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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2012

Commission File Number 1-5620

Safeguard Scientifics, Inc.

(Exact name of Registrant as specified in its charter)

Pennsylvania	**23-1609753**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer ID No.)**

435 Devon Park Drive

Building 800

Wayne, PA **19087**
(Address of principal executive offices) **(Zip Code)**
(610) 293-0600

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock ($.10 par value)	**New York Stock Exchange**

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

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

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

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 x No ¨

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

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

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

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

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

As of June 30, 2012, the aggregate market value of the Registrant s common stock held by non-affiliates of the Registrant was $316,924,470 based on the closing sale price as reported on the New York Stock Exchange.

The number of shares outstanding of the Registrant s Common Stock, as of March 7, 2013 was 20,976,963.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the Definitive Proxy Statement) to be filed with the Securities and Exchange Commission for the Company s 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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SAFEGUARD SCIENTIFICS, INC.

FORM 10-K

DECEMBER 31, 2012

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PART I

Cautionary Note concerning Forward-Looking Statements

Except for the historical information and discussions contained herein, statements contained in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to risks and uncertainties. The risks and uncertainties that could cause actual results to differ materially, include, among others, managing rapidly changing technologies, limited access to capital, competition, the ability to attract and retain qualified employees, the ability to execute our strategy, the uncertainty of the future performance of our partner companies, acquisitions and dispositions of partner companies, the inability to manage growth, compliance with government regulations and legal liabilities, additional financing requirements, the effect of economic conditions in the business sectors in which our partner companies operate, and other uncertainties described in the Company s filings with the Securities and Exchange Commission. 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. The Company does not assume any obligation to update any forward-looking statements or other information contained in this document.

Item 1. *Business*

Business Overview

Safeguard s charter is to build value in growth-stage businesses by providing capital as well as strategic, operational and management resources. Safeguard participates in expansion financings, corporate spin-outs, buyouts, recapitalizations, industry consolidations, and early-stage financings. Our vision is to be the preferred catalyst to build great companies across diverse capital platforms. Historically, we have typically been a provider of equity capital and have provided debt capital only in limited instances where specific circumstances permitted. 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 in the management of which we are not actively involved.

We strive to create long-term value for our shareholders by helping 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 financings between $5 million and $10 million, with a total anticipated deployment of up to $25 million from Safeguard. In addition, Safeguard principally targets companies that operate in two sectors:

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

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

It is our stated intention to continue to develop, grow and extend our capital deployment and business building platform by leveraging our core capabilities. These initiatives may take the form of: i) considering partner companies in additional sectors; ii) making a concerted effort to deploy debt capital to our partner companies or to other borrowers; and /or iii) managing the deployment of capital other than that which originates on our balance sheet.

In 2012, our management team continued to focus on the following objectives:

- *Deploy* capital in companies within our strategic focus;
- *Build* value in partner companies by developing strong management teams, growing the companies organically and through acquisitions, and positioning the companies for liquidity at premium valuations;

Realize the value of partner companies through selective, well-timed exits to maximize risk-adjusted value; and

Provide the tools needed for investors to fully recognize the shareholder value that has been created by our efforts.

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To meet our strategic objectives during 2013, Safeguard will continue to focus on:

- finding opportunities to deploy our capital in additional partner companies and, possibly, extensions of our capital deployment and business building platform;
- helping partner companies to achieve additional market penetration, revenue growth, cash flow improvement and growth in long-term value; and
- realizing value in our partner companies if and when we believe doing so will maximize value for our shareholders.

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

Significant 2012 Highlights

Here are our key developments from 2012:

- During 2012, we deployed $28.7 million in capital into new partner companies. In addition, we deployed $26.4 million in additional capital to support the growth of the partner companies in which we already had an interest at December 31, 2011.
- In January 2012, Safeguard deployed $10.0 million in Spongecell, Inc. Spongecell is a digital media company that transforms standard online ads into dynamic ads with rich media-like functionality. Spongecell can build and rollout ads in 72 hours or less, allowing creative agencies to quickly deploy interactive display ad campaigns that have resulted in increased engagement by 25 to 50 percent over static banner ads.
- In February 2012, Safeguard deployed $2.2 million in Lumesis, Inc. Lumesis is a software-as-a-service (SaaS), cloud-based FinTech company dedicated to delivering software solutions and comprehensive, timely data to the fixed income marketplace. Through analytical tools, real-time alerts, proprietary visualization technology and content-rich reporting, Lumesis DIVER platform allows professionals across the municipal market to easily identify portfolio risks and opportunities, improve customer satisfaction, ensure compliance and enable growth.
- In April 2012, Eli Lilly and Company (Eli Lilly) and Avid Radiopharmaceuticals (Avid) announced that the U.S. Food and Drug Administration (FDA) approved Amyvid, a radioactive diagnostic agent indicated for brain imaging of beta-amyloid plaques in patients with cognitive impairment who are being evaluated for Alzheimer s Disease and other causes of cognitive decline. The achievement of this milestone triggered the payment of $5.6 million in additional proceeds to Safeguard from the December 2010 acquisition of Avid by Eli Lilly, increasing total net proceeds received to $41.3 million.
- In May 2012, Safeguard appointed Dr. Keith B. Jarrett to its board of directors. Dr. Jarrett has more than 25 years of experience in venture capital, private equity and finance technology, driving value for customers, shareholders, investors and employees.
- In November 2012, Stephen T. Zarrilli succeeded Peter J. Boni as President and CEO and joined Safeguard s Board of Directors. Over the course of a 30 year career, Mr. Zarrilli has served as CEO and CFO of both publicly traded and privately held technology companies. He also has substantial board governance experience having served on four other publicly traded enterprises over the last 15 years. Mr. Zarrilli joined Safeguard as its CFO in 2008.

In November 2012, Safeguard completed the issuance of $55.0 million in face value of 5.25% convertible senior debentures due 2018. Net proceeds from the offering were used to repurchase $46.9 million in face value of 10.125% convertible senior debentures due 2014.

In December 2012, Safeguard deployed $6.5 million in AppFirst, Inc. AppFirst provides cloud-based application performance monitoring solutions for the enterprise. AppFirst is a cloud-based application performance monitoring solution that provides unprecedented visibility into critical, top-line business metrics. Through its SaaS-based DevOps Dashboard, AppFirst captures extremely detailed information from an entire application stack, including millions of infrastructure, application and business metrics, aggregates them and then correlates them in a single, big data repository that eliminates the need for users to search for data in multiple places. Data is collected continuously to provide customers with visibility into their entire infrastructure and every application running in production, delivering actionable data and bringing overall system management to a higher level of efficiency.

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In December 2012, Safeguard deployed $10.0 million in Crescendo Bioscience, Inc. Crescendo Bioscience is a molecular diagnostics company focused on rheumatology. Crescendo Bioscience develops quantitative, objective, blood tests to provide rheumatologists with deeper clinical insights to help enable more effective management of patients with autoimmune and inflammatory diseases.

Our Strategy

We currently focus much of our intention on developing partner companies that address one or more of the five following general themes and that are pursuing opportunities presented thereby:

Maturity Many existing technologies, solutions and therapies are reaching the end of their designed lives or patent protection; the population of the U.S. is aging; IT infrastructure is maturing and the sectors are consolidating; and many businesses based on once-novel technologies are now facing consolidation and other competitive pressures.

Migration Many technology platforms are migrating to newer technologies with changing cost structures; many medical treatments are moving toward earlier stage intervention or generics; there is a migration from generalized treatments to personalized medicine; many business models are migrating towards different revenue-generation models, integrating technologies and services; and traditional media such as newspapers and advertising have migrated online.

Convergence Many technology and healthcare businesses are intersecting in fields like medical devices and diagnostics for targeted therapies. Within healthcare itself, devices, diagnostics and therapeutics are converging.

Compliance Regulatory compliance is driving buying behavior in technology and healthcare.

Cost containment The importance of cost containment grows as healthcare costs and IT infrastructure maintenance costs grow.

These strategic themes tend to drive growth and attract entrepreneurs who need capital, operational support and strategic guidance. Safeguard deploys capital, combined with management expertise, process excellence and marketplace insight, to provide tangible benefits to our partner companies.

Our corporate staff of 31 employees is dedicated to creating long-term value for our shareholders by helping our partner companies build value and by finding additional acquisition opportunities.

Identifying Partner Company Opportunities

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

operating in large and/or growing markets;

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

with initial capital requirements between $5 million and $15 million, and follow-on financings between $5 million and $10 million, with the total anticipated deployment of up to $25 million from Safeguard; and with a compelling growth strategy.

Our sourcing efforts are targeted primarily in the eastern United States. However, in-bound deal leads generate opportunities throughout the United States. Leads come from a variety of sources, including investment bankers, syndication partners, existing partner companies and advisory board members.

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

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

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

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

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

Helping Our Partner Companies Build Value

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

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

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

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

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

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Realizing Value

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

Our Partner Companies

An understanding of our partner companies is important to understanding Safeguard and its value-building strategy. Following are descriptions of our partner companies in which we owned interests at December 31, 2012, except in the case of Sotera Wireless and Pneuron, in which we acquired our ownership interests in January and February 2013, respectively. The indicated ownership percentage is presented as of December 31, 2012, or the later date on which the interest was acquired, and reflects the percentage of the vote we are entitled to cast based on issued and outstanding voting securities (on a common stock equivalent basis), excluding the effect of options, warrants and convertible debt (primary ownership).

In the fourth quarter of 2012, we expanded our focus within the former Life Sciences segment to include companies in the HealthTech sector and have renamed that segment Healthcare . The HealthTech sector had previously been included in our Technology segment.

HEALTHCARE PARTNER COMPANIES

AdvantEdge Healthcare Solutions, Inc. ***(Safeguard Ownership: 40.2%)***
Headquartered in Warren, New Jersey, AdvantEdge Healthcare Solutions (AdvantEdge) is a technology-enabled provider of healthcare financial management solutions and business intelligence tools designed to improve decision making, maximize financial performance, streamline operations and eliminate compliance risks for healthcare providers. AdvantEdge continues to gain meaningful scale through organic growth and strategic acquisitions, having completed eight acquisitions since 2007. AdvantEdge has more than 675 employees in eight regional offices in the U.S. and one office in Bangalore, India. In 2012, AdvantEdge released its new InfoEdgeBISM platform, which gives medical practices and hospitals more in-depth insight into their medical billing and coding information. **www.ahsrcm.com**

Alverix, Inc. ***(Safeguard Ownership: 49.2%)***
Headquartered in San Jose, California, Alverix provides next-generation instrument and connectivity platforms for Point-of-Care diagnostic testing. Alverix s systems enable laboratory class performance in a mobile, inexpensive format, extending testing beyond high volume sites to physician office labs, retail clinics, emerging markets and the home, where immediate results are critical to patient care. Alverix and Becton, Dickinson (BD) have co-developed and BD is commercializing a proprietary point-of-care system that improves near patient infectious-disease diagnoses. In 2012, BD received 510(k) clearance from the FDA for nasopharyngeal wash, aspirate and swab in transport media specimens on the BD VeritorTM System for Rapid Detection Flu A + B and respiratory syncytial virus. Alverix remains focused on growing its point-of-care platform business through co-development of near patient test systems with select partners and through development of its own systems. **www.alverix.com**

Crescendo Bioscience, Inc. ***(Safeguard Ownership: 12.6%)***
Headquartered in San Francisco, California, Crescendo Bioscience is a molecular diagnostics company that is currently focused on improving the treatment of rheumatoid arthritis (RA), a debilitating, chronic inflammatory disease characterized by bone erosions and cartilage degradation. Current tools for assessing the status of RA in individual cases are largely subjective, imprecise and cumbersome to administer in daily practice.

Working with collaborators from academic medical institutions, Crescendo Bioscience is building a comprehensive understanding of the underlying biology of RA, including the characterization of protein, gene expression and genetic biomarkers, to provide molecular analysis of the disease to help guide the treatment of individual patients. Through its lead product, Vectra™ DA, Crescendo Bioscience is establishing long-term relationships with clinicians to help improve outcomes throughout the continuum of care. All testing is performed at Crescendo Bioscience s own specialized, CLIA-certified laboratory. **www.crescendobio.com**

Good Start Genetics, Inc. ***(Safeguard Ownership: 30.0%)***

Headquartered in Cambridge, Massachusetts, Good Start Genetics is a molecular diagnostic company that has developed more accurate and comprehensive pre-pregnancy genetic tests. Launched in 2012, Good Start Genetics GoodStart Select™, developed in a CLIA- and CAP-approved laboratory, represents a menu of carrier screening tests that detect more disease-causing mutations among all society-recommended diseases than other routine screening tests. Currently, Good Start Genetics offers tests for all 23 diseases/disorders recommended for screening by medical societies. Good Start Genetics next-generation DNA sequencing technology combined with other technologies, results in higher detection rates regardless of ethnicity. **www.goodstartgenetics.com**

Medivo, Inc. ***(Safeguard Ownership: 30.0%)***

Headquartered in New York, New York, Medivo is a health monitoring company dedicated to helping save and improve lives through faster and easier access to quality healthcare. Medivo collects and organizes clinical and symptom data from laboratories and mobile applications, and delivers easy-to-interpret reports to physicians that help them provide better care. Medivo enables patients to better manage their health and have more meaningful interactions with their doctors through access to testing and mobile symptom monitoring tools, easy-to-understand explanations of lab results, and relevant education information. **www.medivo.com**

NovaSom, Inc. ***(Safeguard Ownership: 30.3%)***

Headquartered in Glen Burnie, Maryland, NovaSom provides diagnostic devices and services for home testing and evaluation of sleep-disordered breathing, including obstructive sleep apnea (OSA). NovaSom s Home Sleep Test is a portable, FDA-approved instrument that can detect OSA at home for patient convenience and enhanced accuracy. NovaSom s home service delivery model, combined with a cloud-based portal technology, connects NovaSom with physicians, therapy providers and payers to achieve alignment in patient preference, cost and quality objectives. **www.novasom.com**

NuPathe Inc. (NASDAQ: PATH) ***(Safeguard Ownership: 17.8%)***

Headquartered in Conshohocken, Pennsylvania, NuPathe is a specialty pharmaceutical company focused on innovative neuroscience solutions for diseases of the central nervous system, including neurological and psychiatric disorders. NuPathe s lead product, Zecuity™ (sumatriptan iontophoretic transdermal system), has been approved by the FDA for the acute treatment of migraine with or without aura in adults. Zecuity is expected to be available by prescription in the fourth quarter of 2013. In addition to Zecuity, NuPathe has two proprietary product candidates based on its LAD™, or Long-Acting Delivery, biodegradable implant technology that allows delivery of therapeutic levels of medication over a period of months with a single dose. NP201, for the continuous symptomatic treatment of Parkinson s disease, utilizes a leading FDA-approved dopamine agonist, ropinirole, and is being developed to provide up to two months of continuous delivery. NP202, for the long-term treatment of schizophrenia and bipolar disorder, is being developed to address the long-standing problem of patient noncompliance by providing three months of continuous delivery of risperidone, an atypical antipsychotic**.** NuPathe is seeking development partners for these two product candidates. **www.nupathe.com**

PixelOptics, Inc. ***(Safeguard Ownership: 24.6%)***

Headquartered in Roanoke, Virginia, PixelOptics is a medical technology company that developed and has begun to commercialize emPower!, an electronically focusing prescription eyewear product. emPower! uses dynamic technology to change focus automatically and silently, without moving parts, reducing or eliminating perceived distortion and other limitations associated with multifocal lenses. Initially targeted for those individuals with presbyopia, a condition where the eye exhibits a progressively diminished ability to focus on near objects with age, these glasses change automatically to enable a patient to see near or far. PixelOptics expects to roll out its second generation eyewear in 2013. **www.pixeloptics.com**

Putney, Inc. ***(Safeguard Ownership: 27.6%)***

Headquartered in Portland, Maine, Putney is a specialty pharmaceutical company developing high-quality, cost-effective generic medicines for pets. Putney s mission is to partner with veterinary practices to provide high quality medicines that meet pet medical needs and offer cost-effective alternatives for pet owners. Putney s ongoing investment in research and development is focused on creating the next generation of generic veterinary products based on inputs from companion animal veterinarians and its industry partners. **www.putneyvet.com**

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Sotera Wireless, Inc. ***(Safeguard Ownership: 7.7%)***
Headquartered in San Diego, California, Sotera Wireless is a medical device company that has developed a new wireless patient monitoring platform called ViSi Mobile®. Sotera s ViSi Mobile platform is a comprehensive vital signs monitoring system that is designed to keep clinicians connected to their patients, whether in or out of bed, or while in transport monitoring in motion. **www.soterawireless.com**

TECHNOLOGY PARTNER COMPANIES

AppFirst, Inc. ***(Safeguard Ownership: 35.0%)***
Headquartered in New York, New York, AppFirst is a cloud-based application performance monitoring solution that provides visibility into critical, top-line business metrics. Through its SaaS-based DevOps Dashboard, AppFirst captures detailed information from an entire application stack, including millions of infrastructure, application and business metrics, aggregates them and then correlates them in a single, big data repository that eliminates the need for users to search for data in multiple places. Data is collected continuously to provide customers with visibility into their entire infrastructure and every application running in production, delivering actionable data and bringing overall system management to a higher level of efficiency. **www.appfirst.com**

Beyond.com, Inc. ***(Safeguard Ownership: 38.3%)***
Headquartered in King of Prussia, Pennsylvania, Beyond.com is a career network that is focused on helping people grow and succeed professionally. By connecting job seekers and employers through 70 unique career channels and 2,000 industry and regional communities, Beyond.com is changing the way job searching is done and helping people build relationships around the world. Through powerful communication tools and a personalized online Career Portfolio, members have an online presence and access to job search functions, networking features, statistics and social and industry research. **www.beyond.com**

Bridgevine, Inc. ***(Safeguard Ownership: 21.7%)***
Headquartered in Vero Beach, Florida, Bridgevine is a performance-based digital marketing company that delivers superior online customer acquisition by bringing together in-market audiences with relevant partner brands. Bridgevine s proprietary SaaS platform powers consumer interactions with major brands, as well as integrates with online and legacy applications for Fortune 500 clients. Over the course of Bridgevine s partnership, these solutions have delivered more than $2.5 billion in revenue to enterprise customers such as Comcast, AT&T, Time Warner Cable, CenturyLink, Constellation Energy and DIRECTV. **www.bridgevine.com**

DriveFactor, Inc. ***(Safeguard Ownership: 35.4%)***
Headquartered in Richmond, Virginia, DriveFactor provides insurance companies with a turn-key software platform that enables usage based insurance (UBI) programs. DriveFactor has created an elegant UBI platform that is statistically more predictive and financially more attractive for insurance companies to implement, as well as a privacy-sensitive, financially equitable offering for consumers. DriveFactor s telematics platform offers real-time access to driving data and the ability to set different data gathering parameters for individual devices. It thus makes it easier for insurance companies to identify responsible drivers, communicate with their customers, and implement successful usage-based insurance programs. DriveFactor is currently available in the United States, Canada and Europe. **www.drivefactor.com**

Hoopla Software, Inc. ***(Safeguard Ownership: 25.3%)***
Headquartered in San Jose, California, Hoopla Software has developed a complete performance optimization system designed to steer the actions and behaviors of employees. Hoopla s platform leverages enterprise data, advanced game mechanics and sophisticated communication tools to cultivate a high performance culture and drive results. Hoopla s SaaS applications are licensed for a subscription fee and are available on the Salesforce.com AppExchange. **www.hoopla.net**

Lumesis, Inc. ***(Safeguard Ownership: 31.6%)***

Headquartered in Stamford, Connecticut, Lumesis is a SaaS, cloud-based financial technology company dedicated to delivering software solutions and comprehensive timely data to the fixed income municipal marketplace. Through sophisticated analytical tools, real-time alerts, proprietary visualization technology and content-rich reporting, Lumesis DIVER solutions allow professionals across the municipal market to easily identify portfolio risks and opportunities, improve customer satisfaction, ensure compliance and enable growth. **www.lumesis.com**

MediaMath, Inc. ***(Safeguard Ownership: 22.2%)***

Headquartered in New York, New York, MediaMath provides enterprise-class technology and services to advertisers and their agencies to make more efficient, effective and profitable marketing decisions. The MediaMath buying platform, TerminalOne, provides advertising agencies and brands with the technology and back office services to trade effectively across all digital advertising channels. It includes a common interface and workflow, data management layer that integrates marketer and third-party data, sophisticated algorithms and bid optimization, and deep relationships with over a dozen major sources of quality supply. The company serves billions of highly targeted ads per month on behalf of dozens of top-tier agencies, including all of the major agency holding companies. **www.mediamath.com**

Pneuron, Inc. ***(Safeguard Ownership: 27.6%)***

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

Spongecell, Inc. ***(Safeguard Ownership: 23.1 %)***

Headquartered in New York, New York, Spongecell is an advertising technology company that transforms standard online ads into dynamic ads with rich media-like functionality. Rich media ads are superior to standard banner ads in that they engage audiences longer, use no more real estate than a standard banner ad, and keep users on the publisher s page. The company works with creative and media agencies to serve engaging campaigns for global brand advertisers. **www.spongecell.com**

ThingWorx, Inc. ***(Safeguard Ownership: 39.8%)***

Headquartered in Exton, Pennsylvania, ThingWorx provides the first software application platform designed for today s connected world. The ThingWorx platform combines the key functionality of Web 2.0, search, and social collaboration, and applies it to the world of things, including connected products, machines, sensors, and industrial equipment. Businesses use the ThingWorx platform to rapidly deliver innovative applications and connected solutions across markets ranging from manufacturing, energy, and food, to machine-to-machine remote monitoring and service, as well as in emerging Internet of Things applications, including smart cities, smart grid, agriculture, and transportation**.** **www.thingworx.com**

Other Initiatives To Expand our Platform

It is our stated intention to continue to develop, grow and extend our capital deployment and business building platform by leveraging our core capabilities. These initiatives may take the form of: i) considering partner companies in additional sectors; ii) making a concerted effort to deploy debt capital to our partner companies or to other borrowers; and/or iii) managing the deployment of capital other than that which originates on our balance sheet.

During 2011, we acquired a 36% ownership interest in Penn Mezzanine, a mezzanine lending enterprise. We expect to deploy an aggregate of $30 million to this relationship. In addition to this capital, Penn Mezzanine funds its lending activities by raising capital from third-party limited partners. Penn Mezzanine provides junior capital and operational support to growth stage businesses. We participate in the subordinated loans and other forms of junior capital provided by Penn Mezzanine. Our relationship with Penn Mezzanine provides us with current interest income earned through our participations in their funding activities. Through Penn Mezzanine we also augment our capabilities as a provider of growth capital and participate in the management of external sources of capital. Through our ownership interest in Penn Mezzanine we expect to benefit from the management fee income and profit participation of the Penn Mezzanine enterprise. This endeavor offers another form of capital to our existing partner companies, our potential partner companies and to other borrowers. In connection with its lending efforts, Penn Mezzanine leverages the due diligence and industry expertise of Safeguard s management. Safeguard has the opportunity to augment Penn Mezzanine s pipeline of lending opportunities and Penn Mezzanine is a potential source for equity capital deployments for Safeguard.

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FINANCIAL INFORMATION ABOUT OPERATING SEGMENTS

Information on operating income (loss), equity income (loss) and net income (loss) from continuing operations for each operating segment of Safeguard s business for each of the three years in the period ended December 31, 2012 and assets as of December 31, 2012 and 2011 is contained in Note 16 to the Consolidated Financial Statements.

OTHER INFORMATION

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

AVAILABLE INFORMATION

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

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

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

Item 1A. ***Risk Factors***

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

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

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

- most of our partner companies have a history of operating losses and/or limited operating history;

- the intense competition affecting the products and services our partner companies offer could adversely affect their businesses, financial condition, results of operations and prospects for growth;

the inability to adapt to changing marketplaces;

the inability to manage growth;

the need for additional capital to fund their operations, which we may not be able to fund or which may not be available from third parties on acceptable terms, if at all;

the inability to protect their proprietary rights and/or infringing on the proprietary rights of others;

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- that certain of our partner companies could face legal liabilities from claims made against them based upon their operations, products or work;
- the impact of economic downturns on their operations, results and growth prospects;
- the inability to attract and retain qualified personnel;
- the existence of government regulations and legal uncertainties may place financial burdens on the businesses of our partner companies; and
- the inability to plan for and manage catastrophic events.

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

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

As part of our strategy, we continually assess the value to our shareholders of our interests in our partner companies. We also regularly evaluate alternative uses for our capital resources. As a result, depending on market conditions, growth prospects and other key factors, we may at any time:

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

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

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

Our business model does not rely upon, or plan for, the receipt of operating cash flows from our partner companies. Our partner companies generally provide us with no cash flow from their operations. We rely on cash on hand, liquidity events and our ability to generate cash from capital raising activities to finance our operations.

We need capital to develop new partner company relationships and to fund the capital needs of our existing partner companies. We also need cash to service and repay our outstanding debt, finance our corporate overhead and meet our existing funding commitments. As a result, we have substantial cash requirements. Our partner companies generally provide us with no cash flow from their operations. To the extent our partner companies generate any cash from operations, they generally retain the funds to develop their own businesses. As a result, we must rely on cash on hand, partner company liquidity events and new capital raising activities to meet our cash needs. If we are unable to find ways of monetizing our holdings or to raise 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.

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

Intense competition from other acquirors of interests in companies 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. 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.

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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. For instance, the trading volume and public float in the common stock of NuPathe, a publicly traded partner company, is small relative to our holdings. As a result, any significant open-market divestiture by us of our holdings in this 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 may adversely affect our ability to dispose of our holdings on a timely basis.

Our success is dependent on our executive management.

Our success is dependent on our executive management team s ability to execute our strategy. A loss of one or more of the members of our executive 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 publicly traded 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