceedings

We, as well as our partner companies, are involved in various claims and legal actions arising in the ordinary course of business. While in the current opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position or results of operations, no assurance can be given as to the outcome of these lawsuits, and one or more adverse dispositions could have a material adverse effect on our consolidated financial position and results of operations, or that of our partner companies. See Note 14 to the Consolidated Financial Statements for a discussion of ongoing claims and legal actions.

Item 4. Mine Safety Disclosures

Not Applicable.

ANNEX TO PART I — EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Executive Officer Since
Stephen T. Zarrilli	52	President, Chief Executive Officer and Director	2008
Jeffrey B. McGroarty	44	Senior Vice President and Chief Financial Officer	2012
Brian J. Sisko	53	Chief Operating Officer, Executive Vice President and Managing Director	2007

Mr. Zarrilli joined Safeguard as Senior Vice President and Chief Financial Officer in June 2008 and became President and Chief Executive Officer in November 2012. Prior to joining Safeguard, Mr. Zarrilli co-founded, in 2004, the Penn Valley Group, a middle-market management advisory and private equity firm, and served as a Managing Director there until June 2008. Mr. Zarrilli also served as Acting Senior Vice President, Acting Chief Administrative Officer and Acting Chief Financial Officer of Safeguard from December 2006 to June 2007. Mr. Zarrilli also served as the Chief Financial Officer, from 2001 to 2004, of Fiberlink Communications Corporation, a provider of mobile access solutions for large enterprises; as the Chief Executive Officer, from 2000 to 2001, of Concellera Software, Inc., a developer of content management software; as the Chief Executive Officer, from 1999 to 2000, and Chief Financial Officer, from 1994 to 1998, of US Interactive, Inc. (at the time a public company), a provider of Internet strategy consulting, marketing and technology services (US Interactive filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in January 2001); and, previously, with Deloitte & Touche from 1983 to 1994.

Mr. Zarrilli is a director and Chairman of the Audit Committee of NutriSystem, Inc.

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

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

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PART II

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

Safeguard's common stock is listed on the New York Stock Exchange (Symbol: SFE). The high and low sale prices reported within each quarter of 2013 and 2012 were as follows:

	High	Low
Fiscal year 2013:		
First quarter	\$ 16.24	\$ 14.51
Second quarter	18.00	15.20
Third quarter	16.95	14.14
Fourth quarter	20.12	14.92
Fiscal year 2012:		
First quarter	\$ 18.20	\$ 15.42
Second quarter	18.09	14.51
Third quarter	16.49	14.73
Fourth quarter	16.22	13.15

The high and low sale prices reported in the first quarter of 2014 through March 6, 2014 were \$21.38 and \$17.58 respectively, and the last sale price reported on March 6, 2014, was \$20.31. No cash dividends have been declared in any of the years presented, and Safeguard has no present intention to declare cash dividends.

As of March 6, 2014, there were approximately 18,500 beneficial holders of Safeguard's common stock.

The following graph compares the cumulative total return on \$100 invested in our common stock for the period from December 31, 2008 through December 31, 2013 with the cumulative total return on \$100 invested for the same period in the Russell 2000 Index and the Wilshire 4500 Index. In light of the diverse nature of Safeguard's business and based on our assessment of available published industry or line-of-business indexes, we determined that no single industry or line-of-business index would provide a meaningful comparison to Safeguard. Further, we did not believe that we could readily identify an appropriate group of industry peer companies for this comparison. Accordingly, under SEC rules, we selected the Wilshire 4500 Index, a published market index in which the median market capitalization of the included companies is similar to our own. Safeguard's common stock is included as a component of the Russell 2000 and Wilshire 4500 indexes.

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

▲Assumes an investment of \$100 on December 31, 2008.

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Issuer Purchases of Equity Securities

The following table summarizes repurchases of our common stock:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan (a)
October 1 - 30, 2013	8,100	\$14.9874	8,100	\$25,000,000

(a) Our Board of Directors had authorized us, from time to time and depending on market conditions, to repurchase up to \$10.0 million of our outstanding common stock. In February 2014, our Board of Directors increased the authorized amount of repurchases to \$25.0 million. These repurchases may be made in open market or privately negotiated transactions, including under plans complying with Rule 10b5-1 of the Exchange Act, based on market conditions, stock price, and other factors. The share repurchase program does not obligate the Company to acquire any specific number of shares.

Item 6. Selected Consolidated Financial Data

The following table sets forth our selected consolidated financial data for the five-year period ended December 31, 2013. The selected consolidated financial data presented below should be read in conjunction with Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data included in this report. The historical results presented herein may not be indicative of future results. The accounts of Clariant, Inc. are included in continuing operations through May 14, 2009, the date of its deconsolidation.

	December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$139,318	\$66,029	\$83,187	\$183,419	\$67,347
Short-term marketable securities	38,250	110,957	158,098	42,411	39,066
Long-term marketable securities	6,088	29,059	16,287	—	—
Restricted marketable securities	5	10	12,265	16,774	—
Cash held in escrow	—	6,434	6,433	6,434	6,910
Working capital	170,956	178,577	245,420	197,769	105,983
Total assets	345,996	374,144	406,636	336,545	282,099
Convertible senior debentures	49,948	48,991	45,694	75,919	78,225
Other long-term liabilities	3,683	3,921	4,146	5,311	5,461
Total equity	284,661	313,971	348,280	246,431	190,507

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	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands except per share amounts)				
Consolidated Statements of Operations Data:					
Revenue	\$—	\$—	\$—	\$—	\$34,839
Operating Expenses:					
Cost of sales	—	—	—	—	13,811
Selling, general and administrative	21,644	19,473	21,168	20,847	37,214
Total operating expenses	21,644	19,473	21,168	20,847	51,025
Operating loss	(21,644)	(19,473)	(21,168)	(20,847)	(16,186)
Other income (loss), net	383	9,338	(6,145)	74,809	108,881
Interest income	2,646	2,926	1,424	718	480
Interest expense	(4,303)	(5,636)	(5,971)	(5,737)	(3,164)
Equity income (loss)	(12,607)	(26,517)	142,457	(22,334)	(23,227)
Net income (loss) from continuing operations before income taxes	(35,525)	(39,362)	110,597	26,609	66,784
Income tax benefit (expense)	—	—	—	—	14
Net income (loss) from continuing operations	(35,525)	(39,362)	110,597	26,609	66,798
Income from discontinued operations, net of tax	—	—	—	—	1,975
Net income (loss)	(35,525)	(39,362)	110,597	26,609	68,773
Net income attributable to noncontrolling interest	—	—	—	—	(1,163)
Net income (loss) attributable to Safeguard Scientifics, Inc.	\$(35,525)	\$(39,362)	\$110,597	\$26,609	\$67,610
Basic Income (Loss) Per Share:					
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$(1.66)	\$(1.88)	\$5.33	\$1.30	\$3.26
Net income from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders	—	—	—	—	0.07
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$(1.66)	\$(1.88)	\$5.33	\$1.30	\$3.33
Shares used in computing basic income (loss) per share	21,362	20,974	20,764	20,535	20,308
Diluted Income (Loss) Per Share:					
Net income (loss) from continuing operations attributable to Safeguard Scientifics, Inc. common shareholders	\$(1.66)	\$(1.88)	\$4.74	\$1.24	\$3.08
Net income from discontinued operations attributable to Safeguard Scientifics, Inc. common shareholders	—	—	—	—	0.06
Net income (loss) attributable to Safeguard Scientifics, Inc. common shareholders	\$(1.66)	\$(1.88)	\$4.74	\$1.24	\$3.14
Shares used in computing diluted income (loss) per share	21,362	20,974	24,522	21,507	