SAFEGUARD SCIENTIFICS INC
Form 10-K
March 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ___________

Commission File Number 1-5620
Safeguard Scientifics, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1609753
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
170 North Radnor-Chester Road Suite 200 Radnor, 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 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 Act). Yes ¨ No ý

As of June 30, 2016, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $249,387,693 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 February 28, 2017 was 20,364,488.

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 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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SAFEGUARD SCIENTIFICS, INC.
FORM 10-K
December 31, 2016

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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 t 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 be a nationally recognized leader with respect to entrepreneurship and innovation. Our vision is to provide capital and relevant expertise to fuel the growth of technology-driven businesses in healthcare, financial services and digital media. 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 these interests relate to entities which may later become partner companies.

Safeguard targets technology-driven businesses in healthcare, financial services and digital media that are capitalizing on the next wave of enabling technologies with a particular focus, at present, on the Internet of Everything, enhanced security and predictive analytics. We strive to create long-term value for our shareholders by helping our partner companies to increase their market penetration, grow revenue and improve cash flow. Safeguard typically deploys between $5 million and $15 million of initial capital and $5 million to $10 million of follow-on funding with a total anticipated deployment of up to $25 million in a company. We will occasionally provide certain early-stage seed round financings in amounts generally up to $1 million to promising young companies with the goal to provide more capital once certain development milestones are achieved.

In 2016, 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;
- 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 2017, Safeguard will continue to focus on:

- Deploying our capital in partner companies within our strategic focus;
- Helping partner companies achieve additional market penetration, revenue growth, cash flow improvement and growth in long-term value; and

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- 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 170 North Radnor-Chester Road, Suite 200, Radnor, Pennsylvania 19087.

Significant 2016 Highlights

Here are some of our key developments from 2016:

- During 2016, we deployed an aggregate of $22.9 million of capital into four new partner companies. In addition, we deployed $56.4 million of additional capital to support the growth of partner companies in which we already had an interest at December 31, 2015.
- In January 2016, we received $4.1 million in connection with the expiration of the escrow period related to the December 2013 sale of former partner company ThingWorx, Inc. to PTC, Inc. In April 2016, we received $3.3 million associated with the achievement of the final performance milestone related to the transaction bringing our total cash-on-cash return to 4.7x.
- In April 2016, we received $1.1 million in cash proceeds from escrow related to the sale of our ownership interests in former partner company DriveFactor, Inc. in April 2015.
- In April 2016, we received initial cash proceeds of $58.6 million from the sale of former partner company Putney, Inc. to Dechra Pharmaceuticals Plc. This excludes $0.6 million, which will be held in escrow until April 2017.
- In June 2016, we sold our ownership interests in former partner company Bridgevine, Inc. We received cash proceeds of $5.0 million.
- In June 2016, we deployed $5.5 million as part of a $17.5 million Series B financing for partner company Aktana, Inc. In October 2016, we deployed an additional $2.7 million in Aktana. Aktana leverages big data and machine learning to enable pharmaceutical brands to dynamically optimize their strategy and enhance sales execution.
- In July 2016, we received $0.6 million in cash proceeds from escrow related to the sale of our ownership interests in former partner company Quantia, Inc. in July 2015.
- In September 2016, we deployed $4.5 million as part of a $5.5 million Series A financing for partner company Moxe Health Corporation. Moxe Health connects payers to their provider networks, facilitating real-time data exchange through its electronic integration platform.
- In October 2016, we deployed $4.2 million as part of a $5.0 million Series A financing for partner company Brickwork. Brickwork helps retailers inform, target, convert and prepare for store shoppers online as the first scalable software-as-a-service ("SaaS") platform powering a seamless customer path between online and in-store shopping.
- In November 2016, we deployed $6.0 million as part of a $10.0 million Series B financing for partner company T-REX Group, Inc. T-REX is a financial services software technology company that specializes in valuation, risk analysis, and structuring tools to unlock investment opportunities for various asset classes.
- During the year ended December 31, 2016, we repurchased 0.4 million shares of the Company's common stock in open market transactions at prices ranging from $11.69 to $14.67 per share for an aggregate cost of $5.4 million.

Our Strategy

Founded in 1953, Safeguard has a distinguished track record of building market leaders by providing capital and operational support to entrepreneurs across an evolving and innovative spectrum of industries. Today, Safeguard provides capital and relevant expertise to fuel the growth of technology-driven businesses in healthcare, financial services and digital media. Safeguard targets companies that are capitalizing on the next wave of enabling technologies with a particular focus, at present, on the Internet of Everything, enhanced security and predictive analytics.

As a visionary for the development of early- and growth-stage technology-driven companies, Safeguard is a proven partner for entrepreneurs looking to accelerate growth and build long-term value in their businesses. Leveraging Safeguard’s 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 33 employees is dedicated to creating long-term value for our shareholders by helping our partner companies build value and by pursuing selective, well-timed exits of our partner companies.

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Identifying Partner Company Opportunities

Safeguard's go-to-market strategy, marketing and sourcing activities are designed to generate a large volume of high-quality opportunities to acquire significant shareholder positions in partner companies. Our principal focus is to acquire positions in early- and growth-stage companies with attractive growth prospects. 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 $5 million and $15 million, and follow-on financing 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 Safeguard's Advisor and Global Expert Network.

We believe there are many opportunities within these strategic focus areas, 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 technology-driven 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;
- 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, which include:

- 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.

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

Realizing Value

In general, we will hold our position in a partner company as long as we believe the risk-adjusted value of that position is maximized by our continued ownership and effort. From time to time, we engage in discussions with other companies interested in our partner companies, either in response to inquiries or as part of a process we initiate. To the extent we believe that a partner company’s further growth and development can best be supported by a different ownership structure or if we otherwise believe it is in our shareholders’ best interests, we may seek to 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, 2016.

We categorize our partner companies into four stages based upon revenue generation—Development Stage, Initial Revenue Stage, Expansion Stage, and High Traction Stage. The Development Stage is made up of those companies that are pre-revenue businesses. The Initial Revenue Stage is made up of businesses that have revenues of $5 million or less. The Expansion Stage is made up of companies that have revenue in the range of $5 million to $20 million. The High Traction Stage is made up of companies that have revenue in excess of $20 million per year.

The ownership percentages indicated below are presented as of December 31, 2016 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).

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

Headquartered in Salem, New Hampshire, AdvantEdge Healthcare Solutions is a technology-enabled provider of healthcare revenue cycle and business management solutions that improve decision-making, maximize financial performance, streamline operations and mitigate compliance risks for healthcare providers. www.ahsrcm.com

Aktana, Inc. Initial Revenue (Safeguard Ownership: 31.2%)

Headquartered in San Francisco, California, Aktana is a pioneer in decision support for global life science sales teams. Aktana helps its customers improve their commercial effectiveness by delivering data-driven insights and suggestions directly to sales reps, coordinating multi-channel actions and providing insight regarding which strategies work best for which customers under which conditions. www.aktana.com

Apprenda, Inc. Expansion (Safeguard Ownership: 29.4%)

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

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Beyond.com, Inc. High Traction (Safeguard Ownership: 38.2%)
Headquartered in King of Prussia, Pennsylvania, Beyond helps millions of professionals find jobs and advance their careers while also serving as the premier destination for companies in need of top talent. This is achieved through more than 500 talent communities that use integrated social features to help members discover relevant jobs, career news, career advice and resources. www.beyond.com

Brickwork Initial Revenue (Safeguard Ownership: 20.3%)
Headquartered in New York, New York, Brickwork helps retailers inform, target, convert and prepare for store shoppers online as the first scalable software-as-a-service platform powering a seamless customer path between online and in-store shopping. www.brickworksoftware.com

Cask Data, Inc. Initial Revenue (Safeguard Ownership: 31.3%)
Headquartered in Palo Alto, California, Cask Data is an open source software company that helps developers deliver enterprise-class Apache Hadoop™ solutions more quickly and effectively. Cask’s flagship offering, the Cask Data Application Platform, provides an open source layer on top of the Hadoop ecosystem that adds enterprise-class governance, portability, security, scalability and transactional consistency. www.cask.com

CloudMine, Inc. Initial Revenue (Safeguard Ownership: 30.1%)
Headquartered in Philadelphia, Pennsylvania, CloudMine develops and markets the Connected Health Cloud, a HIPAA-compliant application platform for the healthcare industry. www.cloudmine.me

Clutch Holdings, Inc. Expansion (Safeguard Ownership: 42.8%)
Headquartered in Ambler, Pennsylvania, Clutch has revolutionized how marketing teams for premier brands develop and foster relationships with their customers. Clutch’s advanced marketing platform serves as a customer hub, delivering deep intelligence derived from real-time behaviors and transactions across in-store, online, mobile and social channels. www.clutch.com

Full Measure Education, Inc. Initial Revenue (Safeguard Ownership: 35.2%)
Headquartered in Washington, D.C., Full Measure Education is a technology company dedicated to the higher education industry. Full Measure’s mission is to help every student enroll, complete and attain a career that pays a family-sustaining wage by keeping students fully engaged, informed and motivated to persist through the entire student lifecycle-from initial admission, to completion, to career. www.fullmeasureed.com

Good Start Genetics, Inc. High Traction (Safeguard Ownership: 29.6%)
Headquartered in Cambridge, Massachusetts, Good Start Genetics is an information solutions company delivering best-in-class genetics offerings to growing families. Using advanced clinical sequencing, proprietary methods and information tailored to the individual, Good Start Genetics’ suite of offerings arms clinicians and patients with insightful and actionable information to promote successful pregnancies and help build healthy families. www.goodstartgenetics.com

Hoopla Software, Inc. Initial Revenue (Safeguard Ownership: 25.5%)
Headquartered in San Jose, California, Hoopla provides cloud-based software that helps sales organizations inspire and motivate sales team performance. Hoopla's Sales Motivation Platform combines modern game mechanics, data analytics and broadcast-quality video in a cloud application that makes it easy for managers to motivate team performance and score more wins. www.hoopla.net

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InfoBionic, Inc. Initial Revenue (Safeguard Ownership: 39.7%)
Headquartered in Lowell, Massachusetts, InfoBionic is an emerging digital health company focused on creating patient monitoring solutions for chronic disease management with an initial market focus on cardiac arrhythmias. InfoBionic's MoMe® Kardia cloud-based, remote patient monitoring platform delivers on-demand, actionable monitoring data and analytics directly to the physicians themselves. www.infobionic.com

Lumesis, Inc. Initial Revenue (Safeguard Ownership: 44.1%)
Headquartered in Stamford, Connecticut, Lumesis is a financial technology company focused on providing business efficiency, data and regulatory solutions to the municipal bond marketplace. Lumesis' DIVER platform helps more than 500 firms with more than 43,000 users efficiently meet credit, regulatory and risk needs. www.lumesis.com

MediaMath, Inc. High Traction (Safeguard Ownership: 20.5%)
Headquartered in New York, New York, MediaMath is a global technology company that is leading the movement to revolutionize traditional marketing and drive transformative results for marketers through its TerminalOne Marketing Operating System®. MediaMath empowers marketers with an extensible, open platform that activates data, automates execution and optimizes interactions across all addressable media, delivering superior performance, transparency and control to all marketers and better, more individualized experiences for consumers. www.mediamath.com

meQuilibrium Initial Revenue (Safeguard Ownership: 31.5%)
Headquartered in Boston, Massachusetts, meQuilibrium is a digital coaching platform that delivers clinically validated and highly personalized resilience solutions to employers, health plans, wellness providers and consumers increasing engagement, productivity and performance, as well as improving outcomes in managing stress, health and well-being. www.mequilibrium.com

Moxe Health Corporation Initial Revenue (Safeguard Ownership: 32.4%)
Headquartered in Madison, Wisconsin, Moxe Health was founded with a vision to enable bi-directional data exchange through its key product, Substrate, directly linking payers and their provider networks. By integrating insurer data using industry standard processes, Moxe Health allows providers to incorporate claims, risk and other payer data into their own analytic efforts, allowing clinicians to better understand patient risks and deliver value-based care. www.moxehealth.com

NovaSom, Inc. High Traction (Safeguard Ownership: 31.7%)
Headquartered in Glen Burnie, Maryland, NovaSom is a medical device company that markets an FDA-cleared wireless home sleep test for Obstructive Sleep Apnea ("OSA") called AccuSom® Home Sleep Test. The NovaSom home sleep test provides in-home, clinically equivalent diagnosis of OSA at a significantly reduced cost compared to in-facility testing for uncomplicated adult OSA. www.novasom.com

Pneuron Corporation Initial Revenue (Safeguard Ownership: 35.4%)
Headquartered in Woburn, Massachusetts, Pneuron enables organizations to rapidly solve business problems through a distributed approach that cuts across data, applications and processes. By targeting the right information at the data source, companies are no longer faced with the complex integration and infrastructure requirements of traditional approaches. Pneuron's Distributed Solutions Platform enables customers to accelerate business value and develop reports, products and applications in half the time and cost of traditional methods. www.pneuron.com

Prognos (formerly Medivo, Inc.) Expansion (Safeguard Ownership: 35.2%)
Headquartered in New York, New York, Prognos uses advanced analytics and proprietary disease algorithms to provide unique targeting intelligence for life science companies; commercial effectiveness opportunities for diagnostic companies; and quality improvement and risk management solutions for payers. www.prognos.ai

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Propeller Health, Inc. Initial Revenue (Safeguard Ownership: 24.0%)
Headquartered in Madison, Wisconsin, Propeller Health provides digital solutions to measurably improve respiratory health by combining sensors, mobile apps and predictive analytics to monitor and engage patients, increase adherence and encourage effective self-management. www.propellerhealth.com

QuanticMind, Inc. Initial Revenue (Safeguard Ownership: 23.2%)
Headquartered in Redwood City, California, QuanticMind is a SaaS company that provides enterprise-level, predictive advertising management software for paid search, social and mobile. QuanticMind brings together machine learning, distributed cloud and in-memory processing technologies to provide the most intelligent, most scalable and fastest platform available. www.quanticmind.com

Sonobi, Inc. Expansion (Safeguard Ownership: 21.6%)
Headquartered in New York, New York, Sonobi is an advertising technology developer that creates data-driven tools and solutions to meet the evolving needs of demand- and sell-side organizations within the digital media marketplace. Sonobi helps its clients and strategic partners to forecast new market opportunities, enhance value delivery to clients, and create more profitable businesses through integration of progressive data procurement and user-centric sales management technologies. www.sonobi.com

Spongecell, Inc. Expansion (Safeguard Ownership: 23.0%)
Headquartered in New York, New York, Spongecell is a creative technology company that allows brand advertisers to create personal connections on a global scale. Offering intelligent data integrations, decisioning tools and an easy, streamlined workflow, Spongecell's Creative Optimization and Relevance Engine ("CORE") allows advertisers, and their creative agencies, to make smarter creative decisions and build online campaigns that resonate with customers and respond to whatever the marketing need is. www.spongecell.com

Syapse, Inc. Initial Revenue (Safeguard Ownership: 26.2%)
Headquartered in Palo Alto, California, Syapse drives healthcare transformation through precision medicine, enabling provider systems to improve clinical outcomes, streamline operations and shift to new payment models. Syapse Precision Medicine Platform is a comprehensive software suite used by leading health systems to support the clinical implementation of precision medicine in oncology and other service lines, enabling clinical and genomic data integration, decision support, care coordination and quality improvement at point of care. www.syapse.com

T-REX Group, Inc. Initial Revenue (Safeguard Ownership: 23.6%)
Headquartered in New York, New York, T-REX is a financial services software technology company that specializes in valuation, risk analysis, and structuring tools to unlock investment opportunities for various asset classes. T-REX's secure, enterprise SaaS-based analytics, risk, and portfolio management platform standardizes and provides transparency to the complex structured products evaluation process, increasing liquidity and creating significant investment opportunities for the hundreds of billions of dollars of capital across various esoteric, non-commoditized asset classes. www.trexgroup.com

Transactis, Inc. Expansion (Safeguard Ownership: 24.2%)
Headquartered in New York, New York, Transactis provides electronic billing and payment solutions. Transactis' cloud-based electronic bill presentment and payment platform, BillerIQ, is a white-labeled solution that is offered "as-a-service", enabling businesses to rapidly and securely deliver electronic bills, invoices and documents, as well as accept payments online, by phone and via mobile device. www.transactis.com

Trice Medical, Inc. Initial Revenue (Safeguard Ownership: 27.6%)
Headquartered in King of Prussia, Pennsylvania, Trice Medical was founded to fundamentally improve orthopedic diagnostics for the patient, physician and payor by providing instant, eyes-on, answers. Trice has pioneered fully

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camera-enabled technologies that provide a clinical solution that is optimized for the physician's office. Trice's mission is to provide more immediate and definitive patient care, eliminating the false reads associated with current indirect modalities and significantly reduce the overall cost to the healthcare system. www.tricemedical.com

WebLinc, Inc. Expansion (Safeguard Ownership: 38.0%)
Headquartered in Philadelphia, Pennsylvania, WebLinc is a commerce platform provider for fast growing online retailers. WebLinc tailors its commerce platform to the needs and scale of mid to large retailers by leveraging extensive experience and success supporting clients' need for fast growth and system flexibility. www.weblinc.com

Zipnosis, Inc. Initial Revenue (Safeguard Ownership: 25.4%)
Headquartered in Minneapolis, Minnesota, Zipnosis provides health systems with a white-labeled, fully integrated virtual care platform. Through Zipnosis' tech-enabled treatment and triage tools, clients can offer convenient access to care while improving clinician efficiency. Currently, patients may be treated for more than 90 conditions via such treatment and triage tools. www.zipnosis.com

FINANCIAL INFORMATION ABOUT OPERATING SEGMENTS

Previously, we presented our operating results in two reportable segments - Healthcare and Technology. Recently, we shifted our focus to providing capital to technology companies within the fields of healthcare, financial services and digital media. Beginning in the third quarter of 2016, we have determined we operate as one operating segment based upon the similar nature of our technology-driven partner companies, the functional alignment of the organizational structure and the reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources.

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 and 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., 170 North Radnor-Chester Road, Suite 200, Radnor, 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.

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.

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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.

A significant amount of our deployed capital may be concentrated in partner companies operating in the same or similar industries, limiting the diversification of our capital deployments.

We do not have fixed guidelines for diversification of capital deployments, and our capital deployments could be concentrated in several partner companies that operate in the same or similar industries. This may cause us to be more susceptible to any single economic, regulatory or other occurrence affecting those particular industries than we would otherwise be if our partner companies operated in more diversified industries.

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

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

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

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

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

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

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

Registration and other requirements under applicable securities laws and contractual restrictions also may adversely affect our ability to dispose of our partner company 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:

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- the management of a partner company having economic or business interests or objectives that are different from ours; and
- the partner companies not taking our advice with respect to the financial or operating issues they may encounter.

Our inability to control our partner companies also could prevent us from assisting them, financially or otherwise, or could prevent us from liquidating our interests in them at a time or at a price that is favorable to us. Additionally, our partner companies may not act in ways that are consistent with our business strategy. These factors could hamper our ability to maximize returns on our interests and cause us to incur losses on our interests in these partner companies.

We may have to buy, sell or retain assets when we would otherwise not wish to do so in order to avoid registration under the Investment Company Act.

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

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

Economic disruptions and downturns may have negative repercussions for us.

Events in the United States and international capital markets, debt markets and economies may negatively impact our stock price and 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 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 technology or device, including, without limitation, technologies or devices used in healthcare, financial services or digital media. Despite all of our efforts to understand the research and development underlying the innovation or creation of such technologies and devices 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 technology marketplaces are characterized by:

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

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 retain 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. Further, if our partner companies do raise additional capital, either debt or equity, such capital may rank senior to our interests in such companies.

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 or a sale of the company, 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. If our partner companies raise additional capital, either debt or equity, that ranks senior to the capital we have deployed, such capital may entitle its holders to receive returns of capital before the dates on which we are entitled to receive any return of our deployed capital. Also, in the event of any insolvency, liquidation, dissolution, reorganization or bankruptcy of a partner company, holders of such partner company's instruments that rank senior to our deployed capital will typically be entitled to receive payment in full before we receive any return of our deployed capital. After returning such senior capital, such partner company may not have any remaining assets to use for returning capital to us, causing us to lose some or all of our deployed capital in such partner company.

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.

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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. 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 current 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

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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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters and administrative offices in Radnor, Pennsylvania contain approximately 15,600 square feet of office space in one building. We currently lease our corporate headquarters under a lease expiring in April 2026.

Item 3. Legal Proceedings

We, as well as our partner companies, are involved in various claims and legal actions arising in the ordinary course of business. While in the current opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position or results of operations, no assurance can be given as to the outcome of these lawsuits, and one or more adverse dispositions could have a material adverse effect on our consolidated financial position and results of operations, or that of our partner companies. See Note 12 to the Consolidated Financial Statements for a discussion of ongoing claims and legal actions.

Item 4. Mine Safety Disclosures

Not applicable.

ANNEX TO PART I — EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position	Executive Officer Since
Stephen T. Zarrilli	55	President, Chief Executive Officer and Director	2008
Jeffrey B. McGroarty	47	Senior Vice President and Chief Financial Officer	2012
Brian J. Sisko	56	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; and, previously, with Deloitte & Touche from 1983 to 1994.
Mr. Zarrilli is a director of Virtus Investment Partners, Inc. and currently serves as Chair of the Audit Committee and, until June 2015, was 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 LLP.

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PART II

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

Our common stock is listed on the New York Stock Exchange (Symbol: SFE). The high and low sale prices reported within each quarter of 2016 and 2015 were as follows:

	High	Low
Fiscal year 2016:		
First quarter	$14.23	$11.40
Second quarter	14.75	11.55
Third quarter	14.38	12.01
Fourth quarter	14.10	10.60
Fiscal year 2015:		
First quarter	$20.09	$19.24
Second quarter	19.94	17.28
Third quarter	19.85	15.51
Fourth quarter	18.07	13.75

The high and low sale prices reported in the first quarter of 2017 through February 28, 2017 were $13.97 and $11.80 respectively, and the last sale price reported on February 28, 2017, was $12.65. No cash dividends have been declared in any of the years presented, and we have no present intention to declare cash dividends. As of February 28, 2017, there were approximately 14,700 beneficial holders of our common stock.

Issuer Purchases of Equity Securities

The following table provides information about our purchases of equity securities during the quarter ended December 31, 2016 registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"):

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (b)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan (b)
October 1, 2016 - October 31, 2016 (c)	2,494	$12.0406	—	$ 14,636,135
November 1, 2016 - November 30, 2016	332	$11.6255	—	$ 14,636,135
December 1, 2016 - December 31, 2016	1,166	$12.2995	—	$ 14,636,135
Total	3,992	$12.0817	—	

(a) During the fourth quarter of 2016, we repurchased an aggregate of approximately 2 thousand shares of our common stock initially issued as restricted stock awards to employees and subsequently withheld from employees to satisfy the statutory withholding tax liability upon the vesting of such restricted stock awards.

(b) In July 2015, our Board of Directors authorized us to repurchase shares of our outstanding common stock with an aggregate value of up 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 us to acquire any specific number of shares.

(c) Included in this period are approximately 2 thousand shares that were open market purchases made at an average share price of $11.8445 by an individual who may be considered an affiliated purchaser of the Company under Rule 10b-18 of the Exchange Act.

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The following graph compares the cumulative total return on $100 invested in our common stock for the period from December 31, 2011 through December 31, 2016 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, 2011.

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Item 6. Selected Consolidated Financial Data

The following table sets forth our selected consolidated financial data for the five-year period ended December 31, 2016. The selected consolidated financial data presented below should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data included in this report. The historical results presented herein may not be indicative of future results.

	December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$22,058	$32,838	$111,897	$139,318	$66,029
Cash held in escrow	—	—	—	—	6,434
Short-term marketable securities	8,384	31,020	25,263	38,250	110,957
Long-term marketable securities	7,302	9,743	19,365	6,088	29,059
Long-term restricted cash equivalents	6,336	—	—	—	—
Working capital	26,690	63,251	132,287	170,956	178,577
Total assets	231,828	256,843	317,375	344,653	372,559
Convertible senior debentures	52,560	50,956	49,484	48,135	47,406
Other long-term liabilities	3,630	3,965	3,507	3,683	3,921
Total equity	169,777	195,505	257,827	284,661	313,971

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share amounts)				
Consolidated Statements of Operations Data:					
General and administrative expense	$18,692	$17,554	$18,970	$21,644	$19,473
Operating loss	(18,692)	(17,554)	(18,970)	(21,644)	(19,473)
Other income (loss), net	(1,682)	217	31,657	383	9,338
Interest income	2,075	1,935	1,901	2,646	2,926
Interest expense	(4,634)	(4,523)	(4,402)	(4,303)	(5,636)
Equity income (loss)	671	(39,599)	(15,335)	(12,607)	(26,517)
Net loss before income taxes	(22,262)	(59,524)	(5,149)	(35,525)	(39,362)
Income tax benefit (expense)	—	—	—	—	—
Net loss	$(22,262)	$(59,524)	$(5,149)	$(35,525)	$(39,362)
Net loss per share:					
Basic	$(1.09)	$(2.85)	$(0.25)	$(1.66)	$(1.88)
Diluted	$(1.09)	$(2.85)	$(0.25)	$(1.66)	$(1.88)
Weighted average shares used in computing net loss per share:					
Basic	20,343	20,874	20,975	21,362	20,974
Diluted	20,343	20,874	20,975	21,362	20,974

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Concerning Forward-Looking Statements

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

Overview

Safeguard’s charter is to be a nationally recognized leader with respect to entrepreneurship and innovation. Our vision is to provide capital and relevant expertise to fuel the growth of technology-driven businesses in healthcare, financial services and digital media. 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.

Safeguard targets technology-driven businesses in healthcare, financial services and digital media that are capitalizing on the next wave of enabling technologies with a particular focus at present on the Internet of Everything, enhanced security and predictive analytics. 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 typically deploys between $5 million and $15 million of initial capital and $5 million to $10 million of follow-on funding with a total anticipated deployment of up to $25 million in a company. 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.

Principles of Accounting for Ownership Interests in Partner Companies

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

Consolidation Method. We account for partner companies in which we maintain a controlling financial interest, generally those in which we directly or indirectly own more than 50% of the outstanding voting securities, using the consolidation method of accounting. Upon consolidation of our partner companies, we reflect the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the parent company as a non-controlling interest in the Consolidated Balance Sheet. The non-controlling interest is presented within equity, separately from the equity of the parent company. Losses attributable to the parent company and the non-controlling interest may exceed their interest in the subsidiary’s equity. As a result, the non-controlling interest shall continue to be attributed its share of losses even if that attribution results in a deficit non-controlling

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interest balance as of each balance sheet date. Revenue, expenses, gains, losses, net income or loss are reported in the Consolidated Statements of Operations at the consolidated amounts, which include the amounts attributable to the parent company's common shareholders and the non-controlling interest. As of December 31, 2016, we did not hold a controlling interest in any of our partner companies.

Fair Value Method. Unrealized gains and losses on the mark-to-market of our holdings in fair value method companies and realized gains and losses on the sale of any holdings in fair value method companies are recognized in Other income (loss), net in the Consolidated Statements of Operations. As of December 31, 2016, we did not account for any of our partner companies under the fair value method.

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

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

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

Critical Accounting Policies and Estimates

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

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

Impairment of Ownership Interests In and Advances to Partner Companies

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

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

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

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

	Year Ended December 31,		
Accounting Method	2016	2015	2014
	(In thousands)		
Equity	$ 5,357	$ 9,690	$ —
Cost	45	2,754	54
Total	$ 5,402	$ 12,444	$ 54

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

In addition to ownership interests in our partner companies, we also maintain an interest in the management company and general partner of Penn Mezzanine, a mezzanine lender focused on lower middle-market, Mid-Atlantic companies. Through our relationship with Penn Mezzanine, we acquired participating interests in mezzanine loans and related equity interests of the borrowers. Penn Mezzanine is not making any new loans and we have no remaining loans in which we have participating interests. We recognized a loss on impairment of our Penn Mezzanine debt and equity participations of $2.4 million which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2016.

Income Taxes

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

Commitments and Contingencies

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

Stock-Based Compensation

We measure all employee stock-based compensation awards using a fair value method and record such expense in our Consolidated Statements of Operations. We estimate the grant date fair value of stock options using the Black-Scholes option-pricing model which requires the input of various assumptions. These assumptions include estimating the expected term of the award and the estimated volatility of our stock price over the expected term. Changes in these assumptions can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations. The requisite service

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periods for performance-based awards are based on our best estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Changes in the requisite service period or the estimated probability of achievement of performance conditions can materially affect the amount of stock-based compensation recognized in the Consolidated Statements of Operations in any one period.

Results of Operations

Previously, we presented our operating results in two reportable segments - Healthcare and Technology. Recently, we shifted our focus to providing capital to technology companies within the fields of healthcare, financial services and digital media. Beginning in the third quarter of 2016, we have determined we operate as one operating segment based upon the similar nature of our technology-driven partner companies, the functional alignment of the organizational structure, and the reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources.

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

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

The following listing of our partner companies only include entities which were considered partner companies as of December 31, 2016. Certain entities which may have been partner companies in previous periods are omitted if, as of December 31, 2016, they had been sold or are no longer considered a partner company.

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Partner Company	Safeguard Primary Ownership as of December 31, 2016	2015	2014	Accounting Method
AdvantEdge Healthcare Solutions, Inc.	40.1%	40.1%	40.1%	Equity
Aktana, Inc.	31.2%	NA	NA	Equity
Apprenda, Inc.	29.4%	29.5%	21.6%	Equity
Beyond.com, Inc.	38.2%	38.2%	38.2%	Equity
Brickwork	20.3%	NA	NA	Equity
Cask Data, Inc.	31.3%	34.2%	NA	Equity
CloudMine, Inc.	30.1%	30.1%	NA	Equity
Clutch Holdings, Inc.	42.8%	39.3%	29.6%	Equity
Full Measure Education, Inc.	35.2%	25.4%	NA	Equity
Good Start Genetics, Inc.	29.6%	29.6%	29.9%	Equity
Hoopla Software, Inc.	25.5%	25.6%	25.6%	Equity
InfoBionic, Inc.	39.7%	38.5%	27.8%	Equity
Lumesis, Inc.	44.1%	44.7%	45.7%	Equity
MediaMath, Inc.	20.5%	20.6%	20.7%	Equity
meQuilibrium	31.5%	31.5%	NA	Equity
Moxe Health Corporation	32.4%	NA	NA	Equity
NovaSom, Inc.	31.7%	31.7%	31.7%	Equity
Pneuron Corporation	35.4%	35.4%	27.6%	Equity
Prognos (formerly Medivo)	35.2%	34.5%	34.5%	Equity
Propeller Health, Inc.	24.0%	24.6%	24.6%	Equity
QuanticMind, Inc.	23.2%	23.6%	NA	Equity
Sonobi, Inc.	21.6%	22.6%	NA	Equity
Spongecell, Inc.	23.0%	23.0%	23.0%	Equity
Syapse, Inc.	26.2%	24.4%	27.0%	Equity
T-REX Group, Inc.	23.6%	NA	NA	Equity
Transactis, Inc.	24.2%	24.5%	24.8%	Equity
Trice Medical, Inc.	27.6%	27.7%	31.9%	Equity
WebLinc, Inc.	38.0%	29.2%	29.2%	Equity
Zipnosis, Inc	25.4%	26.3%	NA	Equity

Year ended December 31, 2016 versus year ended December 31, 2015

	Year Ended December 31, 2016	2015	Variance
	(In thousands)		
General and administrative expense	$(18,692)	$(17,554)	$(1,138)
Other income (loss), net	(1,682)	217	(1,899)
Interest income	2,075	1,935	140
Interest expense	(4,634)	(4,523)	(111)
Equity income (loss)	671	(39,599)	40,270
Net loss	$(22,262)	$(59,524)	$37,262

General and Administrative Expense. Our general and administrative expenses consist primarily of employee compensation, insurance, travel-related costs, depreciation, office rent and professional services such as consulting, legal, and accounting. General and administrative expense also includes stock-based compensation expense which consists primarily of expense related to grants of stock options, restricted stock and deferred stock units to our employees and directors. General and administrative expense increased $1.1 million for the year ended December 31, 2016 compared to the prior year primarily due

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to an increase of $0.8 million in stock-based compensation for performance-based awards and an increase of $0.3 million in employee costs.

Other Income (Loss), Net. Other income (loss), net decreased $1.9 million for the year ended December 31, 2016, compared to the prior year. The components of other income (loss) for the years ended December 31, 2016 and 2015 were as follows:

Year ended December 31, 2016:	
Loss on impairment of Penn Mezzanine debt and equity participations	$(2,360)
Gain on sale of Bridgevine	424
Other	254
	$(1,682)
Year ended December 31, 2015:	
Gain on proceeds received from escrow related to sale of Crescendo	$2,914
Loss on impairment of Dabo Health	(2,356)
Loss on impairment of legacy private equity fund	(398)
Other	57
	$217

Interest Income. Interest income includes all interest earned on available cash and marketable security balances as well as interest earned on notes receivable from our partner companies. Interest income remained relatively consistent compared to the prior year.

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

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

Equity income (loss) increased $40.3 million for the year ended December 31, 2016 compared to the prior year. The components of equity income (loss) for the years ended December 31, 2016 and 2015 were as follows:

Year ended December 31, 2016:	
Gain on sale of Putney	$55,638
Gain on performance milestone proceeds related to sale of Thingworx	3,264
Unrealized dilution gain on the decrease of our ownership percentage in partner companies	2,038
Gain on proceeds received from escrow related to sale of DriveFactor	1,100
Gain on proceeds received from escrow related to sale of Quantia	600
Loss on impairment of AppFirst	(1,731)
Loss on impairment of Aventura	(3,626)
Share of net loss of our equity method partner companies	(56,612)
	$671

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Year ended December 31, 2015:	
Gain on sale of DriveFactor	$6,095
Gain on proceeds received from escrow related to sale of Thingworx	4,080
Gain on performance milestone proceeds related to sale of Thingworx	3,264
Gain on proceeds received from escrow related to sale of Alverix	1,741
Unrealized dilution loss on the decrease of our percentage ownership in partner companies	(492)
Loss on impairment of Quantia	(2,920)
Loss on impairment of InfoBionic	(3,162)
Loss on impairment of AppFirst	(3,608)
Share of net loss of our equity method partner companies	(44,597)
	$(39,599)

The change in our share of net loss of our equity method partner companies for the year ended December 31, 2016 compared to the prior year was due to an increase in losses associated with our partner companies.

Year ended December 31, 2015 versus year ended December 31, 2014

	Year Ended December 31,		
	2015	2014	Variance
	(In thousands)		
General and administrative expense	$(17,554)	$(18,970)	$1,416
Other income (loss), net	217	31,657	(31,440)
Interest income	1,935	1,901	34
Interest expense	(4,523)	(4,402)	(121)
Equity loss	(39,599)	(15,335)	(24,264)
Net loss	$(59,524)	$(5,149)	$(54,375)

General and Administrative Expense. General and administrative expense decreased $1.4 million for the year ended December 31, 2015, compared to the prior year primarily due to a decrease of $0.7 million in employee costs, a decrease of $0.4 million in professional service fees, and a decrease of $0.3 million in stock-based compensation primarily for performance-based awards.

Other Income (Loss), Net. Other income (loss), net decreased $31.4 million for the year ended December 31, 2015, compared to the prior year. The components of other income (loss) for the years ended December 31, 2015 and 2014 were as follows:

Year ended December 31, 2015:	
Gain on proceeds received from escrow related to sale of Crescendo	$2,914
Loss on impairment of Dabo Health	(2,356)
Loss on impairment of legacy private equity fund	(398)
Other	57
	$217

Year ended December 31, 2014:	
Gain on sale of Crescendo Bioscience	$27,365
Gain on sale of NuPathe	3,017
Gain on sale of Sotera Wireless	1,453
Loss on sale of Penn Mezzanine equity participation	(255)
Other	77
	$31,657

Interest Income. Interest income remained relatively consistent compared to the prior year.

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Interest Expense. Interest expense remained relatively consistent compared to the prior year.

Equity Loss. Equity loss increased $24.3 million for the year ended December 31, 2015 compared to the prior year.

The components of equity loss for the years ended December 31, 2015 and 2014 were as follows:

Year ended December 31, 2015:	
Gain on sale of DriveFactor	$6,095
Gain on proceeds from escrow related to sale of Thingworx	4,080
Gain on performance milestone proceeds related to sale of Thingworx	3,264
Gain on proceeds received from escrow related to sale of Alverix	1,741
Unrealized dilution loss on the decrease of our percentage ownership in partner companies	(492)
Loss on impairment of Quantia	(2,920)
Loss on impairment of InfoBionic	(3,162)
Loss on impairment of AppFirst	(3,608)
Share of net loss of our equity method partner companies	(44,597)
	$(39,599)
Year ended December 31, 2014:	
Gain on sale of Alverix	$15,687
Unrealized dilution gain on the decrease of our percentage ownership in partner companies	6,692
Share of net loss of our equity method partner companies	(37,714)
	$(15,335)

The change in our share of net loss of our equity method partner companies for the year ended December 31, 2015 compared to the prior year was due to an increase in losses associated with our partner companies.

Income Tax Benefit (Expense)

Income tax benefit (expense) was $0.0 million for the three years ended December 31, 2016, 2015 and 2014. We have recorded a valuation allowance to reduce our net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized in each year was offset by changes in the valuation allowance.

Liquidity And Capital Resources

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

As of December 31, 2016, we had $22.1 million of cash and cash equivalents and $15.7 million of marketable securities for a total of $37.8 million.

In March 2017, we sold our interest in partner company Beyond.com back to Beyond.com for $26.0 million. We received $15.5 million in cash and a three-year, $10.5 million note for the balance due, which will accrue interest at a rate of 9.5% per annum.

In April 2016, Putney, Inc. was acquired by Dechra Pharmaceuticals Plc. We received cash proceeds of $58.6 million in cash proceeds in connection with the transaction, excluding $0.6 million which will be held in escrow until April 2017.

In June 2016, we sold our ownership interests in Bridgevine, Inc. and received cash proceeds of $5.0 million in connection with the transaction.

In June 2016, AppFirst shutdown its operations and sold its assets resulting in proceeds to us of $0.9 million.

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In July 2015, Quantia was acquired by Physicians Interactive. We received $7.8 million in initial cash proceeds in connection with the transaction, excluding $0.6 million which was released from escrow in July 2016 and an additional $0.6 million which was released from escrow in January 2017.

In April 2015, DriveFactor was acquired by CCC Information Services Inc. We received $9.1 million in initial cash proceeds in connection with the transaction. In April 2016, we received an additional $1.1 million which was released from escrow.

In December 2013, ThingWorx was acquired by PTC Inc. We received $36.4 million in initial cash proceeds in connection with the transaction. In July 2015, we received $3.3 million associated with the achievement of the initial performance milestones related to the sale. In January 2016, we received $4.1 million in connection with the expiration of the escrow period related to the sale. In April 2016, we received $3.3 million associated with the achievement of the final performance milestones related to the sale.

In July 2015, the Company's Board of Directors authorized us, from time to time and depending on market conditions, to repurchase up to $25.0 million of our outstanding common stock. During the year ended December 31, 2016, we repurchased 0.4 million shares at an aggregate cost of $5.4 million with $14.6 million remaining for repurchase under the existing authorization.

We have outstanding $55.0 million in face amount of our 5.25% convertible senior debentures due on May 15, 2018 (the "2018 Debentures"). Interest on the 2018 Debentures is payable semi-annually. At the debentures holders’ option, the 2018 Debentures are convertible into our common stock prior to November 15, 2017 subject to certain conditions, and at any time after November 15, 2017. The conversion rate of the 2018 Debentures is 55.17 shares of common stock per $1,000 principal amount of debentures, equivalent to a conversion price of approximately $18.13 per share of common stock. The closing price per share of our common stock at December 31, 2016 was $13.45. The 2018 Debentures holders have the right to require us to repurchase the 2018 Debentures if we undergo a fundamental change as defined in the debenture agreement, including the sale of all or substantially all of our common stock or assets, liquidation, or dissolution; a change in control; the delisting of our common stock from the New York Stock Exchange or the NASDAQ Global Market (or any of their respective successors); or a substantial change in the composition of our board of directors as defined in the agreement. On or after November 15, 2016, we may redeem for cash some or all of the debentures, subject to certain conditions. Upon any redemption of the 2018 Debentures, we will pay a redemption price of 100% of their principal amount, plus accrued and unpaid interest. Upon the conversion of the 2018 Debentures, we have the right to settle the conversion in stock, cash or a combination thereof. We anticipate refinancing all or a portion of the outstanding convertible senior debentures before the maturity date of May 15, 2018.

We were party to a loan agreement with a commercial bank which provided us with a revolving credit facility in the maximum aggregate amount of $25.0 million in the form of borrowings, guarantees and issuances of letters of credit. The credit facility expired by its terms on December 19, 2016. Under the credit facility, we had 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. Pursuant to the terms of the credit facility, upon its expiration, the letter of credit is now secured by cash which is classified as Long-term restricted cash equivalents on the Consolidated Balance Sheet. The restriction on the cash will lapse when the related letter of credit expires on March 19, 2019.

In May 2001, we entered into a $26.5 million loan agreement with Warren V. Musser, a former Chairman and Chief Executive Officer of the Company. Since 2001 and through December 31, 2016, we have received a total of $17.1 million in payments on the loan. The carrying value of the loan at December 31, 2016 was zero. We received payments of $0.1 million on this loan agreement in the years ended December 31, 2016 and 2014 and did not receive any payments on this loan agreement in the year ended December 31, 2015.

We are required to return a portion or all the distributions we received as a general partner of a private equity fund for further distribution to such fund's limited partners (“clawback”). The maximum clawback we could be required to return related to our general partner interest is $1.3 million, of which $1.0 million was reflected in Accrued expenses and other current liabilities and $0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets at December 31, 2016. Our ownership in the fund is 19%. The clawback liability is joint and several, such that

we may be required to fund the clawback for other general partners should they default. We believe our potential liability due to the possibility of default by other general partners is remote. We have been notified by the fund's manager that the fund is being dissolved and $1.0 million of our clawback liability is due in the first quarter of 2017.
The transactions we enter into in pursuit of our strategy could increase or decrease our liquidity at any point in time. As we seek to acquire interests in new partner companies, provide additional funding to existing partner companies, or commit capital to other initiatives, we may be required to expend our cash or incur debt, which will decrease our liquidity. Conversely, as we dispose of our interests in partner companies from time to time, we may receive proceeds from such sales, which could

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increase our liquidity. From time to time, we are engaged in discussions concerning acquisitions and dispositions which, if consummated, could impact our liquidity, perhaps significantly.

For the reasons we have presented above, we believe our cash and cash equivalents at December 31, 2016 and other internal sources of cash flow will be sufficient to fund our cash requirements for at least the next 12 months, including interest payments, commitments to our existing partner companies and funds, possible additional funding of existing partner companies and our general corporate requirements. Our acquisition of new partner company interests is always contingent upon our availability of cash to fund such deployments, and our timing of monetization events directly affects our availability of cash.

Analysis of Consolidated Cash Flows

Cash flow activity was as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net cash used in operating activities	$(18,661)	$(17,749)	$(20,189)
Net cash provided by (used in) investing activities	20,061	(56,989)	16,956
Net cash used in financing activities	(5,844)	(4,321)	(24,188)
	$(4,444)	$(79,059)	$(27,421)

Net Cash Used In Operating Activities

Year ended December 31, 2016 versus year ended December 31, 2015. Net cash used in operating activities increased $0.9 million in 2016 compared to the prior year. The increase was primarily related to an increase of $0.4 million in employee costs, an increase of $0.2 million in cash used for professional fees, and an increase of $0.1 million in cash paid for office rent.

Year ended December 31, 2015 versus year ended December 31, 2014. Net cash used in operating activities decreased $2.4 million in 2015 compared to the prior year. The decrease was related to $1.1 million of final payments associated with a transitional services agreement with our previous Chief Executive Officer in 2014, a decrease of $1.0 million in cash used for professional fees and a decrease of $0.1 million in cash paid for office rent.

Net Cash Provided by (Used In) Investing Activities

Year ended December 31, 2016 versus year ended December 31, 2015. Net cash provided by (used in) investing activities increased by $77.1 million for the year ended December 31, 2016 compared to the prior year. The increase primarily related to a $48.9 million increase in proceeds from the sales of and distributions from companies. Cash proceeds from the sale of and distributions from companies was $74.0 million for the year ended December 31, 2016 which related to the sale of our interests in Putney and Bridgevine, proceeds received from AppFirst from the sale of its assets, cash received from escrow associated with the sale of our interests in DriveFactor, Thingworx, and Quantia and cash received associated with the achievement of performance milestones related to the sale of our interest in Thingworx. Cash proceeds from the sale of and distributions from companies was $25.1 million for the year ended December 31, 2015 which related to the sale of our interests in DriveFactor and Quantia, cash received from escrow associated with the sale of our interests in Crescendo Bioscience and Alverix, and cash received associated with the achievement of performance milestones related to the sale of our interest in Thingworx. The increase in cash provided by (used in) investing activities also related to a $21.2 million increase in cash proceeds from the net change in marketable securities, a $17.8 million decrease in acquisitions of ownership interests in companies, a $1.4 million decrease in capital expenditures, and a $0.4 million increase in repayments of advances and loans to companies which were partially offset by $12.8 million increase in advances and loans to companies.

Year ended December 31, 2015 versus year ended December 31, 2014. Net cash provided by (used in) investing activities decreased by $73.9 million for the year ended December 31, 2015 compared to the prior year. The decrease primarily related to a $57.8 million decrease in proceeds from the sales of and distributions from companies. Cash proceeds from the sales of and distributions from companies was $25.1 million for the year ended December 31, 2015 which related to the sale of our interests in DriveFactor and Quantia, cash received from escrow associated with the sale of our interests in Crescendo Bioscience and Alverix, and cash received associated with the achievement of performance milestones related to the sale of our interest in Thingworx. Cash proceeds from the sales of and distributions from companies was $82.8 million for the year ended December 31, 2014 which related to the sales of our interests in Crescendo Bioscience, Alverix, NuPathe and Sotera Wireless. The decrease in cash provided by investing activities also related to a $10.7 million increase in acquisitions of ownership interests in companies, an increase of $4.2 million in advances and loans to companies, a $3.4 million decrease in repayments of advances and loans to companies, and a $1.8 million increase in capital expenditures which were partially offset by a $4.1 million increase in cash proceeds from the net change in marketable securities.

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Net Cash Used In Financing Activities

Year ended December 31, 2016 versus year ended December 31, 2015. Net cash used in financing activities increased $1.5 million in 2016 compared to the prior year. The increase related to a decrease of $0.7 million in proceeds received from the exercise of stock options, an increase of $0.5 million in tax withholdings related to share-based payment awards and an increase of $0.4 million in repurchases of our common stock.

Year ended December 31, 2015 versus year ended December 31, 2014. Net cash used in financing activities decreased $19.9 million in 2015 compared to the prior year. The decrease related to a decrease of $20.0 million in repurchases of our common stock and a decrease of $0.6 million in the proceeds received from the exercise of stock options, partially offset by the repurchase of $0.4 million of our 2024 Debentures in 2014.

Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations and other commercial commitments as of December 31, 2016, by period due or expiration of the commitment.

	Payments Due by Period				
	Total	2017	2018 and 2019	2020 and 2021	After 2021
	(In millions)				
Contractual Cash Obligations:					
Convertible senior debentures (a)	$55.0	$—	$ 55.0	$ —	$—
Interest payments on long-term debt	4.3	2.9	1.4	—	—
Operating leases (b)	5.6	0.6	1.2	1.2	2.6
Potential clawback liabilities (c)	1.3	1.0	0.3	—	—
Other long-term obligations (d)	2.7	0.8	1.6	0.3	—
Total Contractual Cash Obligations	$68.9	$5.3	$ 59.5	$ 1.5	$2.6

	Amount of Commitment Expiration by Period				
	Total	2017	2018 and 2019	2020 and 2021	After 2021
	(In millions)				
Other Commitments:					
Letters of credit (e)	$6.3	$—	$ 6.3	$ —	$—

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

(b) In 2015, we entered into an agreement for the lease of our principal executive offices which will extend through April 2026.

(c) We are required to return a portion or all the distributions we received as a general partner of a private equity fund for further distribution to such fund's limited partners (“clawback”). The maximum clawback we could be required to return related to our general partner interest is $1.3 million, of which $1.0 million was reflected in Accrued expenses and other current liabilities and $0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets at December 31, 2016. We have been notified by the fund's manager that the fund is being dissolved and $1.0 million of our clawback liability is due in the first quarter of 2017.

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

(e) A $6.3 million letter of credit is provided to the landlord of CompuCom Systems' Dallas headquarters lease as required in connection with our sale of CompuCom Systems in 2004. The letter of credit is now secured by cash which is classified as Long-term restricted cash equivalents on the Consolidated Balance Sheet.

We have agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or if the employee terminates his employment for “good reason.” The maximum aggregate cash exposure under the agreements was approximately $3.0 million at December 31, 2016.

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

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

At December 31, 2016, we had $55.0 million outstanding of our 5.25% convertible senior debentures due May 15, 2018.

Liabilities	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value at December 31, 2016
2018 Debentures due by year (in millions)	$ —	$ 55.0	$ —	$ —	$ —	$ —	$ 55.0	$ 57.7
Fixed interest rate	5.25 %	5.25 %					5.25 %	

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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.

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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, 2016, 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, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Safeguard Scientifics, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 3, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 3, 2017

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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, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the three year period ended December 31, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2016, 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, 2016, 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 3, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 3, 2017

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

	As of December 31, 2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$22,058	$32,838
Marketable securities	8,384	31,020
Prepaid expenses and other current assets	2,109	5,810
Total current assets	32,551	69,668
Property and equipment, net	1,873	2,145
Ownership interests in and advances to partner companies	183,470	171,601
Loan participations receivable	—	2,649
Long-term marketable securities	7,302	9,743
Long-term restricted cash equivalents	6,336	—
Other assets	296	1,037
Total Assets	$231,828	$256,843
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$140	$290
Accrued compensation and benefits	3,498	3,338
Accrued expenses and other current liabilities	2,223	2,789
Total current liabilities	5,861	6,417
Other long-term liabilities	3,630	3,965
Convertible senior debentures—non-current	52,560	50,956
Total Liabilities	62,051	61,338
Commitments and contingencies		
Equity:		
Preferred stock, $0.10 par value; 1,000 shares authorized	—	—
Common stock, $0.10 par value; 83,333 shares authorized; 21,573 issued at December 31, 2016 and 2015, respectively	2,157	2,157
Additional paid-in capital	816,016	817,434
Treasury stock, at cost; 1,209 and 993 shares at December 31, 2016 and 2015, respectively	(21,061)	(19,570)
Accumulated deficit	(626,904)	(604,270)
Accumulated other comprehensive loss	(431)	(246)
Total Equity	169,777	195,505
Total Liabilities and Equity	$231,828	$256,843

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2016	2015	2014
General and administrative expense	$18,692	$17,554	$18,970
Operating loss	(18,692)	(17,554)	(18,970)
Other income (loss), net	(1,682)	217	31,657
Interest income	2,075	1,935	1,901
Interest expense	(4,634)	(4,523)	(4,402)
Equity income (loss)	671	(39,599)	(15,335)
Net loss before income taxes	(22,262)	(59,524)	(5,149)
Income tax benefit (expense)	—	—	—
Net loss	$(22,262)	$(59,524)	$(5,149)
Net loss per share:			
Basic	$(1.09)	$(2.85)	$(0.25)
Diluted	$(1.09)	$(2.85)	$(0.25)
Weighted average shares used in computing net loss per share:			
Basic	20,343	20,874	20,975
Diluted	20,343	20,874	20,975

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2016	2015	2014
Net loss	$(22,262)	$(59,524)	$(5,149)
Other comprehensive loss:			
Share of other comprehensive loss of equity method investments	(185)	(246)	—
Total comprehensive loss	$(22,447)	$(59,770)	$(5,149)

See Notes to Consolidated Financial Statements.

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

	Total	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock		Additional Paid-In Capital	Treasury Stock	
				Shares	Amount		Shares	Amount
Balance — December 31, 2013	$284,661	$(539,597)	$ —	21,553	$2,155	$822,103	4	$—
Net loss	(5,149)	(5,149)	—	—	—	—	—	—
Stock options exercised, net	1,289	—	—	18	2	(2,716)	(198)	4,003
Issuance of restricted stock, net	98	—	—	—	—	(1,594)	(79)	1,692
Stock-based compensation expense	1,935	—	—	—	—	1,935	—	—
Repurchase of common stock	(25,036)	—	—	—	—	—	1,194	(25,036)
Conversion of convertible senior debentures to common stock	29	—	—	2	—	29	—	—
Balance — December 31, 2014	257,827	(544,746)	—	21,573	2,157	819,757	921	(19,341)
Net loss	(59,524)	(59,524)	—	—	—	—	—	—
Stock options exercised, net	676	—	—	—	—	(1,051)	(83)	1,727
Issuance of restricted stock, net	158	—	—	—	—	(2,883)	(149)	3,041
Stock-based compensation expense	1,611	—	—	—	—	1,611	—	—
Repurchase of common stock	(4,997)	—	—	—	—	—	304	(4,997)
Other comprehensive loss	(246)	—	(246)	—	—	—	—	—
Balance — December 31, 2015	195,505	(604,270)	(246)	21,573	2,157	817,434	993	(19,570)
Net loss	(22,262)	(22,262)	—	—	—	—	—	—
Stock options exercised, net of tax withholdings	(318)	—	—	—	—	(1,117)	(46)	799
Issuance of restricted stock, net of tax withholdings	32	—	—	—	—	(3,067)	(162)	3,099
Stock-based compensation expense	2,394	—	—	—	—	2,394	—	—
Repurchase of common stock	(5,389)	—	—	—	—	—	424	(5,389)
Cumulative effect adjustment (1)	—	(372)				372		
Other comprehensive loss	(185)	—	(185)	—	—	—	—	—
Balance — December 31, 2016	$169,777	$(626,904)	$ (431)	21,573	$2,157	$816,016	1,209	$(21,061)

(1) Cumulative effect adjustment reflects adoption of ASU 2016-09 as of January 1, 2016.
See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2016	2015	2014
Cash Flows from Operating Activities:			
Net loss	$(22,262)	$(59,524)	$(5,149)
Adjustments to reconcile to net cash used in operating activities:			
Depreciation	328	190	74
Amortization of debt discount	1,604	1,472	1,349
Equity (income) loss	(671)	39,599	15,335
Other (income) loss, net	1,682	(217)	(31,657)
Stock-based compensation expense	2,394	1,611	1,935
Changes in assets and liabilities:			
Accounts receivable, net	(1,521)	(923)	(369)
Accounts payable, accrued expenses, and other	(215)	43	(1,707)
Net cash used in operating activities	(18,661)	(17,749)	(20,189)
Cash Flows from Investing Activities:			
Acquisitions of ownership interests in companies	(52,431)	(70,186)	(59,476)
Proceeds from sales of and distributions from companies	73,965	25,058	82,822
Advances and loans to companies	(27,967)	(15,208)	(10,968)
Repayment of advances and loans to companies	1,741	1,318	4,684
Increase in marketable securities	(21,194)	(29,755)	(55,594)
Decrease in marketable securities	46,315	33,640	55,410
Capital expenditures	(432)	(1,856)	(59)
Other, net	64	—	137
Net cash provided by (used in) investing activities	20,061	(56,989)	16,956
Cash Flows from Financing Activities:			
Repurchase of convertible senior debentures	—	—	(441)
Tax withholdings related to equity-based awards	(460)	—	—
Issuance of Company common stock, net	5	676	1,289
Repurchase of Company common stock	(5,389)	(4,997)	(25,036)
Net cash used in financing activities	(5,844)	(4,321)	(24,188)
Net change in cash, cash equivalents and restricted cash equivalents	(4,444)	(79,059)	(27,421)
Cash, cash equivalents and restricted cash equivalents at beginning of period	32,838	111,897	139,318
Cash, cash equivalents and restricted cash equivalents at end of period	$28,394	$32,838	$111,897

See Notes to Consolidated Financial Statements.

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SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies
Principles of Consolidation
The consolidated financial statements include the accounts of Safeguard (the "Company") and all of its subsidiaries in which a controlling financial interest is maintained. All intercompany accounts and transactions are eliminated in consolidation.
Principles of Accounting for Ownership Interests in Companies
The Company accounts for its interests in its partner companies using one of the following methods: consolidation, fair value, equity or cost. The accounting method applied is generally determined by the degree of the Company's influence over the entity, primarily determined by our voting interest in the entity.
In addition to holding voting and non-voting equity and debt securities, the Company also periodically makes advances to its partner companies in the form of promissory notes which are included in the Ownership interests in and advances to partner companies line item in the Consolidated Balance Sheets.
Consolidation Method. The Company generally accounts for partner companies in which it directly or indirectly owns more than 50% of the outstanding voting securities under the consolidation method of accounting. Under this method, the Company includes the partner companies’ financial statements within the Company’s Consolidated Financial Statements, and all significant intercompany accounts and transactions are eliminated. The Company reflects participation of other stockholders in the net assets and in the income or losses of these consolidated partner companies in Equity in the Consolidated Balance Sheets and in Net income (loss) attributable to non-controlling interest in the Statements of Operations. Net income (loss) attributable to non-controlling interest adjusts the Company’s consolidated operating results to reflect only the Company’s share of the earnings or losses of the consolidated partner company. The Company accounts for results of operations and cash flows of a consolidated partner company through the latest date in which it holds a controlling interest. If the Company subsequently relinquishes control but retains an interest in the partner company, the accounting method is adjusted to the equity, cost or fair value method of accounting, as appropriate. As of December 31, 2016, the Company did not hold a controlling interest in any of its partner companies.
Fair Value Method. Unrealized gains and losses on the mark-to-market of the Company's holdings in fair value method companies and realized gains and losses on the sale of any holdings in fair value method companies are recognized in Other income (loss), net in the Consolidated Statements of Operations. As of December 31, 2016, the Company did not account for any of its partner companies under the fair value method.
Equity Method. The Company accounts for partner companies whose results are not consolidated, but over which it exercises significant influence, under the equity method of accounting. Whether or not the Company exercises significant influence with respect to a partner company depends on an evaluation of several factors including, among others, representation of the Company on the partner company’s board of directors and the Company’s ownership level, which is generally a 20% to 50% interest in the voting securities of a partner company, including voting rights associated with the Company’s holdings in common, preferred and other convertible instruments in the company.
Under the equity method of accounting, the Company does not reflect a partner company’s financial statements within the Company’s Consolidated Financial Statements; however, the Company’s share of the income or loss of such partner company is reflected in Equity income (loss) in the Consolidated Statements of Operations. The Company includes the carrying value of equity method partner companies in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets. Any excess of the Company’s cost over its underlying interest in the net assets of equity method partner companies that is allocated to intangible assets is amortized over the estimated useful lives of the related intangible assets. The Company reflects its share of the income or loss of the equity method partner companies on a one quarter lag. This reporting lag could result in a delay in recognition of the impact of changes in the business or operations of these partner companies.

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

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

Accounting Estimates

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

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

It is reasonably possible that the Company's accounting estimates with respect to the ultimate recoverability of the carrying value of the Company's ownership interests in and advances to partner companies could change in the near term and that the effect of such changes on the financial statements could be material. At December 31, 2016, the Company believes the carrying value of the Company's ownership interests in and advances to partner companies is not impaired, although there can be no assurance that the Company's future results will confirm this assessment, that a significant write-down or write-off will not be required in the future or that a significant loss will not be recorded in the future upon the sale of a company.

Cash and Cash Equivalents and Marketable Securities

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

Restricted Cash Equivalents

Restricted cash equivalents consist of certificates of deposit with various maturity dates. Amounts included in restricted cash equivalents represent those required to be set aside by a contractual agreement with a bank as collateral for a letter of credit. The restriction on the cash will lapse when the related letter of credit expires on March 19, 2019.

The following table provides a reconciliation of cash, cash equivalents and restricted cash equivalents reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows:

	December 31, 2016	December 31, 2015
	(In thousands)	
Cash and cash equivalents	$22,058	$ 32,838
Long-term restricted cash equivalents	6,336	—
Total cash, cash equivalents and restricted cash equivalents	$28,394	$ 32,838

Financial Instruments

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

Impairment of Ownership Interests In and Advances to Partner Companies

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

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

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

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

Income Taxes

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

Net Income (Loss) Per Share

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

Segment Information

Previously, the Company presented its operating results in two reportable segments - Healthcare and Technology. Recently, the Company shifted its focus to providing capital to technology companies within the fields of healthcare, financial services and digital media. Beginning in the third quarter of 2016, the Company has determined it operates as one operating segment based upon the similar nature of its technology-driven partner companies, the functional alignment of the organizational structure, and the reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources.

Recent Accounting Pronouncements

Adoption of Accounting Standards Update No. 2016-18

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"). While the effective date of ASU 2016-18 is for fiscal years beginning after December 15, 2017, earlier adoption is permitted and the

Company adopted the amendments in ASU 2016-18 during the fourth quarter of 2016. This standard requires that the Consolidated Statements of Cash Flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows. The amendments in this update were applied using a retrospective transition method to each period presented. There were no material impacts to the Company's results of operations or liquidity as a result of adopting ASU 2016-18.

Adoption of Accounting Standards Update No. 2016-09

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). While the effective date of ASU 2016-09 is for fiscal years beginning after December 15, 2016, earlier adoption is permitted and the Company adopted the amendments in ASU 2016-09 during the second quarter of 2016. This standard simplifies or clarifies several aspects of the accounting for equity-based payment awards, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the Consolidated Statements of Cash Flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively. The impact of early adoption resulted in the following:

- The Company recognizes share-based payment forfeitures as they occur. Prior to adoption, forfeitures were estimated in order to arrive at current period expense. There was a cumulative effect adjustment of $0.4 million to Accumulated deficit on the Consolidated Balance Sheet as of January 1, 2016 as a result of the adoption of this amendment on a modified retrospective basis.
- The Company, upon election by an employee, withholds award shares with a fair value up to the amount of tax owed upon vesting or exercise using the maximum statutory tax rate in the employee's applicable jurisdiction while still qualifying for equity classification. Prior to adoption, the Company was only able to withhold award shares with a fair value up to the minimum statutory tax rate. There was no cumulative effect adjustment as a result of the adoption of this amendment on a modified retrospective basis.
- The Company presents employee taxes paid by the Company through the withholding of award shares as a financing activity in the Consolidated Statements of Cash Flows. The effect of this retrospective change on the Company's Consolidated Statements of Cash Flows was not significant.

There were no other material impacts to the Company's results of operations or liquidity as a result of adopting ASU 2016-09.

Retrospective Adoption of Accounting Guidance

In the first quarter of 2016, the Company adopted accounting guidance that required retrospective adjustment to previously issued financial statements. All prior period data presented in the Company's Consolidated Financial Statements reflect the retrospective adoption of this guidance.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. As a result of the adoption of ASU 2015-03, the Company reclassified its capitalized debt issuance costs previously recorded within Other assets to a contra-liability reducing Convertible senior debentures on the Consolidated Balance Sheets. The reclassification was $0.8 million as of December 31, 2015. ASU 2015-03 had no effect on the Company's results of operations or liquidity.

Adoption of Accounting Standards Update No. 2014-15

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a period of one year following the date its financial statements are issued. If such conditions or events exist, management should consider whether its plans that are intended to mitigate those relevant conditions or events will alleviate the substantial doubt. If conditions or events raise substantial doubt about an entity’s ability to continue as a going concern, and substantial doubt is not alleviated after consideration of management's plans, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year following the date its financial statements are issued. Disclosure should include the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, and management's plans that are intended to mitigate those conditions or events. The Company adopted ASU 2014-15 effective December 31, 2016. The adoption had no impact on the Company's Consolidated Financial Statements.

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Evaluation of Accounting Standards Update No. 2014-09
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 and related subsequent amendments outlines a single comprehensive model to use to account for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. For public companies, the guidance is effective for annual periods beginning after December 15, 2017 and any interim periods that fall within that reporting period. For nonpublic companies, the guidance is effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019 with early adoption permitted. As the new standard will supersede most existing revenue guidance, it could impact revenue and cost recognition for partner companies. Any change in revenue or cost recognition for partner companies could affect the Company's recognition of its share of the results of its equity method partner companies. The Company has been closely monitoring the FASB activity related to the new standard and has begun work to conclude on specific interpretative issues.
2. Ownership Interests in and Advances to Partner Companies
The following summarizes the carrying value of the Company’s ownership interests in and advances to partner companies.

	December 31, 2016	December 31, 2015
	(In thousands)	
Equity Method:		
Partner companies	$154,219	$150,898
Private equity funds	447	942
	154,666	151,840
Cost Method:		
Partner companies	2,112	5,024
Private equity funds	1,550	1,966
	3,662	6,990
Advances to partner companies	25,142	12,771
	$183,470	$171,601

In April 2016, Putney, Inc. was acquired by Dechra Pharmaceuticals Plc. The Company received $58.6 million in cash proceeds in connection with the transaction, excluding $0.6 million which will be held in escrow until April 2017. The Company recognized a gain of $55.6 million on the transaction, which was included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2016.
The Company recognized an impairment charge of $3.6 million related to Aventura, Inc. which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2016. The impairment was based on the decision of the Company and other shareholders of Aventura not to continue to fund Aventura's operations. The adjusted carrying value of the Company's interest in Aventura was $0.0 million at December 31, 2016.
The Company recognized an impairment charge of $2.4 million related to its Penn Mezzanine debt and equity participations which is reflected in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2016. The amount of the impairment was determined based on the difference between the carrying value of the Company's debt and equity participations and their estimated fair values. The Company has no remaining Penn Mezzanine debt participations and the adjusted carrying value of the Company's remaining Penn Mezzanine equity participation was $0.2 million at December 31, 2016.
The Company recognized an impairment charge of $1.7 million related to AppFirst, Inc. which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2016. The impairment was due to the shutdown of AppFirst's operations and the sale of its assets. The amount of the impairment was determined based on the difference between the carrying value of the Company's holdings in AppFirst and the

proceeds received by the Company on the sale of AppFirst's assets in June 2016. The Company also recognized an impairment charge of $3.6 million related to AppFirst in the fourth quarter of 2015 which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2015. The impairment was due to lack of revenue growth.

In June 2016, the Company sold its ownership interests in Bridgevine, Inc. The Company received cash proceeds of $5.0 million and recognized a gain of $0.4 million on the transaction which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2016.

In April 2015, DriveFactor, Inc. was acquired by CCC Information Services, Inc. The Company received $9.1 million in initial cash proceeds in connection with the transaction. The Company recognized a gain of $6.1 million on the transaction, which is included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2015. In April 2016, the Company received an additional $1.1 million which was released from escrow resulting in a gain of $1.1 million which is included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2016.

In April 2016, the Company received $3.3 million associated with the achievement of the final performance milestone related to the December 2013 sale of ThingWorx, Inc. to PTC, Inc., resulting in a gain of $3.3 million which is included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2016. In January 2016, the Company received $4.1 million which was released from escrow resulting in a gain of $4.1 million which is included in Equity income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2015. In July 2015, the Company received $3.3 million associated with the achievement of performance milestones, resulting in a gain of $3.3 million which is included in Equity income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2015.

In July 2015, Quantia, Inc. was acquired by Physicians Interactive. The Company received $7.8 million in initial cash proceeds in connection with the transaction. In July 2016, the Company received an additional $0.6 million which was released from escrow resulting in a gain of $0.6 million which is included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2016. The Company also recognized an impairment charge of $2.9 million related to Quantia in the second quarter of 2015 which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2015. The impairment was based on the difference between the Company's carrying value in Quantia and the initial net proceeds received in July 2015.

In July 2015, the Company received $1.7 million in connection with the expiration of the escrow period related to the January 2014 sale of Alverix, Inc. to Becton, Dickinson and Company, resulting in a gain of $1.7 million which is included in Equity income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2015. The Company received $15.7 million in initial cash proceeds in connection with the transaction resulting in a gain of $15.7 million, which is included in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2014.

In July and March 2015, the Company received an aggregate $2.9 million in connection with the expiration of the escrow period related to the February 2014 sale of Crescendo Bioscience, Inc. to Myriad Genetics, Inc., resulting in a gain of $2.9 million which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2015. The Company received $38.4 million in initial cash proceeds in connection with the transaction resulting in a gain of $27.4 million, which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2014.

The Company recognized an impairment charge of $3.2 million related to InfoBionic, Inc. in the second quarter of 2015 which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2015. The impairment was due to discontinuation of InfoBionic's first-generation product. The amount of the impairment was determined based on the value at which InfoBionic raised additional equity financing in July 2015 from the Company and other existing capital providers.

The Company recognized an impairment charge of $2.3 million related to Dabo Health, Inc. in the first quarter of 2015 which is reflected in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2015. The impairment was based on the decision of the Company and other shareholders not to continue to fund Dabo Health's operations.

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

In February 2014, NuPathe was acquired by Teva Pharmaceutical Industries Ltd. for $3.65 per share in cash. The Company received initial net cash proceeds of $23.1 million as a result of the transaction. The Company recognized a gain of $3.0 million, which is included in Other income (loss), net in the Consolidated Statements of Operations for the year ended December 31, 2014.

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

Summarized Financial Information for Partner Companies
The Company categorizes its partner companies into four stages based upon revenue generation—Development Stage, Initial Revenue Stage, Expansion Stage and, High Traction Stage. The Development Stage is made up of those companies that are pre-revenue businesses. The Company currently has no partner companies in the Development Stage. The Initial Revenue Stage is made up of businesses that have revenues of $5 million or less. The Expansion Stage is made up of companies that have revenue in the range of $5 million to $20 million. The High Traction Stage is made up of companies that have revenue in excess of $20 million per year. See Note 14 to the Consolidated Financial Statements for a listing of partner companies in which the Company held an ownership interest as of December 31, 2016 and their respective revenue stages.
The following summarized financial information by revenue stage for partner companies accounted for under the equity method for the periods presented has been compiled from respective partner company financial statements, reflect certain historical adjustments, and are reported on a one quarter lag. Results of operations of the partner companies are excluded for periods prior to their acquisition and subsequent to their disposition. Historical results are not adjusted when the Company exits or writes-off a partner company.
High Traction Stage

	As of December 31,	
	2016	2015
	(In thousands)	
Balance Sheets:		
Current assets	$229,756	$213,884
Non-current assets	106,555	89,987
Total assets	$336,311	$303,871
Current liabilities	$215,622	$192,025
Non-current liabilities	110,315	74,208
Shareholders’ equity	10,374	37,638
Total liabilities and shareholders’ equity	$336,311	$303,871
Number of partner companies	5	6

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Results of Operations:			
Revenue	$272,216	$301,132	$249,157
Gross profit	$200,811	$208,883	$164,514
Net loss	$(40,815)	$(46,558)	$(55,394)

Expansion Stage

	As of December 31,	
	2016	2015
	(In thousands)	
Balance Sheets:		
Current assets	$66,204	$84,041
Non-current assets	17,756	16,762
Total assets	$83,960	$100,803
Current liabilities	$40,660	$40,268
Non-current liabilities	14,851	27,449

Shareholders' equity	28,449	33,086
Total liabilities and shareholders' equity	$83,960	$100,803
Number of partner companies	7	7

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

	Year Ended December 31, 2016	2015	2014
	(In thousands)		
Results of Operations:			
Revenue	$61,293	$53,002	$39,391
Gross profit	$34,682	$30,928	$26,158
Net loss	$(52,111)	$(34,064)	$(30,012)

Initial Revenue Stage

	As of December 31, 2016	2015
	(In thousands)	
Balance Sheets:		
Current assets	$73,698	$59,738
Non-current assets	4,915	2,705
Total assets	$78,613	$62,443
Current liabilities	$29,431	$21,399
Non-current liabilities	33,385	9,172
Shareholders' equity	15,797	31,872
Total liabilities and shareholders' equity	$78,613	$62,443
Number of partner companies	17	15

	Year Ended December 31, 2016	2015	2014
	(In thousands)		
Results of Operations:			
Revenue	$31,172	$15,071	$9,661
Gross profit	$18,777	$10,234	$6,008
Net loss	$(93,440)	$(57,762)	$(23,588)

As of December 31, 2016, 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 $119.0 million. Of this excess, $98.2 million was allocated to goodwill and $20.8 million was allocated to intangible assets.

3. Acquisitions of Ownership Interests in Partner Companies

In December 2016, the Company funded $1.9 million of a convertible bridge loan to Trice Medical, Inc. The Company had previously deployed an aggregate of $6.1 million in Trice Medical. Trice Medical is a diagnostics company focused on micro invasive technologies. The Company accounts for its interest in Trice Medical under the equity method.

In December 2016, the Company funded $1.5 million of a convertible bridge loan to meQuilibrium. The Company had previously deployed $6.5 million in meQuilibrium. meQuilibrium is a digital coaching platform that delivers clinically validated and highly personalized resilience solutions to employers, health plans, wellness providers, and consumers increasing engagement, productivity and performance, as well as improving outcomes in managing stress, health and well-being. The Company accounts for its interest in meQuilibrium under the equity method.

In December, July and April 2016, the Company funded an aggregate of $5.2 million of convertible bridge loans to Good Start Genetics, Inc. The Company had previously deployed an aggregate of $12.0 million in Good Start Genetics. Good Start Genetics is an information solutions company delivering genetics offerings to growing families, including advanced clinical sequencing and individualized actionable information to promote successful pregnancies. The Company accounts for its interest in Good Start Genetics under the equity method.

In December and January 2016, the Company deployed an aggregate of $5.4 million into WebLinc, Inc. The Company had previously deployed an aggregate of $6.6 million in WebLinc. WebLinc is a commerce platform provider for fast growing online retailers. The Company accounts for its interest in WebLinc under the equity method.

In December, November, March and January 2016, the Company deployed an aggregate of $4.6 million into Full Measure Education, Inc. The Company had previously deployed $4.0 million in Full Measure. Full Measure designs next-generation, mobile-first technologies for community colleges throughout the United States. The Company accounts for its interest in Full Measure under the equity method.

In December, September and June 2016, the Company funded an aggregate of $0.7 million of convertible loans to Lumesis, Inc. The Company had previously deployed an aggregate of $5.6 million in Lumesis. Lumesis is a financial technology company focused on providing business efficiency, regulatory and data solutions to the municipal bond marketplace. The Company accounts for its interest in Lumesis under the equity method.

In November 2016, the Company acquired a 23.6% interest in T-REX Group, Inc. for $6.0 million. T-REX Group is a financial services software technology company that specializes in valuation, risk analysis, and structuring tools to unlock investment opportunities for various asset classes. The Company accounts for its interest in T-REX Group under the equity method.

In November 2016, the Company funded $0.6 million of a convertible bridge loan to CloudMine, Inc. The Company had previously deployed an aggregate of $4.9 million in CloudMine. CloudMine empowers payers, providers, and pharmaceutical organizations to mobilize patient information by building robust applications and driving actionable insights. The Company accounts for its interest in CloudMine under the equity method.

In November 2016, the Company funded $0.3 million of a convertible bridge loan to Aventura, Inc. The Company had previously deployed $6.0 million in Aventura. The Company impaired all of the carrying value of Aventura in the fourth quarter of 2016. The Company accounted for its interest in Aventura under the equity method.

In October 2016, the Company acquired a 20.3% interest in Brickwork for $4.2 million. Brickwork helps retailers inform, target, convert, and prepare for store shoppers online as the first scalable software-as-a-service platform powering a seamless customer path between online and in-store shopping. The Company accounts for its interest in Brickwork under the equity method.

In October 2016, the Company deployed an additional $5.0 million in Propeller Health, Inc. The Company had previously deployed $9.0 million in Propeller Health. Propeller Health provides digital solutions to measurably improve respiratory health. The Company accounts for its interest in Propeller Health under the equity method.

In October 2016, the Company funded $2.8 million of a convertible bridge loan to QuanticMind, Inc. The Company had previously deployed $7.0 million in QuanticMind. QuanticMind is a software-as-a-service company that provides enterprise-level predictive advertising management software for paid search, social and mobile. The Company accounts for its interest in QuanticMind under the equity method.

In October 2016, the Company deployed $2.7 million into Aktana, Inc. The Company had previously acquired a 23.4% interest in Aktana for $5.5 million in June 2016. Aktana leverages big data and machine learning to enable pharmaceutical brands to dynamically optimize their strategy and enhance sales execution. The Company accounts for its interest in Aktana under the equity method.

In September 2016, the Company acquired a 32.6% interest in Moxe Health Corporation for $4.5 million. Moxe Health connects payers to their provider networks, facilitating real-time data exchange through its electronic integration platform. The Company accounts for its interest in Moxe Health under the equity method.

In September, June and January 2016, the Company deployed an aggregate of $5.0 million into InfoBionic, Inc. The Company had previously deployed an aggregate of $9.5 million in InfoBionic. InfoBionic is an emerging digital health company focused on creating patient monitoring solutions for chronic disease management with an initial market focus on cardiac arrhythmias. The Company accounts for its interest in InfoBionic under the equity method.

In July and January 2016, the Company deployed an aggregate of $4.0 million into Clutch Holdings, Inc. The Company had previously deployed an aggregate of $12.3 million in Clutch. Clutch provides customer intelligence and personalized engagements that empower consumer-focused businesses to identify, understand and motivate each segment of their customer base. The Company accounts for its interest in Clutch under the equity method.

In July and January 2016, the Company funded an aggregate of $4.0 million of convertible loans to Spongecell, Inc. The Company had previously deployed an aggregate of $14.0 million in Spongecell. Spongecell helps advertisers enhance the power of digital brand creative by leveraging customer data and brand content to personalize ads for maximum relevance. The Company accounts for its interest in Spongecell under the equity method.

In June and January 2016, the Company funded an aggregate of $1.2 million of convertible bridge loans to AppFirst, Inc. The Company had previously deployed an aggregate of $11.6 million in AppFirst. The Company impaired its ownership interest in AppFirst in June 2016 due to the shutdown of AppFirst's operations and sale of its assets in June 2016, which generated cash proceeds to the Company of $0.9 million. The Company accounted for its interest in AppFirst under the equity method.

In April and March 2016, the Company funded an aggregate of $1.0 million of convertible loans to NovaSom, Inc. The Company had previously deployed an aggregate of $21.0 million in NovaSom. NovaSom is a medical device company focused on obstructive sleep apnea, specifically home testing with its FDA-cleared wireless device called AccuSom® Home Sleep Test. The Company accounts for its interest in NovaSom under the equity method.

In April 2016, the Company deployed an additional $5.0 million into Transactis, Inc. The Company had previously deployed $9.5 million in Transactis. Transactis provides electronic billing and payment solutions. The Company accounts for its interest in Transactis under the equity method.

In March 2016, the Company funded $1.0 million of a convertible bridge loan to Hoopla Software, Inc. The Company had previously deployed an aggregate of $3.8 million in Hoopla. Hoopla provides cloud-based software that helps sales organizations inspire and motivate sales team performance. The Company accounts for its interest in Hoopla under the equity method.

In January 2016, the Company deployed an additional $7.5 million into Syapse, Inc. The Company had previously deployed $5.8 million in Syapse. Syapse drives healthcare transformation through precision medicine, enabling provider systems to improve clinical outcomes, streamline operations, and shift to new payment models. The Company accounts for its interest in Syapse under the equity method.

In December 2015, the Company acquired a 26.3% interest in Zipnosis, Inc. for $7.0 million. Zipnosis provides health systems with a white-labeled, fully integrated virtual care platform. The Company accounts for its interest in Zipnosis under the equity method.

In October 2015, the Company acquired a 34.2% interest in Cask Data, Inc. for $11.0 million. Cask Data accelerates the development and deployment of production Hadoop applications. The Company accounts for its interest in Cask under the equity method.

In July 2015, the Company deployed an additional $10.0 million into Apprenda, Inc. The Company had previously deployed $12.1 million in Apprenda. Apprenda is an enterprise platform-as-a-service company powering the next generation of enterprise software development in public, private and hybrid clouds. The Company accounts for its interest in Apprenda under the equity method.

During the six months ended June 30, 2015, the Company funded an aggregate of $2.8 million of convertible bridge loans to Quantia, Inc. The Company had previously deployed an aggregate of $12.5 million in Quantia. The Company accounted for its interest in Quantia under the equity method. In July 2015, Quantia was acquired by Physicians Interactive.

In May 2015, the Company deployed an additional $3.5 million into Pneuron Corporation. The Company had previously deployed $5.0 million in Pneuron. Pneuron enables organizations to rapidly solve business problems through a distributed approach that cuts across data, applications and processes. The Company accounts for its interest in Pneuron under the equity method.

In May 2015, the Company acquired a 22.6% interest in Sonobi, Inc. for $5.4 million. Sonobi is an advertising technology developer that creates data-driven tools and solutions to meet the evolving needs of demand- and sell-side organizations within the digital media marketplace. The Company accounts for its interest in Sonobi under the equity method.

In April and March 2015, the Company funded an aggregate $1.0 million convertible bridge loan to AdvantEdge Healthcare Solutions, Inc. The Company had previously deployed an aggregate of $15.3 million in AdvantEdge. AdvantEdge is a technology-enabled provider of healthcare revenue cycle and business management solutions that improve decision-making, maximize financial performance, streamline operations and mitigate compliance risks for

healthcare providers. The Company accounts for its interest in AdvantEdge under the equity method.
In March 2015, the Company deployed an additional $0.3 million into Dabo Health, Inc. The Company had previously deployed $2.0 million in Dabo Health. The Company impaired all of the carrying value of Dabo Health in the first quarter of 2015. The Company accounted for its interest in Dabo Health under the cost method.
In June and April 2014, the Company deployed an aggregate of $5.0 million into Putney, Inc. The Company had previously deployed $10.0 million in Putney. The Company accounted for its interest in Putney under the equity method. In April 2016, Putney was acquired by Dechra Pharmaceuticals Plc.

In May 2014, the Company deployed an additional $7.0 million into MediaMath, Inc. In connection with the May 2014 financing, the Company's primary ownership interest decreased from 22.5% to 20.6%. As a result, the Company recognized an unrealized gain of $7.0 million which is reflected in Equity income (loss) in the Consolidated Statements of Operations for the year ended December 31, 2014. The Company had previously deployed an aggregate of $18.6 million in MediaMath. MediaMath is a global technology company that is leading the movement to revolutionize traditional marketing and drive transformative results for marketers through its TerminalOne Marketing Operating System™. The Company accounts for its interest in MediaMath under the equity method.

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

4. Fair Value Measurements

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

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

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

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

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

The following table provides the carrying value and fair value of certain financial assets of the Company measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	Carrying Value	Fair Value Measurement at December 31, 2016 Level 1	Level 2	Level 3
	(in thousands)			
Cash and cash equivalents	$22,058	$ 22,058	$ —	$ —
Long-term restricted cash equivalents	6,336	6,336	—	—
Marketable securities—held-to-maturity:				
Certificates of deposit	$15,686	$ 15,686	$ —	$ —
Total marketable securities	$15,686	$ 15,686	$ —	$ —

	Carrying Value	Fair Value Measurement at December 31, 2015 Level 1	Level 2	Level 3
	(In thousands)			
Cash and cash equivalents	$32,838			