

SAFEGUARD SCIENTIFICS INC

Form 10-Q

July 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 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

(State or other jurisdiction of
incorporation or organization)

23-1609753

(I.R.S. Employer ID 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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No }p

Number of shares outstanding as of July 27, 2016

Common Stock 20,224,506

SAFEGUARD SCIENTIFICS, INC.
QUARTERLY REPORT ON FORM 10-Q
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SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited - In thousands, except per share data)

| | June 30, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$66,231 | \$ 32,838 |
| Marketable securities | 14,462 | 31,020 |
| Prepaid expenses and other current assets | 2,345 | 5,810 |
| Total current assets | 83,038 | 69,668 |
| Property and equipment, net | 2,055 | 2,145 |
| Ownership interests in and advances to partner companies | 176,059 | 171,601 |
| Loan participations receivable | 2,845 | 2,649 |
| Long-term marketable securities | 10,680 | 9,743 |
| Other assets | 992 | 1,037 |
| Total Assets | \$275,669 | \$ 256,843 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 155 | \$ 290 |
| Accrued compensation and benefits | 2,556 | 3,338 |
| Accrued expenses and other current liabilities | 2,550 | 2,789 |
| Total current liabilities | 5,261 | 6,417 |
| Other long-term liabilities | 4,010 | 3,965 |
| Convertible senior debentures | 51,740 | 50,956 |
| Total Liabilities | 61,011 | 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 shares issued at June 30, 2016 and December 31, 2015 | 2,157 | 2,157 |
| Additional paid-in capital | 817,614 | 817,434 |
| Treasury stock, at cost; 1,351 and 993 shares at June 30, 2016 and December 31, 2015, respectively | (23,759) | (19,570) |
| Accumulated deficit | (581,118) | (604,270) |
| Accumulated other comprehensive loss | (236) | (246) |
| Total Equity | 214,658 | 195,505 |
| Total Liabilities and Equity | \$275,669 | \$ 256,843 |
| See Notes to Consolidated Financial Statements. | | |

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

| | Three months ended | | Six months ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| General and administrative expense | \$4,849 | \$4,754 | \$10,077 | \$9,634 |
| Operating loss | (4,849) | (4,754) | (10,077) | (9,634) |
| Other income (loss), net | 659 | (15) | 659 | (403) |
| Interest income | 527 | 640 | 947 | 1,089 |
| Interest expense | (1,155) | (1,128) | (2,304) | (2,250) |
| Equity income (loss) | 43,794 | (13,765) | 34,299 | (22,427) |
| Net income (loss) before income taxes | 38,976 | (19,022) | 23,524 | (33,625) |
| Income tax benefit (expense) | — | — | — | — |
| Net income (loss) | \$38,976 | \$(19,022) | \$23,524 | \$(33,625) |
| Net income (loss) per share: | | | | |
| Basic | \$1.92 | \$(0.91) | \$1.15 | \$(1.61) |
| Diluted | \$1.70 | \$(0.91) | \$1.09 | \$(1.61) |
| Weighted average shares used in computing income (loss) per share: | | | | |
| Basic | 20,333 | 20,895 | 20,391 | 20,878 |
| Diluted | 23,539 | 20,895 | 23,602 | 20,878 |

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income (loss) | \$38,976 | \$(19,022) | \$23,524 | \$(33,625) |
| Other comprehensive income: | | | | |
| Share of other comprehensive income of equity method investments | 20 | — | 10 | — |
| Total comprehensive income (loss) | \$38,996 | \$(19,022) | \$23,534 | \$(33,625) |

See Notes to Consolidated Financial Statements.

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

| | Six months ended | |
|---|------------------|------------|
| | June 30, | |
| | 2016 | 2015 |
| Cash Flows from Operating Activities: | | |
| Net cash used in operating activities | \$(10,843) | \$(11,245) |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of and distributions from companies | 72,824 | 11,379 |
| Acquisitions of ownership interests in companies | (28,329) | (40,545) |
| Advances and loans to companies | (10,151) | (10,935) |
| Repayment of advances and loans to companies | 56 | 55 |
| Increase in marketable securities | (14,604) | (16,763) |
| Decrease in marketable securities | 30,257 | 16,676 |
| Capital expenditures | (73) | (244) |
| Net cash provided by (used in) investing activities | 49,980 | (40,377) |
| Cash Flows from Financing Activities: | | |
| Issuance of Company common stock, net | — | 549 |
| Tax withholdings related to equity-based awards | (355) | — |
| Repurchase of Company common stock | (5,389) | — |
| Net cash provided by (used in) financing activities | (5,744) | 549 |
| Net change in cash and cash equivalents | 33,393 | (51,073) |
| Cash and cash equivalents at beginning of period | 32,838 | 111,897 |
| Cash and cash equivalents at end of period | \$66,231 | \$60,824 |
| See Notes to Consolidated Financial Statements. | | |

SAFEGUARD SCIENTIFICS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited – In thousands)

| | Total | Accumulated Deficit | Accumulated Other Comprehensive Loss | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock Shares | Treasury Stock Amount |
|--|-----------|------------------------|---|------------------------|------------------------|----------------------------------|--------------------------|--------------------------|
| Balance - December 31, 2015 | \$195,505 | \$(604,270) | \$ (246) | 21,573 | \$2,157 | \$817,434 | 993 | \$(19,570) |
| Net income | 23,524 | 23,524 | — | — | — | — | — | — |
| Stock options exercised, net of tax withholdings | (274) | — | — | — | — | (767) | (28) | 493 |
| Repurchase of common stock | (5,389) | — | — | — | — | — | 424 | (5,389) |
| Issuance of restricted stock, net of tax withholdings | 7 | — | — | — | — | (700) | (38) | 707 |
| Stock-based compensation expense | 1,275 | — | — | — | — | 1,275 | — | — |
| Cumulative effect adjustment (1) | — | (372) | — | — | — | 372 | — | — |
| Other comprehensive income | 10 | — | 10 | — | — | — | — | — |
| Balance - June 30, 2016 | \$214,658 | \$(581,118) | \$ (236) | 21,573 | \$2,157 | \$817,614 | 1,351 | \$(23,759) |

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

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

The accompanying unaudited interim Consolidated Financial Statements of Safeguard Scientifics, Inc. ("Safeguard" or the "Company") were prepared in accordance with accounting principles generally accepted in the United States of America and the interim financial statement rules and regulations of the SEC. In the opinion of management, these statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Consolidated Financial Statements. The interim operating results are not necessarily indicative of the results for a full year or for any interim period. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The Consolidated Financial Statements included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-Q and with the Company's Consolidated Financial Statements and Notes thereto included in the Company's 2015 Annual Report on Form 10-K.

Adoption of Accounting Standards Update 2016-09

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 has chosen to adopt 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 will recognize 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, will withhold 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 will present 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. The Company adopted ASU 2015-03 in the first quarter of 2016. 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.

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SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Ownership Interests in and Advances to Partner Companies

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

| | June 30, 2016 | December 31, 2015 |
|-------------------------------|-------------------------------|----------------------|
| | (Unaudited - In thousands) | |
| Equity Method: | | |
| Partner companies | \$ 157,944 | \$ 150,898 |
| Private equity funds | 495 | 942 |
| | 158,439 | 151,840 |
| Cost Method: | | |
| Partner companies | 1,200 | 5,024 |
| Private equity funds | 1,706 | 1,966 |
| | 2,906 | 6,990 |
| Advances to partner companies | 14,714 | 12,771 |
| | \$ 176,059 | \$ 171,601 |

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 three and six months ended June 30, 2016. The impairment was due to the shutdown of AppFirst's operations and sale of its assets. The amount of the impairment was determined based on the difference between the carrying value of the Company's investment in AppFirst and the proceeds received on the sale of AppFirst's assets in June 2016. The adjusted carrying value of the Company's investment in AppFirst is \$0 at June 30, 2016.

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 three and six months ended June 30, 2016.

In April 2016, Putney, Inc. was acquired by Dechra Pharmaceuticals Plc. The Company received cash proceeds of \$58.2 million, excluding \$0.4 million which will be held in escrow until August 2016 and \$0.6 million which will be held in escrow until April 2017. The Company recognized a gain of \$55.2 million on the transaction, which is included in Equity income (loss) in the Consolidated Statements of Operations for the three and six months ended June 30, 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 three and six months ended June 30, 2015. In April 2016, the Company received \$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 three and six months ended June 30, 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 six months ended June 30, 2016. This amount was included in Prepaid expenses and other current assets in the Consolidated Balance Sheets as of March 31, 2016 as the Company had earned such amount as of March 31, 2016. In January 2016, the Company received \$4.1 million in connection with the expiration of the escrow period related to the transaction, which was included in Prepaid expenses and other current assets in the Consolidated Balance Sheets as of December 31, 2015 as the Company had earned such amount as of December 31, 2015.

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company discloses aggregate summarized statements of operations for any partner companies accounted for under the equity method that are deemed significant. The following table provides significant partner company operations information for the six months ended June 30, 2016 and 2015. The partner company results of operations have been compiled from respective partner company financial statements, reflect certain historical adjustments, and are reported on a one quarter lag.

Six Months Ended
June 30, June 30,
2016 2015
(In thousands)

Results of Operations:

| | | |
|-------------------|----------|----------|
| Revenue | \$13,298 | \$11,080 |
| Gross profit | \$12,917 | \$10,564 |
| Net income (loss) | \$13,721 | \$(415) |

3. Acquisitions of Ownership Interests in Partner Companies

In June 2016, the Company acquired a 23.4% interest in Aktana, Inc. for \$5.5 million. 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 June and January 2016, the Company deployed an aggregate of \$2.0 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 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 adjusted carrying value of the Company's investment in AppFirst is \$0 as of June 30, 2016. The Company accounted for its interest in AppFirst under the equity method.

In June 2016, the Company funded \$0.3 million of a convertible bridge loan 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, data and regulatory solutions to the municipal bond marketplace. The Company accounts for its interest in Lumesis 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 April 2016, the Company funded \$1.8 million of a convertible bridge loan to Good Start Genetics, Inc. The Company had previously deployed an aggregate of \$12.0 million in Good Start Genetics. Good Start Genetics is a molecular genetics information company transforming the standard of care in reproductive medicine and family medicine. The Company accounts for its interest in Good Start Genetics 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 March and January 2016, the Company deployed an aggregate of \$4.0 million into Full Measure Education, Inc. The Company had previously deployed \$4.0 million in Full Measure. Full Measure is a technology company dedicated to the higher education industry. The Company accounts for its interest in Full Measure under the equity method.

In January 2016, the Company deployed an additional \$4.4 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.

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In January 2016, the Company funded \$2.0 million of a convertible loan to Spongecell, Inc. The Company had previously deployed an aggregate of \$14.0 million in Spongecell. Spongecell is a creative technology company that allows brand advertisers to create personal connections on a global scale. The Company accounts for its interest in Spongecell 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 is a software company that enables healthcare providers to deploy precision medicine programs. The Company accounts for its interest in Syapse under the equity method.

In January 2016, the Company funded \$2.0 million of a convertible bridge loan to Clutch Holdings, Inc. The Company had previously deployed an aggregate of \$12.3 million in Clutch. Clutch provides consumer management technology that delivers customer intelligence and consumer engagement solutions to premium brands. The Company accounts for its interest in Clutch under the equity method.

4. Fair Value Measurements

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

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

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

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

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

The following table provides the carrying value and fair value of certain financial assets and liabilities of the Company measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

| | Carrying Value | Fair Value Measurement at June 30, 2016 | | |
|---|-------------------|---|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| (Unaudited - In thousands) | | | | |
| Cash and cash equivalents | \$66,231 | \$66,231 | \$ — | — |
| Marketable securities—held-to-maturity: | | | | |
| Government agency bonds | \$614 | \$614 | \$ — | — |
| Certificates of deposit | 24,528 | 24,528 | — | — |
| Total marketable securities | \$25,142 | \$25,142 | \$ — | — |
| | Carrying Value | Fair Value Measurement at December 31, 2015 | | |
| | | Level 1 | Level 2 | Level 3 |
| (Unaudited - In thousands) | | | | |
| Cash and cash equivalents | \$32,838 | \$32,838 | \$ — | — |
| Marketable securities—held-to-maturity: | | | | |
| Government agency bonds | \$1,329 | \$1,329 | \$ — | — |
| Certificates of deposit | 39,434 | 39,434 | — | — |
| Total marketable securities | \$40,763 | \$40,763 | \$ — | — |

As of June 30, 2016, \$14.5 million of marketable securities had contractual maturities which were less than one year and \$10.7 million of marketable securities had contractual maturities greater than one year. Held-to-maturity securities are carried at amortized cost, which, due to the short-term maturity of these instruments, approximates fair value using quoted prices in active markets for identical assets or liabilities defined as Level 1 inputs under the fair value hierarchy.

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Convertible Debentures and Credit Arrangements

Convertible Senior Debentures

In November 2012, the Company issued \$55.0 million principal amount of its 5.25% convertible senior debentures due 2018 (the "2018 Debentures"). The 2018 Debentures may be settled in cash or partially in cash upon conversion. Accordingly, the Company separately accounts for the liability and equity components of the 2018 Debentures. The carrying amount of the liability component was determined at the transaction date by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option was determined by deducting the fair value of the liability component from the initial proceeds of the 2018 Debentures as a whole. At June 30, 2016, the fair value of the \$55.0 million outstanding 2018 Debentures was approximately \$55.5 million, based on the midpoint of the bid and ask prices as of such date. At June 30, 2016, the carrying amount of the equity component was \$6.4 million, the principal amount of the liability component was \$55.0 million, the unamortized discount was \$2.6 million, unamortized debt issuance costs were \$0.6 million and the net carrying value of the liability component was \$51.7 million. The Company is amortizing the excess of the face value of the 2018 Debentures over their carrying value over their term as additional interest expense using the effective interest method and recorded \$0.3 million of such expense for the three months ended June 30, 2016 and 2015 and \$0.6 million for the six months ended June 30, 2016 and 2015. The effective interest rate on the 2018 Debentures is 8.7%.

Credit Arrangements

The Company is party to a loan agreement with a commercial bank which provides it with a revolving credit facility in the maximum aggregate amount of \$25.0 million in the form of borrowings, guarantees and issuances of letters of credit, subject to a \$20.0 million sublimit. Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as the value of the Company's public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, the Company is required to maintain all of its depository and operating accounts at the bank. The credit facility, as amended December 29, 2015, matures on December 19, 2016. Under the credit facility, the Company provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters which was required in connection with the sale of CompuCom Systems in 2004. Availability under the Company's revolving credit facility at June 30, 2016 was \$18.7 million.

6. Stock-Based Compensation

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

| | Three months ended June 30, 2016 | 2015 | Six months ended June 30, 2016 | 2015 |
|------------------------------------|--|-------|---|-------|
| General and administrative expense | \$467 | \$735 | \$1,275 | \$992 |
| | \$467 | \$735 | \$1,275 | \$992 |

(Unaudited -
In thousands)

The fair value of the Company's option awards to employees was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected term of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility measured using weekly price observations of the Company's common stock for a period equal to the stock option's expected term. At June 30, 2016, the Company had outstanding options that vest based on two different types of vesting schedules:

- 1) performance-based;
- 2) service-based.

Performance-based awards entitle participants to vest in a number of awards determined by achievement by the Company of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies. Vesting may occur, if at all, once per year. The requisite service periods for the performance-based awards are based on the Company's estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Compensation expense is recognized over the requisite service periods using the straight-line method

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

but is accelerated if capital return targets are achieved earlier than estimated. During the six months ended June 30, 2016 and 2015, the Company did not issue any performance-based options to employees. During the six months ended June 30, 2016 and 2015, no performance-based options vested. During the six months ended June 30, 2016 and 2015, no performance-based options were canceled or forfeited. The Company recorded compensation expense related to performance-based options of \$0.0 million for both the three months ended June 30, 2016 and 2015, and \$0.1 million and \$0.0 million for the six months ended June 30, 2016 and 2015, respectively. The maximum number of unvested shares at June 30, 2016 attainable under these grants was 453 thousand shares.

Service-based awards generally vest over four years after the date of grant and expire eight years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period for service-based awards is the period over which the award vests. During the six months ended June 30, 2016 and 2015, the Company issued 11 thousand and 21 thousand service-based options, respectively, to employees. During the six months ended June 30, 2016 and 2015, 8 thousand and 6 thousand service-based options, respectively, were canceled or forfeited. The Company recorded compensation expense related to service-based options of \$0.0 million and \$0.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.1 million and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively.

Performance-based stock units vest based on achievement by the Company of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies, as described above related to performance-based awards. Performance-based stock units represent the right to receive shares of the Company's common stock, on a one-for-one basis. During the six months ended June 30, 2016 and 2015, the Company did not issue any performance-based stock units to employees. Under the 2015 and 2014 performance-based award plans, once performance-based stock units are fully vested, participants are entitled to receive cash payments based on their initial performance grant values as target capital returns described above are exceeded. At June 30, 2016, the liability associated with such potential cash payments was \$0.0 million.

During the six months ended June 30, 2016 and 2015, the Company issued 40 thousand and 39 thousand deferred stock units, respectively, to non-employee directors for annual service grants or fees earned during the preceding quarter. Deferred stock units issued to directors in lieu of directors fees are 100% vested at the grant date; matching deferred stock units equal to 25% of directors' fees deferred vest one year following the grant date or, if earlier, upon reaching age 65. Deferred stock units are payable in stock on a one-for-one basis. Payments related to the deferred stock units are generally distributable following termination of employment or service, death or permanent disability. During the six months ended June 30, 2016 and 2015, the Company did not issue any restricted stock awards. Total compensation expense for deferred stock units, performance-based stock units and restricted stock was \$0.5 million and \$0.6 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.1 million and \$0.8 million for the six months ended June 30, 2016 and 2015, respectively.

7. Income Taxes

The Company's consolidated income tax benefit (expense) was \$0.0 million for the three and six months ended June 30, 2016 and 2015. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the tax expense that would have been recognized in the three and six months ended June 30, 2016 was offset by changes in the valuation allowance. The benefit of the net operating loss that would have been recognized in the three and six months ended June 30, 2015 was offset by changes in the valuation allowance. During the six months ended June 30, 2016, the Company had no material changes in uncertain tax positions.

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Net Income (Loss) Per Share

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--|------------|------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited - In thousands, except per share data) | | | |
| Basic: | | | | |
| Net income (loss) | \$38,976 | \$(19,022) | \$23,524 | \$(33,625) |
| Weighted average common shares outstanding | 20,333 | 20,895 | 20,391 | 20,878 |
| Net income (loss) per share | \$1.92 | \$(0.91) | \$1.15 | \$(1.61) |
| Diluted: | | | | |
| Net income (loss) | \$38,976 | \$(19,022) | \$23,524 | \$(33,625) |
| Interest on convertible senior debentures | 1,119 | — | 2,229 | — |
| Net income (loss) for dilutive share computation | \$40,095 | \$(19,022) | \$25,753 | \$(33,625) |
| Number of shares used in basic per share computation | 20,333 | 20,895 | 20,391 | 20,878 |
| Convertible senior debentures | 3,034 | — | 3,034 | — |
| Unvested restricted stock and DSUs | 148 | — | 155 | — |
| Employee stock options | 24 | — | 22 | — |
| Weighted average common shares outstanding | 23,539 | 20,895 | 23,602 | 20,878 |
| Net income (loss) per share | \$1.70 | \$(0.91) | \$1.09 | \$(1.61) |

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

If a consolidated or equity method partner company has dilutive stock options, unvested restricted stock, DSUs or warrants, diluted net income (loss) per share is computed by first deducting the income attributable to the potential exercise of the dilutive securities of the partner company from net income (loss). Any impact is shown as an adjustment to net income (loss) for purposes of calculating diluted net income (loss) per share.

Diluted earnings per share for the three months ended June 30, 2016 and 2015 do not reflect the following potential shares of common stock that would have an anti-dilutive effect or have unsatisfied performance or market conditions:

At June 30, 2016 and 2015, options to purchase 0.7 million and 1.2 million shares of common stock, respectively, at prices ranging from \$7.41 to \$19.95 and \$7.14 to \$19.95, respectively, were excluded from the calculations.

At June 30, 2016, unvested performance-based stock units convertible into 0.5 million shares of stock were excluded from the calculations. At June 30, 2015, unvested restricted stock, performance-based stock units and DSUs convertible into 0.5 million shares of stock were excluded from the calculations.

At June 30, 2015, 3.0 million shares of common stock, representing the effect of the assumed conversion of the 2018 Debentures, were excluded from the calculations.

Diluted earnings per share for the six months ended June 30, 2016 and 2015 do not reflect the following potential shares of common stock that would have an anti-dilutive effect or have unsatisfied performance or market conditions:

At June 30, 2016 and 2015, options to purchase 0.7 million and 1.2 million shares of common stock, respectively, at prices ranging from \$7.41 to \$19.95 and \$7.14 to \$19.95, respectively, were excluded from the calculations.

At June 30, 2016, unvested performance-based stock units convertible into 0.5 million shares of stock were excluded from the calculations. At June 30, 2015, unvested restricted stock, performance-based stock units and DSUs convertible into 0.5 million shares of stock for both periods were excluded from the calculations.

At June 30, 2015, 3.0 million shares of common stock, representing the effect of the assumed conversion of the 2018 Debentures, were excluded from the calculations.

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Operating Segments

As of June 30, 2016, the Company held interests in 27 non-consolidated partner companies which are included in the Healthcare and Technology segments. The Company's active partner companies by segment were as follows as of June 30, 2016:

Healthcare

| Partner Company | Safeguard Primary Ownership as of June 30, 2016 | Accounting Method |
|---------------------------------------|---|-------------------|
| AdvantEdge Healthcare Solutions, Inc. | 40.1% | Equity |
| Aktana, Inc. | 23.4% | Equity |
| Aventura, Inc. | 19.9% | Equity |
| Good Start Genetics, Inc. | 29.6% | Equity |
| InfoBionic, Inc. | 40.5% | Equity |
| Medivo, Inc. | 34.5% | Equity |
| meQuilibrium | 31.5% | Equity |
| NovaSom, Inc. | 31.7% | Equity |
| Propeller Health, Inc. | 24.5% | Equity |
| Syapse, Inc. | 29.2% | Equity |
| Trice Medical, Inc. | 27.7% | Equity |
| Zipnosis, Inc. | 26.2% | Equity |

Technology

| Partner Company | Safeguard Primary Ownership as of June 30, 2016 | Accounting Method |
|------------------------------|---|-------------------|
| Apprenda, Inc. | 29.5% | Equity |
| Beyond.com, Inc. | 38.2% | Equity |
| Cask Data, Inc. | 34.2% | Equity |
| CloudMine, Inc. | 30.1% | Equity |
| Clutch Holdings, Inc. | 38.5% | Equity |
| Full Measure Education, Inc. | 36.0% | Equity |
| Hoopla Software, Inc. | 25.6% | Equity |
| Lumesis, Inc. | 44.2% | Equity |
| MediaMath, Inc. | 20.5% | Equity |
| Pneuron Corporation | 35.4% | Equity |
| QuanticMind, Inc. | 23.6% | Equity |
| Sonobi, Inc. | 22.6% | Equity |
| Spongecell, Inc. | 23.0% | Equity |
| Transactis, Inc. | 24.2% | Equity |
| WebLinc, Inc. | 38.0% | Equity |

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

Management evaluates the Healthcare and Technology segments' performance based on net income (loss) which is impacted by the number of partner companies accounted for under the equity method, the Company's voting ownership percentage in these partner companies and the net results of operations of these partner companies, any impairment charges and gain (loss) on the sale of the interests in equity and cost method partner companies.

Other Items include certain expenses which are not identifiable to the operations of the Company's operating segments. Other Items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, including legal and finance, interest income, interest

expense and other income (loss), equity income (loss) related to certain private equity fund ownership interests and income taxes. Other Items also include

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SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interest earned on mezzanine loans, gain (loss) on the mark-to-market of our warrant participations, and impairment on debt and equity participation interests in which the Company participates with Penn Mezzanine as well as equity income (loss) associated with the Company's interest in the management company and general partner of Penn Mezzanine, a mezzanine lender focused on lower middle-market, Mid-Atlantic companies. Penn Mezzanine is not making any new loans and has two remaining loans in which the Company has participating interests.

As of June 30, 2016 and December 31, 2015, all of the Company's assets were located in the United States.

Segment assets in Other Items included primarily cash, cash equivalents, and marketable securities totaling \$91.4 million and \$73.6 million at June 30, 2016 and December 31, 2015, respectively.

Three months ended June 30, 2016

| | Healthcare | Technology | Total Segments | Other Items | Total |
|----------------------------|------------|------------|----------------|-------------|-----------|
| (Unaudited - In thousands) | | | | | |
| Operating loss | \$— | \$— | \$— | \$(4,849) | \$(4,849) |
| Other income (loss), net | 424 | — | 424 | 235 | 659 |
| Equity income (loss) | 48,101 | — | 44,083 | (289) | 43,794 |
| Net income (loss) | 48,525 | — | 44,507 | (5,531) | 38,976 |
| Segment Assets: | | | | | |
| June 30, 2016 | 56,237 | 176,622 | 173,858 | 101,811 | 275,669 |
| December 31, 2015 | 53,332 | 172,442 | 172,774 | 84,069 | 256,843 |

Three months ended June 30, 2015

| | Healthcare | Technology | Total Segments | Other Items | Total |
|----------------------------|------------|------------|----------------|-------------|-----------|
| (Unaudited - In thousands) | | | | | |
| Operating loss | \$— | \$— | \$— | \$(4,754) | \$(4,754) |
| Other income (loss), net | 72 | — | (72) | 57 | (15) |
| Equity loss | (13,666) | — | (13,669) | (96) | (13,765) |
| Net loss | (13,594) | — | (13,741) | (5,281) | (19,022) |

Six months ended June 30, 2016

| | Healthcare | Technology | Total Segments | Other Items | Total |
|----------------------------|------------|------------|----------------|-------------|------------|
| (Unaudited - In thousands) | | | | | |
| Operating loss | \$— | \$— | \$— | \$(10,077) | \$(10,077) |
| Other income (loss), net | 424 | — | 424 | 235 | 659 |
| Equity income (loss) | 43,186 | 1,601 | 34,587 | (288) | 34,299 |
| Net income (loss) | 43,610 | 1,601 | 35,011 | (11,487) | 23,524 |

Six months ended June 30, 2015

| | Healthcare | Technology | Total Segments | Other Items | Total |
|----------------------------|------------|------------|----------------|-------------|-----------|
| (Unaudited - In thousands) | | | | | |
| Operating loss | \$— | \$— | \$— | \$(9,634) | \$(9,634) |
| Other income (loss), net | (311) | — | (311) | (92) | (403) |
| Equity income (loss) | (17,603) | 1,778 | (22,488) | 56 | (22,427) |
| Net loss | (17,914) | 1,778 | (22,794) | (10,831) | (33,625) |

SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Commitments and Contingencies

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

The Company had outstanding guarantees of \$3.8 million at June 30, 2016 which related to one of the Company's private equity holdings.

Under certain circumstances, the Company may be required to return a portion or all the distributions it received as a general partner of a private equity fund ("clawback"). The maximum clawback the Company could be required to return due to its general partner interest is approximately \$1.3 million, of which \$1.0 million was reflected in Accrued expenses and other current liabilities and \$0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets at June 30, 2016. The Company's ownership in the fund is 19%. The clawback liability is joint and several; therefore the Company may be required to fund the clawback for other general partners should they default. The Company believes its potential liability due to the possibility of default by other general partners is remote.

In October 2001, the Company entered into an agreement with a former Chairman and Chief Executive Officer of the Company, to provide for annual payments of \$0.65 million per year and certain health care and other benefits for life. The related current liability of \$0.8 million was included in Accrued expenses and other current liabilities and the long-term portion of \$2.2 million was included in Other long-term liabilities on the Consolidated Balance Sheet at June 30, 2016.

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

The Company has agreements with certain employees that provide for severance payments to the employee in the event the employee is terminated without cause or an employee terminates his employment for "good reason." The maximum aggregate exposure under the agreements was approximately \$3.0 million at June 30, 2016.

In June 2011, the Company's former partner company, Advanced BioHealing, Inc. ("ABH") was acquired by Shire plc. Prior to the expiration of the escrow period in March 2012, Shire plc filed a claim against all amounts held in escrow related to the sale based principally upon a United States Department of Justice ("DOJ") false claims act investigation relating to ABH. No further proceeds will be distributed to the Company or other former owners until the validity of such claims is determined. The Company presently views it as unlikely that it will receive any portion of such amount in the short- or long-term. In connection with the above-referenced investigation, in July 2015 the Company received a Civil Investigation Demand-Documentary Material from the DOJ regarding ABH and Safeguard's relationship with ABH. Safeguard intends to cooperate with the investigation.

11. Equity

In July 2015, the Company's Board of Directors authorized the Company, from time to time and depending on market conditions, to repurchase up to \$25.0 million of the Company's outstanding common stock. The Company repurchased 0.4 million shares at an aggregate cost of \$5.4 million during the six months ended June 30, 2016.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about Safeguard Scientifics, Inc. (“Safeguard” or “we”), the industries in which we operate and other matters, as well as management’s beliefs and assumptions and other statements regarding matters that are not historical facts. These statements include, in particular, statements about our plans, strategies and prospects. For example, when we use words such as “projects,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “would,” “could,” “will,” “opportunity,” “potential” or “may,” variations of such words or other words to convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our forward-looking statements are subject to risks and uncertainties. Factors that could cause actual results to differ materially, include, among others, our ability to make good decisions about the deployment of capital, the fact that our partner companies may vary from period to period, our substantial capital requirements and absence of liquidity from our partner company holdings, fluctuations in the market prices of our publicly traded partner company holdings, competition, our inability to obtain maximum value for our partner company holdings, our ability to attract and retain qualified employees, our ability to execute our strategy, market valuations in sectors in which our partner companies operate, our inability to control our partner companies, our need to manage our assets to avoid registration under the Investment Company Act of 1940, and risks associated with our partner companies and their performance, including the fact that most of our partner companies have a limited history and a history of operating losses, face intense competition and may never be profitable, the effect of economic conditions in the business sectors in which Safeguard’s partner companies operate, compliance with government regulation and legal liabilities, all of which are discussed in Item 1A. “Risk Factors” in Safeguard’s Annual Report on Form 10-K and updated, as applicable, in “Factors that May Affect Future Results” and Item 1A. “Risk Factors” below. 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.

Business Overview

Safeguard’s charter is to build value in early- and growth-stage businesses by providing capital as well as strategic, operational and management resources. Safeguard participates in early- and growth-stage financings. Our vision is to be the preferred capital source for entrepreneurs and management teams in well-defined industry sectors. Throughout this document, we use the term “partner company” to generally refer to those companies in which we have an equity interest and in which we are actively involved, influencing development through board representation and management support, in addition to the influence we exert through our equity ownership. From time to time, in addition to these partner companies, we also hold relatively small equity interests in other enterprises where we do not exert significant influence and do not participate in management activities. In some cases, these interests relate to former partner companies and in some cases they relate to entities which may later become partner companies. We strive to create long-term value for our shareholders by helping our partner companies increase their market penetration, grow revenue and improve cash flow. Safeguard focuses principally on companies with initial capital requirements between \$5 million and \$15 million, and follow-on financing needs of between \$5 million and \$10 million, with a total anticipated deployment of up to \$25 million from Safeguard. We will occasionally provide certain early-stage financing in amounts generally up to \$1 million to promising young companies with the goal to provide more capital once certain development milestones are achieved. Safeguard principally targets companies that operate in two sectors:

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

Technology — companies focused principally on digital media and enterprise technology including financial technology, mobile technology, cloud, “Internet of Things” and big data. Within these areas, Safeguard targets companies that have transaction-enabling applications with a recurring revenue stream.

Results of Operations

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

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

Other items include certain expenses which are not identifiable to the operations of our operating segments. Other items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, interest income, interest expense, other income (loss), equity income (loss) related to our private equity holdings and income taxes. Other items also include interest earned on mezzanine loans, gain (loss) on the mark-to-market of our warrant participations, and impairment on debt and equity interests in which we participate with Penn Mezzanine as well as equity income (loss) associated with our interest in the management company and general partner of Penn Mezzanine, a mezzanine lender focused on lower middle-market, Mid-Atlantic companies. Penn Mezzanine is not making any new loans and, as of June 30, 2016, had two remaining loans in which we have participating interests.

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

| | Three months ended | | Six months ended | |
|------------------------------|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Healthcare | \$48,184 | \$(13,135) | \$43,188 | \$(17,416) |
| Technology | (3,677) | (606) | (8,177) | (5,378) |
| Total segments | 44,507 | (13,741) | 35,011 | (22,794) |
| Other items: | | | | |
| Corporate operations | (5,531) | (5,281) | (11,487) | (10,831) |
| Income tax benefit (expense) | — | — | — | — |
| Total other items | (5,531) | (5,281) | (11,487) | (10,831) |
| Net income (loss) | \$38,976 | \$(19,022) | \$23,524 | \$(33,625) |

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 development, usually through board representation in addition to our equity ownership.

The following listings of our Healthcare and Technology partner companies only include entities which were considered partner companies as of June 30, 2016. Certain entities which may have been partner companies in previous periods are omitted if, as of June 30, 2016, they had been sold or are no longer considered a partner company.

Healthcare

The following active partner companies as of June 30, 2016 were included in Healthcare:

| Partner Company | Safeguard Primary Ownership as of | | Accounting Method |
|---------------------------------------|-----------------------------------|-------|-------------------|
| | June 30, | | |
| | 2016 | 2015 | |
| AdvantEdge Healthcare Solutions, Inc. | 40.1% | 40.1% | Equity |
| Aktana, Inc. | 23.4% | NA | Equity |
| Aventura, Inc. | 19.9% | 19.9% | Equity |
| Good Start Genetics, Inc. | 29.6% | 29.8% | Equity |
| InfoBionic, Inc. | 40.5% | 27.8% | Equity |
| Medivo, Inc. | 34.5% | 34.5% | Equity |
| meQuilibrium | 31.5% | 31.5% | Equity |
| NovaSom, Inc. | 31.7% | 31.7% | Equity |
| Propeller Health, Inc. | 24.5% | 24.6% | Equity |
| Syapse, Inc. | 29.2% | 27.0% | Equity |
| Trice Medical, Inc. | 27.7% | 27.7% | Equity |
| Zipnosis, Inc. | 26.2% | NA | Equity |

Results of operations for the Healthcare segment were as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------|-----------------------------|------------|---------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Other income (loss), net | \$— | \$(72) | \$— | \$(311) |
| Equity income (loss) | 48,184 | (13,063) | 43,188 | (17,105) |
| Net income (loss) | \$48,184 | \$(13,135) | \$43,188 | \$(17,416) |

Three months ended June 30, 2016 versus the three months ended June 30, 2015

Other Income (Loss), Net. Other income (loss), net decreased \$0.1 million for the three months ended June 30, 2016, compared to the prior year period. Other income (loss), net for the three months ended June 30, 2015 reflected an impairment charge of \$0.1 million related to Dabo Health.

Equity Income (Loss). Equity income (loss) fluctuates with the number of Healthcare partner companies accounted for under the equity method, our voting ownership percentage in these partner companies and the net results of operations of these partner companies. We recognize our share of losses to the extent we have cost basis in the partner company or 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) for the Healthcare segment increased \$61.2 million for the three months ended June 30, 2016 compared to the prior year period. Equity income (loss) for the three months ended June 30, 2016 reflected a gain of \$55.2 million on the sale of Putney in April 2016. Equity income (loss) for the three months ended June 30, 2015 reflected impairment charges of \$3.2 million and \$2.9 million related to InfoBionic and Quantia, respectively. The remaining change in equity income (loss) for the three months ended June 30, 2016 compared to the prior year period was due to an increase in losses associated with those partner companies included in the Healthcare segment.

Six months ended June 30, 2016 versus the six months ended June 30, 2015

Other Income (Loss), Net. Other income (loss), net decreased \$0.3 million for the six months ended June 30, 2016, compared to the prior year period. Other income (loss), net for the six months ended June 30, 2015 reflected an impairment charge of \$2.3 million related to Dabo Health. The impairment was partially offset by a \$2.0 million gain on the release of proceeds from escrow associated with the February 2014 sale of Crescendo Bioscience, Inc.

Equity Income (Loss). Equity income (loss) for the Healthcare segment increased \$60.3 million for the six months ended June 30, 2016 compared to the prior year period. Equity income (loss) for the six months ended June 30, 2016 reflected a gain

of \$55.2 million on the sale of Putney in April 2016. Equity income (loss) for the six months ended June 30, 2015 reflected impairment charges of \$3.2 million and \$2.9 million related to InfoBionic and Quantia, respectively. The remaining change in equity income (loss) for the six months ended June 30, 2016 compared to the prior year period was due to an increase in losses associated with those partner companies included in the Healthcare segment.

Technology

The following active partner companies as of June 30, 2016 were included in Technology:

| Partner Company | Safeguard Primary Ownership as of | | Accounting Method |
|------------------------------|-----------------------------------|---------------|-------------------|
| | June 30, 2016 | June 30, 2015 | |
| Apprenda, Inc. | 29.5% | 21.4% | Equity |
| Beyond.com, Inc. | 38.2% | 38.2% | Equity |
| Cask Data, Inc. | 34.2% | NA | Equity |
| CloudMine, Inc. | 30.1% | 30.1% | Equity |
| Clutch Holdings, Inc. | 38.5% | 39.3% | Equity |
| Full Measure Education, Inc. | 36.0% | 25.4% | Equity |
| Hoopla Software, Inc. | 25.6% | 25.6% | Equity |
| Lumesis, Inc. | 44.2% | 45.3% | Equity |
| MediaMath, Inc. | 20.5% | 20.7% | Equity |
| Pneuron Corporation | 35.4% | 35.4% | Equity |
| QuanticMind, Inc. | 23.6% | 24.5% | Equity |
| Sonobi, Inc. | 22.6% | 22.6% | Equity |
| Spongecell, Inc. | 23.0% | 23.0% | Equity |
| Transactis, Inc. | 24.2% | 24.6% | Equity |
| WebLinc, Inc. | 38.0% | 29.2% | Equity |

Results of operations for the Technology segment were as follows:

| | Three months ended June 30, 2016 | | Six months ended June 30, 2015 | |
|--------------------------|----------------------------------|---------|--------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| Other income (loss), net | \$424 | \$— | \$424 | \$— |
| Equity loss | (4,101) | (606) | (8,601) | (5,378) |
| Net loss | \$(3,677) | \$(606) | \$(8,177) | \$(5,378) |

Three months ended June 30, 2016 versus the three months ended June 30, 2015

Other Income (Loss), Net. Other income (loss), net increased \$0.4 million for the three months ended June 30, 2016, compared to the prior year period. Other income (loss), net for the three months ended June 30, 2016 reflected a gain of \$0.4 million on the sale of Bridgevine in June 2016.

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

Equity loss for the Technology segment increased \$3.5 million for the three months ended June 30, 2016, compared to the prior year period. Equity loss for the three months ended June 30, 2016 reflected an impairment charge of \$1.7 million related to AppFirst which was partially offset by a gain of \$1.1 million associated with the expiration of the escrow period related to the sale of DriveFactor in April 2015. Equity loss for the three months ended June 30, 2015 reflected a gain of \$6.1 million on the sale of DriveFactor in April 2015. The remaining change in equity loss for the three months ended June 30, 2016 compared to the prior year period was due an increase in losses associated with those partner companies included in the

Technology segment, partially offset by equity income related to our share of a partner company's gain on the sale of assets in the three months ended June 30, 2016.

Six months ended June 30, 2016 versus the six months ended June 30, 2015

Other Income (Loss), Net. Other income (loss), net increased \$0.4 million for the six months ended June 30, 2016, compared to the prior year period. Other income (loss), net for the six months ended June 30, 2016 reflected a gain of \$0.4 million on the sale of Bridgevine in June 2016.

Equity Loss. Equity loss for the Technology segment increased \$3.2 million for the six months ended June 30, 2016, compared to the prior year period. Equity loss for the six months ended June 30, 2016 reflected a gain of \$3.3 million associated with the achievement of performance milestones related to the sale of Thingworx in December 2013 and a gain of \$1.1 million associated with the expiration of the escrow period related to the sale of DriveFactor in April 2015 which were partially offset by an impairment charge of \$1.7 million related to AppFirst. Equity loss for the six months ended June 30, 2015 reflected a gain of \$6.1 million on the sale of DriveFactor in April 2015. The remaining change in equity loss for the six months ended June 30, 2016 compared to the prior year period was due to an increase in losses associated with those partner companies included in the Technology segment, partially offset by equity income related to our share of a partner company's gain on the sale of assets in the six months ended June 30, 2016.

Corporate Operations

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------------|--------------------------------|-----------|------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (In thousands) | | | |
| General and administrative expense | \$(4,299) | \$(4,000) | \$(8,638) | \$(8,608) |
| Stock-based compensation | (467) | (735) | (1,275) | (992) |
| Depreciation | (83) | (19) | (164) | (34) |
| Other income (loss), net | 235 | 57 | 235 | (92) |
| Interest income | 527 | 640 | 947 | 1,089 |
| Interest expense | (1,155) | (1,128) | (2,304) | (2,250) |
| Equity income (loss) | (289) | (96) | (288) | 56 |
| | \$(5,531) | \$(5,281) | \$(11,487) | \$(10,831) |

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

Three months ended June 30, 2016 versus the three months ended June 30, 2015

General and Administrative Expense. Our general and administrative expenses consist primarily of employee compensation, insurance, travel-related costs, office rent and professional services such as consulting, legal, and accounting. General and administrative expense increased \$0.3 million for the three months ended June 30, 2016 compared to the prior year period due to an increase of \$0.2 million in professional fees and an increase of \$0.1 million in employee costs.

Stock-Based Compensation. Stock-based compensation consists primarily of expense related to grants of stock options, restricted stock and deferred stock units to our employees and directors. Stock-based compensation decreased \$0.3 million for the three months ended June 30, 2016 compared to the prior year period primarily due to a \$0.2 million decrease in expense related to restricted stock awards and deferred stock units.

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 period.

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

Six months ended June 30, 2016 versus the six months ended June 30, 2015

General and Administrative Expense. General and administrative expense remained relatively consistent compared to the prior year period.

Stock-Based Compensation. Stock-based compensation increased \$0.3 million for the six months ended June 30, 2016 compared to the prior year period primarily due to a \$0.4 million increase in expense related to performance-based awards.

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

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

Income Tax Benefit (Expense)

Income tax benefit (expense) was \$0.0 million for the three and six months ended June 30, 2016 and 2015. 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 tax expense that would have been recognized in the three and six months ended June 30, 2016 was offset by changes in the valuation allowance. The benefit of the net operating loss that would have been recognized in the three and six months ended June 30, 2015 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 June 30, 2016, we had \$66.2 million of cash and cash equivalents and \$25.1 million of marketable securities for a total of \$91.3 million.

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.

In April 2016, Putney, Inc. was acquired by Dechra Pharmaceuticals Plc. We received cash proceeds of \$58.2 million in connection with the transaction, excluding \$0.4 million which will be held in escrow until August 2016 and \$0.6 million which will be held in escrow until April 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, the Company received the remaining \$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, Quantia was acquired by Physicians Interactive. We received cash proceeds of \$7.8 million, excluding \$0.6 million which was released from escrow in July 2016 and \$0.6 million which will be held in escrow until January 2017.

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 the Company's outstanding common stock. We repurchased 0.4 million shares at an aggregate cost of \$5.4 million during the six months ended June 30, 2016.

We have outstanding \$55.0 million in face amount of our 5.25% convertible senior debentures due 2018 (the "2018 Debentures"). Interest on the 2018 Debentures is payable semi-annually. At the debentures holders' option, the 2018 Debentures are convertible into our common stock prior to November 15, 2017 subject to certain conditions, and at any time after November 15, 2017. The conversion rate of the 2018 Debentures is 55.17 shares of common stock per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$18.13 per share of common stock. The closing price per share of our common stock at June 30, 2016 was \$12.49. 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 are party to a loan agreement with a commercial bank which provides us with a revolving credit facility in the maximum aggregate amount of \$25.0 million in the form of borrowings, guarantees and issuances of letters of credit, subject to a \$20.0 million sublimit. Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as the value of our public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, we are required to maintain all of our depository and operating accounts at the bank. The credit facility, as amended December 29, 2015, matures on December 19, 2016. Under the credit facility, we provided a \$6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters which was required in connection with our sale of CompuCom Systems in 2004. Availability under our revolving credit facility at June 30, 2016 was \$18.7 million.

Under certain circumstances, we may be required to return a portion or all the distributions we received as a general partner of a private equity fund for further distribution to such fund's limited partners ("clawback"). The maximum clawback we could be required to return related to our general partner interest is \$1.3 million, of which \$1.0 million was reflected in Accrued expenses and other current liabilities and \$0.3 million was reflected in Other long-term liabilities on the Consolidated Balance Sheets at June 30, 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.

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

For the reasons we have presented above, we believe our cash and cash equivalents at June 30, 2016, availability under our revolving credit facility and other internal sources of cash flow will be sufficient to fund our cash requirements for at least the next 12 months, including interest payments, commitments to our existing partner companies and funds, possible additional funding of existing partner companies and our general corporate requirements. Our acquisition of new partner company interests is always contingent upon our availability of cash to fund such deployments, and our timing of monetization events directly affects our availability of cash.

Analysis of Consolidated Cash Flows

Cash flow activity was as follows:

| | Six months ended | |
|---|------------------|------------|
| | June 30, | |
| | 2016 | 2015 |
| | (In thousands) | |
| Net cash used in operating activities | \$(10,843) | \$(11,245) |
| Net cash provided by (used in) investing activities | 49,980 | (40,377) |
| Net cash provided by (used in) financing activities | (5,744) | 549 |
| | \$33,393 | \$(51,073) |

Net Cash Used In Operating Activities

Net cash used in operating activities decreased by \$0.4 million for the six months ended June 30, 2016 compared to the prior year period. The decrease was related to a decrease of \$0.9 million in cash used for management incentive plan payments partially offset by an increase of \$0.5 million in cash used for professional fees.

Net Cash Provided by (Used In) Investing Activities

Net cash provided by (used in) investing activities increased by \$90.4 million for the six months ended June 30, 2016 compared to the prior year period. The increase primarily related to related to a \$61.4 million increase in proceeds from the sales of and distributions from companies. Cash proceeds from the sale of and distributions from companies was \$72.8 million for the six months ended June 30, 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 and Thingworx, 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 \$11.4 million for the six months ended June 30, 2015 which related to the sale of our interest in DriveFactor and cash received from escrow associated with the sale of our interest in Crescendo Bioscience, Inc. The increase in cash provided by investing activities also related to a \$15.7 million increase in cash proceeds from the net change in marketable securities, \$12.2 million decrease in acquisitions of ownership interests in companies, and a decrease of \$0.8 million in advances and loans to companies.

Net Cash Provided by (Used In) Financing Activities

Net cash provided by (used in) financing activities decreased by \$6.3 million for the six months ended June 30, 2016 compared to the prior year period. The decrease related to an increase of \$5.4 million in repurchases of our common stock, a \$0.5 million decrease in proceeds received from the exercise of stock options and in increase of \$0.4 million in tax withholdings related to share-based payment awards.

Contractual Cash Obligations and Other Commercial Commitments

There have been no material changes to the contractual cash obligations and other commercial commitments we previously disclosed under Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 4, 2016.

Factors That May Affect Future Results

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.

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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:

- 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.

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

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

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

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

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

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

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

The healthcare and technology marketplaces are characterized by:

- rapidly changing technology;
- evolving industry standards;
- 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

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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.

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. 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 partner companies have not been the subject of a work stoppage, any future work stoppage could have a material adverse effect on their respective operations. A shortage in the availability of the requisite qualified personnel or work stoppage would limit the ability of our partner companies to grow, to increase sales of their existing products and services, and to launch new products and services.

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

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

customers are reimbursed by insurance providers for their products, such changes could adversely impact our partner companies.

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

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

could increase operating costs at certain of our partner companies, and the failure to comply could negatively affect the operations and results of some of our partner companies.

Catastrophic events may disrupt our partner companies' businesses.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the risk factors we previously disclosed under Item 7A of Part II of our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 4, 2016.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2016 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes in our risk factors from the information set forth above under the heading "Factors That May Affect Future Results" and in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of equity securities by the Company and affiliated purchasers of the Company, during the quarter ended June 30, 2016, which equity securities are 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) |
|--------------------------------|--------------------------------------|------------------------------|---|---|
| April 1, 2016 - April 30, 2016 | 331 | \$14.1040 | — | \$ 14,636,135 |
| May 1, 2016 - May 31, 2016 | 331 | \$13.5160 | — | \$ 14,636,135 |
| June 1, 2016 - June 30, 2016 | 1,185 | \$12.8400 | — | \$ 14,636,135 |
| Total | 1,847 | \$13.1880 | — | |

(a) During the second quarter of 2016, the Company repurchased an aggregate of 2 thousand shares of its 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 the Company to repurchase shares of its 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 the Company to acquire any specific number of shares.

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Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits.

The following is a list of exhibits required by Item 601 of Regulation S-K to be filed as part of this Report. For exhibits that previously have been filed, the Registrant incorporates those exhibits herein by reference. Documents which are incorporated by reference to filings by parties other than the Registrant are identified in a footnote to this table.

| Exhibit Number | Description |
|----------------|--|
| 31.1 † | Certification of Stephen T. Zarrilli pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. |
| 31.2 † | Certification of Jeffrey B. McGroarty pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. |
| 32.1 ‡ | Certification of Stephen T. Zarrilli pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 ‡ | Certification of Jeffrey B. McGroarty pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from Safeguard Scientifics, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets (unaudited); (ii) Consolidated Statements of Operations (unaudited); (iii) Consolidated Statements of Comprehensive Income (Loss) (unaudited); (iv) Condensed Consolidated Statements of Cash Flows (unaudited); (v) Consolidated Statement of Changes in Equity (unaudited); and (vi) Notes to Consolidated Financial Statements (unaudited). |

† Filed herewith

‡ Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SAFEGUARD SCIENTIFICS, INC.

Date: July 29, 2016 /s/ Stephen T. Zarrilli

Stephen T. Zarrilli

President and Chief Executive Officer

Date: July 29, 2016 /s/ Jeffrey B. McGroarty

Jeffrey B. McGroarty

Senior Vice President and Chief Financial Officer