

SAFEGUARD SCIENTIFICS INC

Form 10-Q

May 03, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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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 March 31, 2019

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

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Safeguard Scientifics, Inc.

(Exact name of registrant as specified in its charter)

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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

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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 every Interactive Data File required to be submitted 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 such files).

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth 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  Smaller reporting company

Non-accelerated filer

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

Yes " No

Number of shares outstanding as of April 30, 2019

Common Stock 20,576,575

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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)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$44,592	\$ 7,703
Restricted cash	525	500
Marketable securities	32,905	37,955
Trading securities	306	—
Prepaid expenses and other current assets	3,380	2,669
Total current assets	81,708	48,827
Property and equipment, net	2,430	808
Ownership interests in and advances to partner companies	85,603	95,585
Other assets	712	517
Total Assets	\$170,453	\$ 145,737
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$110	\$ 165
Accrued compensation and benefits	1,652	3,433
Accrued expenses and other current liabilities	2,170	2,182
Credit facility - current	65,687	22,100
Credit facility repayment feature	7,069	5,060
Lease liability - current	250	—
Total current liabilities	76,938	32,940
Credit facility - non-current	—	43,014
Lease liability - non-current	2,597	—
Other long-term liabilities	2,039	2,804
Total Liabilities	81,574	78,758
Commitments and contingencies (Note 10)		
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 March 31, 2019 and December 31, 2018	2,157	2,157
Additional paid-in capital	811,352	810,928
Treasury stock, at cost; 998 and 914 shares at March 31, 2019 and December 31, 2018, respectively	(15,157 )	(15,001 )
Accumulated deficit	(709,442 )	(731,105 )
Accumulated other comprehensive loss	(31 )	—
Total Equity	88,879	66,979
Total Liabilities and Equity	\$170,453	\$ 145,737
See Notes to Consolidated Financial Statements.		

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

	Three months ended March 31,	
	2019	2018
General and administrative expense	\$3,057	\$5,589
Operating loss	(3,057 )	(5,589 )
Other loss, net	(1,885 )	(1,435 )
Interest income	873	798
Interest expense	(2,535 )	(2,690 )
Equity income, net	28,267	2,746
Net income (loss) before income taxes	21,663	(6,170 )
Income tax benefit (expense)	—	—
Net income (loss)	\$21,663	\$(6,170)
Net income (loss) per share:		
Basic	\$1.05	\$(0.30 )
Diluted	\$1.05	\$(0.30 )
Weighted average shares used in computing income (loss) per share:		
Basic	20,585	20,506
Diluted	20,585	20,506

See Notes to Consolidated Financial Statements.

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

	Three months ended March 31,	
	2019	2018
Net income (loss)	\$21,663	\$(6,170)
Other comprehensive income (loss):		
Share of other comprehensive income (loss) of equity method investments	(31)	—
Reclassification adjustment for sale of equity method investments	—	82
Total comprehensive income (loss)	\$21,632	\$(6,088)
See Notes to Consolidated Financial Statements.		

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

	Three months ended March 31,	
	2019	2018
Cash Flows from Operating Activities:		
Net cash used in operating activities	\$(5,782 )	\$(6,774 )
Cash Flows from Investing Activities:		
Proceeds from sales of and distributions from companies	41,778	3,257
Advances and loans to companies	(3,925 )	(4,036 )
Repayment of advances and loans to companies	—	10,500
Purchases of marketable securities	(57,243 )	—
Proceeds from sales and maturities in marketable securities	62,235	1,410
Net cash provided by investing activities	42,845	11,131
Cash Flows from Financing Activities:		
Tax withholdings related to equity-based awards	(149 )	(150 )
Net cash used in financing activities	(149 )	(150 )
Net change in cash, cash equivalents and restricted cash	36,914	4,207
Cash, cash equivalents and restricted cash at beginning of period	8,203	27,087
Cash, cash equivalents and restricted cash at end of period	\$45,117	\$31,294
See Notes to Consolidated Financial Statements.		

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

	Total	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock		Additional Paid-in Capital	Treasury Stock	
				Shares	Amount		Shares	Amount
Balance - December 31, 2018	\$66,979	\$(731,105 )	\$ —	21,573	\$2,157	\$810,928	914	\$(15,001)
Net income	21,663	21,663	—	—	—	—	—	—
Stock options exercised, net of tax withholdings	—	—	—	—	—	—	1	—
Cancellations of and restricted stock withheld for taxes	(149 )	—	—	—	—	7	83	(156 )
Stock-based compensation expense	417	—	—	—	—	417	—	—
Other comprehensive loss	(31 )	—	(31 )	—	—	—	—	—
Balance - March 31, 2019	\$88,879	\$(709,442 )	\$(31 )	21,573	\$2,157	\$811,352	998	\$(15,157)

	Total	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock		Additional Paid-in Capital	Treasury Stock	
				Shares	Amount		Shares	Amount
Balance - December 31, 2017	\$81,796	\$(715,476 )	\$(113 )	21,573	\$2,157	\$812,536	999	\$(17,308)
Net loss	(6,170 )	(6,170 )	—	—	—	—	—	—
Cancellations of and restricted stock withheld for taxes	(150 )	—	—	—	—	(17 )	13	(133 )
Stock-based compensation expense	277	—	—	—	—	277	—	—
Other comprehensive income	82	—	82	—	—	—	—	—
Balance - March 31, 2018	\$75,835	\$(721,646 )	\$(31 )	21,573	\$2,157	\$812,796	1,012	\$(17,441)

See Notes to Consolidated Financial Statements.



SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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 2018 Annual Report on Form 10-K.

Liquidity

As of March 31, 2019, the Company had \$44.6 million of cash and cash equivalents and \$33.2 million of marketable securities and trading securities for a total of \$77.8 million. As of March 31, 2019, the Company had \$68.6 million of debt outstanding, due in May 2020.

In January 2018, Safeguard announced that, from that date forward, the Company will not deploy any capital into new partner company opportunities and will focus on supporting our existing partner companies and maximizing monetization opportunities to return value to shareholders. In that context, we have, are and will consider initiatives including, among others: the sale of individual partner companies, the sale of certain partner company interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. We anticipate returning value to shareholders after satisfying our debt obligations and providing for working capital needs.

As of March 31, 2019, the Company had \$68.6 million of principal outstanding on the Credit Facility due in May 2020. The Credit Facility requires the Company to maintain (i) a liquidity threshold of at least \$20 million of unrestricted cash; (ii) a minimum aggregate appraised value of ownership interests in its partner companies, plus unrestricted cash in excess of the liquidity threshold, of at least \$350 million less the aggregate amount of all prepayments, and (iii) limit certain expenses (which shall exclude severance payments, interest expense, depreciation and stock-based compensation) incurred or paid to no more than \$11.5 million in any twelve-month period after the date of the amendment (or such shorter period as has elapsed since the date of the amendment). Additionally, the Company is restricted from repurchasing shares of its outstanding common stock and/or issuing dividends until such time as the Credit Facility is repaid in full. As of the date these condensed consolidated financial statements were issued, the Company was in compliance with all of these covenants.

Repayment terms under the Credit Facility include a make-whole interest provision equal to the interest that would have been payable had the principal amount subject to repayment been outstanding through the maturity date. If the aggregated amount of the Company’s qualified cash at any quarter end date exceeds \$50.0 million, the Company is required to prepay outstanding principal amounts under the Amended Credit Facility, plus any applicable accrued and make-whole interest, in an amount equal to such excess. The Company exceeded the qualified cash threshold at March 31, 2019 and the Company made the applicable required prepayment, as required, on April 15, 2019.

The Company believes that its cash, cash equivalents and marketable securities at March 31, 2019 will be sufficient to fund operations past one year from the issuance of these financial statements.

Significant Accounting Policies

Property and Equipment

Property and equipment represents a right-of-use asset resulting from the adoption of Accounting Standards Update (“ASU”) 2016-02, Leases, and other previously existing leasehold improvements. The leasehold improvements are

amortized over the shorter of the estimated useful lives or the expected remaining term of the lease. The right-of-use asset is reduced over the remaining term of the lease (April 2026) in a manner that results in a straight-line lease expense, when combined with the interest factor on the lease liability.

## SAFEGUARD SCIENTIFICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Lease liability

The initial lease liability represents the present value of the fixed escalating lease payments through April 2026 associated with the Company's corporate headquarters operating office lease. The discount rate used to calculate the lease liability is based on the Company's incremental borrowing rate, approximately 12%, at the transition to the guidance of ASU 2016-02, Leases. Subsequent values of the lease liability will reflect the reduction in the lease liability for operating lease payments less an amount representing interest, which is included in the straight-line lease expense. There is no residual value guarantee associated with this operating lease arrangement. The Company has incurred operating lease expenses, and operating cash outflows of \$0.1 million and \$0.1 million for the three months ended March 31, 2019 and 2018, respectively.

In March 2019, the Company entered into a sublease of its existing corporate headquarters office space beginning in June 2019. The term of the sublease is through April 2026, the same as the Company's underlying existing lease. Fixed sublease payments to the Company are escalating over the term of the lease and aggregate to \$3.7 million.

A summary of the Company's operating lease at March 31, 2019 follows:

	Operating lease payments (Unaudited - In thousands)	Sublease income
2019 (nine months ending December 31)	\$434	\$ 166
2020	587	509
2021	595	525
2022	601	540
2023	607	556
2024	613	573
Thereafter	826	789
Total future minimum lease payments	4,263	\$ 3,658
Less imputed interest	(1,416 )	
Total operating lease liabilities	\$2,847	

## Valuation of Credit Facility repayment feature

The fair value of the Credit Facility repayment feature (a Level 3 measurement) is determined quarterly based on the present value of make-whole interest payments that are expected to be paid based on cash flow estimates that include a probability weighted estimate of exit transactions, estimated follow-on deployments, estimated quarterly operating cash flows and other cash commitments that would result in qualified cash exceeding the \$50 million threshold specified in the Credit facility.

## Principles of Accounting for Ownership Interests in Companies

The Company accounts for its interests in its partner companies using one of the following methods: Equity or Other. The accounting method applied is generally determined by the degree of the Company's influence over the entity, primarily determined by our voting interest in the entity.

In addition to holding voting and non-voting equity, the Company also periodically makes advances to its partner companies in the form of promissory notes which are included in the Ownership interests in and advances to partner companies line item in the Consolidated Balance Sheets.

Equity Method. The Company accounts for partner companies whose results are not consolidated, but over which it exercises significant influence, under the equity method of accounting. Whether or not the Company exercises significant influence with respect to a partner company depends on an evaluation of several factors including, among others, representation of the Company on the partner company's board of directors and the Company's ownership level, which is generally a 20% to 50% interest in the voting securities of a partner company, including voting rights associated with the Company's holdings in common, preferred and other convertible instruments in the company. Under the equity method of accounting, the Company does not reflect a partner company's financial statements within the Company's Consolidated Financial Statements; however, the Company's share of the income or loss of such partner company is reflected in Equity income (loss) in the Consolidated Statements of Operations. The Company includes the carrying value of equity method partner companies in Ownership

## SAFEGUARD SCIENTIFICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interests in and advances to partner companies on the Consolidated Balance Sheets. Any excess of the Company's cost over its underlying interest in the net assets of equity method partner companies that is allocated to intangible assets is amortized over the estimated useful lives of the related intangible assets. The Company reflects its share of the income or loss of the equity method partner companies on a one quarter lag. This reporting lag could result in a delay in recognition of the impact of changes in the business or operations of these partner companies.

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

**Other Method.** We account for our equity interests in companies which are not accounted for under the equity method as equity securities without readily determinable fair values. We estimate the fair value of these securities based on our original cost less impairments, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Under this method, our share of the income or losses of such companies is not included in our Consolidated Statements of Operations. We include the carrying value of these investments in Ownership interests in and advances to partner companies on the Consolidated Balance Sheets.

**Recently Adopted Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 and related subsequent amendments outline a single comprehensive model to use to account for revenue arising from contracts with customers and supersede most current revenue recognition guidance. For public companies, the guidance is effective for annual periods beginning after December 15, 2017 and any interim periods that fall within that reporting period. For nonpublic companies, the guidance was effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019 with early adoption permitted. As the new standard superseded most existing revenue guidance, it could impact revenue and cost recognition for partner companies. Any change in revenue or cost recognition for partner companies could affect the Company's recognition of its share of the results of its equity method partner companies. On July 20, 2017, the SEC staff observer at the FASB's Emerging Issues Task Force ("EITF") meeting announced that the SEC staff will not object if a private company equity method investee meeting the definition of a public business entity that otherwise would not meet the definition of a public business entity except for the inclusion of its financial statements or financial information in another entity's filings with the SEC, uses private company adoption dates for the new revenue standard. As a result, the Company's private, calendar year partner companies will adopt the new revenue standard for the year ending December 31, 2019. The impact of adoption of the new revenue standard will be reflected in the Company's financial results for the interim and annual reporting periods beginning in 2020 on a one quarter-lag basis.

In February 2016, the FASB issued ASU 2016-02, Leases. The guidance in ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. The guidance in ASU 2016-02 became effective for the Company on January 1, 2019. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Company to carry forward its historical lease classification. In addition, the Company has elected to exempt short term leases that

qualify from recognizing right of use assets or lease liabilities, and has elected to not separate lease and non-lease components for all leases of which it is the lessee. The Company's non-lease components are primarily related to utility and maintenance costs, which are typically variable in nature and are expensed in the period incurred. As of January 1, 2019, the Company's only material long-term lease was for its corporate headquarters in Radnor, PA under a lease expiring in 2026. The Company also has immaterial office equipment leases expiring at various dates through 2020. The Company recorded an initial lease liability of \$2.9 million, a right-of-use asset of \$2.2 million included in property and equipment and eliminated the deferred rent liability of \$0.7 million that was previously included in other long-term liabilities.

## 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.

	March 31, 2019	December 31, 2018
	(Unaudited - In thousands)	
Equity Method Companies:		
Partner companies	\$48,342	\$ 64,097
Private equity funds	392	392
	48,734	64,489
Other Companies:		
Partner companies and other holdings	17,585	15,260
Private equity funds	500	511
	18,085	15,771
Advances to partner companies	18,784	15,325
	\$85,603	\$ 95,585

In January 2019, Propeller was acquired by another entity for cash. The Company received \$41.5 million in cash proceeds in connection with the transaction, excluding \$0.8 million of holdbacks and escrows that may be substantially released on various dates on or before January 2020. The Company recognized a gain of \$34.9 million, which is included in Equity income (loss) in the Consolidated Statements of Operations for the three months ended March 31, 2019.

In January 2019, Brickwork merged into another privately-held company. The Company received a preferred equity interest in the acquiror and accounts for this interest as an equity interest without a readily determinable fair value. The Company did not recognize a gain or loss in 2019 as a result of this transaction.

## Summarized Financial Information

The following table summarizes statement of operations for any partner companies accounted for under the equity method for the three months ended March 31, 2019 and 2018, respectively. These results have been compiled from respective company financial statements, reflect certain historical adjustments, and are reported on a one quarter lag basis. Results of operations of the companies are excluded for periods prior to their acquisition, subsequent to their disposition and subsequent to the discontinuation of equity method of accounting. Historical results are not adjusted when the Company exits, writes-off or discontinues the equity method of accounting.

	Three months ended March 31,	
	2019	2018
	(Unaudited - In thousands)	
Results of Operations:		
Revenue	\$43,868	\$110,393
Gross profit	\$24,589	\$78,071
Net loss	\$(33,616)	\$(31,805)

## 3. Acquisitions of Ownership Interests in Partner Companies

The Company deployed an aggregate of \$0.4 million for additional equity interest in Clutch Holdings. The Company had previously deployed an aggregate of \$16.3 million in Clutch. Clutch provides customer intelligence and personalized engagements that empower consumer-focused businesses to identify, understand and motivate each

segment of their customer base. The Company accounts for its interest in Clutch Holdings under the equity method. The Company funded an additional \$2.0 million of convertible bridge loans to Sonobi, Inc. The Company had previously deployed \$11.4 million in Sonobi. Sonobi is an advertising technology developer that designs advertising tools and solutions for the industry's leading media, publishers, brand advertisers, media agencies, DSPs, and media technology providers. The Company accounts for its interest in Sonobi under the equity method.

The Company funded an aggregate of \$0.7 million of convertible loans to NovaSom, Inc. The Company had previously deployed an aggregate of \$26.4 million in NovaSom. NovaSom is a medical device company focused on obstructive sleep





Credit facility repayment feature liability \$5,060 \$— \$ —\$5,060

As of March 31, 2019, \$32.9 million of marketable securities had contractual maturities which were less 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. As of March 31, 2019, \$7.1 million is recorded as a credit facility repayment feature liability, an

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## SAFEGUARD SCIENTIFICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

increase of \$2.0 million from December 31, 2018, due to the provision in the Credit Facility that requires prepayments of outstanding principal amounts when the Company's qualified cash at any quarter end date exceeds \$50.0 million. The prepayment feature is an embedded derivative that is accounted for as a liability separate from the Credit Facility. The liability is adjusted to the fair value of required projected future debt prepayments. The liability may change materially based upon management's probability weighted cash forecast at each balance sheet date. Management's cash forecasts are defined as Level 3 inputs under the fair value hierarchy.

## 5. Credit Facility and Convertible Debentures

### Credit Facility

The Company has a credit facility with HPS Investment Partners, LLC ("Lender"), which was amended in May 2018 ("Credit Facility"). The Credit Facility has a scheduled maturity of May 11, 2020 and bears interest at a rate of either: (A) LIBOR plus 8.5% (subject to a LIBOR floor of 1%), payable on the last day of the one, two or three month interest period applicable to the LIBOR rate advance, or (B) 7.5% plus the greater of: 2%; the Federal Funds Rate plus 0.5%; LIBOR plus 1%; or the U.S. Prime Rate, payable monthly in arrears. The Credit Facility is secured by all of the Company's assets in accordance with the terms of the Credit Facility.

The terms of the Credit Facility include a requirement that if the aggregate amount of the Company's qualified cash at any quarter end date exceeds \$50.0 million, the Company will be required to prepay outstanding principal amounts under the Credit Facility, plus any applicable interest and prepayment fees, in an amount equal to such excess. Based on this requirement, the Company made a principal payment of \$24.0 million and a make-whole interest payment of \$2.9 million on April 15, 2019 based on the Company's qualified cash at March 31, 2019.

The Company is subject to certain debt covenants under the Credit Facility which require the Company to (i) maintain a liquidity threshold of at least \$20 million of unrestricted cash; (ii) maintain a minimum aggregate appraised value of the Company's ownership interests in its partner companies, plus unrestricted cash in excess of the liquidity threshold, of at least \$350 million, less the aggregate amount of all prepayments; (iii) limit deployments to only existing partner companies and such deployments may not exceed, when combined with deployments after January 1, 2018, \$40.0 million in the aggregate through the maturity date; and (iv) limit certain expenses (which shall exclude severance payments, interest expense, depreciation and stock-based compensation) incurred or paid to no more than \$11.5 million in any twelve-month period after the date of the amendment (or such shorter period as has elapsed since the date of the amendment). Additionally, the Company is restricted from repurchasing shares of its outstanding common stock and/or issuing dividends until such time as the Credit Facility is repaid in full. As of the date these consolidated financial statements were issued, the Company was in compliance with all applicable covenants.

The Credit Facility provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; non-compliance with debt covenants; defaults in, or failure to pay, certain other indebtedness; the rendering of judgments to pay certain amounts of money; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is not cured within the time periods specified (if any), the Lender may declare the outstanding amount under the Credit Facility to be immediately due and payable.

At March 31, 2019, the principal amount outstanding under the Credit Facility was \$68.6 million, the unamortized discount and debt issuance costs were \$2.9 million and the net carrying value of the credit facility was \$65.7 million. The Credit Facility requires prepayments of outstanding principal amounts when the Company's qualified cash at any quarter end date exceeds \$50.0 million. This provision in the Credit Facility is an embedded derivative that is accounted for separately from the credit facility. A liability of \$0.5 million was recorded on the amendment date for the fair value of potential future prepayments based upon management's probability weighted cash forecast. This amount is also included in debt issuance costs and will be amortized over the remaining term of the credit facility. The liability is adjusted to fair value at each balance sheet date based upon management's updated probability weighted cash forecast. During the three months ended March 31, 2019, the Company recorded an increase in the liability of \$2.0 million, which is included in Other loss on the Consolidated Statements of Operations. The increase in the fair

value of the credit facility repayment feature liability is due to an increase in the probability of debt prepayments based on the Company's current cash position, projected events that will provide cash, and expected uses of cash during 2019.

The Company recorded interest expense under the credit facility of \$2.5 million and \$1.8 million for the three months ended March 31, 2019 and 2018, respectively. The effective interest rate on the Credit Facility is 15.3%. The Company made interest payments under the credit facility of \$1.9 million and \$1.3 million for the three months ended March 31, 2019 and 2018, respectively. During the three months ended March 31, 2018 the Company also recorded \$0.9 million of interest expense and made no interest payments related to convertible debentures that were outstanding during that period.

## SAFEGUARD SCIENTIFICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. Stock-Based Compensation

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

	Three months ended March 31,	
	2019	2018
	(Unaudited - In thousands)	
General and administrative expense	\$ 417	\$ 277
	\$ 417	\$ 277

There were no restricted stock or stock options granted during the three months ended March 31, 2019.

## 7. Income Taxes

The Company's consolidated income tax benefit (expense) was \$0.0 million for the three months ended March 31, 2019 and 2018, respectively. 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 provision expense that would have been recognized in the three months ended March 31, 2019 was offset by changes in the valuation allowance. During the three months ended March 31, 2019, the Company had no material changes in uncertain tax positions.

## 8. Net Income (Loss) Per Share

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

	Three months ended March 31,	
	2019	2018
	(Unaudited - In thousands, except per share data)	
Basic:		
Net income (loss)	\$ 21,663	\$ (6,170 )
Weighted average common shares outstanding	20,585	20,506
Net income (loss) per share	\$ 1.05	\$ (0.30 )
Diluted:		
Net income (loss) for dilutive share computation	\$ 21,663	\$ (6,170 )
Number of shares used in basic per share computation	20,585	20,506
Unvested restricted stock and DSU's	—	—
Employee stock options	—	—
Weighted average common shares outstanding	20,585	20,506
Net income (loss) per dilutive share	\$ 1.05	\$ (0.30 )

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 do not reflect the following potential shares of common stock that would have an anti-dilutive effect or have unsatisfied performance or market conditions:

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## SAFEGUARD SCIENTIFICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At March 31, 2019 and 2018, options to purchase 0.3 million and 0.6 million shares of common stock, respectively, at prices ranging from \$9.83 to \$19.41 and \$9.83 to \$19.95, respectively, were excluded from the calculations.

At March 31, 2019 and 2018, unvested restricted stock, performance-based stock units and DSUs convertible into 0.7 million and 1.0 million shares of stock, respectively, were excluded from the calculations.

At March 31, 2018, 2.3 million shares of common stock representing the effect of the assumed conversion of the 2018 Debentures, were excluded from the calculations.

## 9. Segment Reporting

The Company operates as one operating segment based upon the similar nature of its technology-driven partner companies, the functional alignment of the organizational structure, and the reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources. As of March 31, 2019, the Company held interests in 19 non-consolidated partner companies. The Company's active partner companies were as follows as of March 31, 2019:

Partner Company	Safeguard Primary Ownership as of March 31, 2019	Accounting Method
Aktana, Inc.	18.9%	Equity
Clutch Holdings, Inc.	41.2%	Equity
Flashtalking	10.1%	Other
Hoopla Software, Inc.	25.5%	Equity
InfoBionic, Inc.	25.4%	Equity
Lumesis, Inc.	43.6%	Equity
MediaMath, Inc.	13.4%	Other
meQuilibrium	33.1%	Equity
Moxe Health Corporation	32.4%	Equity
NovaSom, Inc.	31.7%	Equity
Prognos Health Inc.	28.7%	Equity
QuanticMind, Inc.	24.2%	Equity
Sonobi, Inc.	21.6%	Equity
Syapse, Inc.	20.0%	Equity
T-REX Group, Inc.	17.8%	Equity
Transactis, Inc.	23.6%	Equity
Trice Medical, Inc.	16.7%	Equity
WebLinc, Inc.	38.5%	Equity
Zipnosis, Inc.	34.7%	Equity

As of March 31, 2019 and December 31, 2018, all of the Company's assets were located in the United States.

## 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 March 31, 2019 which related to one of the Company's private equity holdings. Escrow funds to satisfy this guarantee are held at the private equity fund.

The Company is required to return a portion or all the distributions it received as a general partner of a private equity fund for further distribution to such fund's limited partners ("clawback"). The Company's ownership in the fund is 19%. The clawback liability is joint and several, such that the Company may be required to fund the clawback for other general partners should they default. The Company was notified by the fund's manager that the fund was being dissolved and \$1.0 million of the Company's clawback liability was paid in the first quarter of 2017. The maximum additional clawback liability is \$0.3 million which was reflected in Other long-term liabilities on the Consolidated Balance Sheet at March 31, 2019.

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 is included in Accrued expenses and other current liabilities and the long-term portion of \$1.2 million is included in Other long-term liabilities on the Consolidated Balance Sheet at March 31, 2019.

In 2018, the Company announced a change in strategy and implemented a series of initiatives to generate annual cost savings. The Company has incurred \$3.9 million of severance costs to terminated employees, of which \$0.5 million remains to be paid during 2019.

The Company has agreements with certain remaining 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 employment and severance agreements for remaining employees was approximately \$4.8 million at March 31, 2019.

In 2018, the Board of Directors (the "Board") of the Company adopted a long-term incentive plan, which was amended in February 2019, the Amended and Restated Safeguard Scientifics Transaction Bonus Plan, (the "LTIP"). The purpose of the LTIP is to promote the interests of the Company and its shareholders by providing an additional incentive to employees to maximize the value of the Company in connection with the execution of the business strategy that the Company adopted and announced in January 2018. Under the LTIP, participants have received awards that may result in cash payments in connection with sales of the Company's partner company assets ("Sale Transaction(s)"). The LTIP provides for a bonus pool corresponding to: (i) specified vesting thresholds or (ii) specified events. In the first case, the bonus pool will range from an amount equal to 1% of received proceeds at the first threshold to 1.333% at higher thresholds and no bonus pool will be created if the transaction consideration is less than certain minimum thresholds. In the second case, a minimum pool will be created and paid under specified circumstances. The bonus pool will be allocated and paid to participants in the LTIP based on the product of (i) the participant's applicable bonus pool percentage and (ii) the bonus pool calculated as of the vesting date, minus any previously paid portion of the bonus pool. Any portion of the bonus pool available as of the applicable vesting date that is reserved will be allocated in connection with each vesting date so that the entire bonus pool available as of such vesting date is allocated and payable to participants. Subject to the terms of the LTIP, payments under the LTIP will be paid in cash not later than March 15th of the calendar year following the calendar year of the applicable vesting date. All current officers and employees of the Company are eligible to participate in the LTIP. The Board, in its sole discretion, will determine the participants to whom awards are granted under the LTIP. There are no amounts accrued or payable under the LTIP as



of March 31, 2019.

In June 2011, the Company's former partner company, Advanced BioHealing, Inc. ("ABH") was acquired by Shire plc ("Shire"). Prior to the expiration of the escrow period in March 2012, Shire 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 (the "Investigation"). In connection with the Investigation, in July 2015 the Company received a Civil Investigation Demand-Documentary Material ("CID") from the DOJ regarding ABH and Safeguard's relationship with ABH. Pursuant to the CID, the Company provided the requested materials and information. To the Company's knowledge, the CID was related to multiple qui tam ("whistleblower") actions, one of which was filed in 2014 by an ex-employee of ABH that named the Company and one of the Company's employees along with other entities and individuals as defendants. At this time, the DOJ has declined to pursue the qui tam action as it relates to the Company and such Company employee. In addition, in connection

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SAFEGUARD SCIENTIFICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with the above matters, the Company and other former equity holders in ABH entered into a settlement and release with Shire, which resulted in the release to Shire of all amounts held in escrow related to the sale of ABH.

#### 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 has not repurchased any shares under the existing authorization during 2018 or the quarter ended March 31, 2019.

In February 2018, the Company's Board of Directors adopted a tax benefits preservation plan (the "Plan") designed to protect and preserve the Company's ability to utilize its net operating loss carryforwards ("NOLs"). The Company submitted the Plan for shareholder ratification at its 2018 Annual Meeting of Shareholders and the Plan was ratified by shareholders. The purpose of the Plan is to preserve the Company's ability to use its NOLs, which would be substantially limited if the Company experienced an "ownership change" as defined under Section 382 of the Internal Revenue Code. In general, an ownership change would be deemed to have occurred if the Company's shareholders who are treated as owning five percent or more of the outstanding shares of Safeguard for purposes of Section 382 ("five-percent shareholders") collectively increase their aggregate ownership in the Company's overall shares outstanding by more than 50 percentage points. Whether this change has occurred would be measured by comparing each five-percent shareholder's current ownership as of the measurement date to such shareholders' lowest ownership percentage during the three-year period preceding the measurement date. To protect the Company's NOLs from being limited or permanently lost under Section 382, the Plan is intended to deter any person or group from acquiring beneficial ownership of 4.99% or more of the Company's outstanding common stock without the approval of the Board, reducing the likelihood of an unintended ownership change. Under the Plan, the Company will issue one preferred stock purchase right (the "Rights") for each share of Safeguard's common stock held by shareholders as of the applicable date of record. The issuance of the Rights will not be taxable to Safeguard or its shareholders and will not affect Safeguard's reported earnings per share. The Rights will trade with Safeguard's common shares and will expire no later than February 19, 2021. The Rights and the Plan may also expire on an earlier date upon the occurrence of other events, including a determination by the Company's Board that the Plan is no longer necessary or desirable for the preservation of the Company's tax attributes or that no tax attributes may be carried forward (with such expiration occurring as of the beginning of the applicable taxable year). There can be no assurance that the Plan will prevent the Company from experiencing an ownership change.

## 12. Subsequent Events

During April 2019, the Company made a \$27.4 million payment to its Lender consisting of \$24.0 million of principal, \$2.9 million of interest and \$0.5 million of accrued interest.

During April 2019, the Company deployed an additional \$1.5 million into Zipnosis, Inc. The Company has previously deployed \$8.5 million into Zipnosis. Zipnosis provides health systems with a white-labeled, fully integrated virtual care platform.

During April 2019, the Company deployed an additional \$3.0 million into Syapse, Inc. The Company has previously deployed an aggregate of \$15.6 million into Syapse. Syapse drives healthcare transformation through precision medicine, enabling provider systems to improve clinical outcomes, streamline operations, and shift to new payment models.

During April 2019, the Company deployed an additional \$1.5 million into meQuilibrium. The Company had previously deployed \$11.5 million in meQuilibrium. meQuilibrium is a digital coaching platform that delivers clinically validated and highly personalized resilience solutions to employers, health plans, wellness providers, and consumers increasing engagement, productivity and performance, as well as improving outcomes in managing stress, health and well-being.

In April 2019, the Company entered into a sublease for replacement office space with a related party, a partner company, beginning in June 2019. The term of the sublease is 18 months with three conditional six month renewals based on mutual agreement with the sublessor. The aggregate payments expected under this sublease are not material.

## 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

Over the recent past, Safeguard has provided capital and relevant expertise to fuel the growth of technology-driven businesses in healthcare, financial services and digital media. Throughout this document, we use the term “partner company” to generally refer to those companies in which we have a significant equity interest. In many, but not all cases, we will also be 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.

In January 2018, Safeguard announced that we will not deploy any capital into new partner company opportunities and will focus on supporting our existing partner companies and maximizing monetization opportunities to enable returning value to shareholders. In that context, we have, are and will consider initiatives including, among others: the sale of individual partner companies, the sale of certain or all partner company interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. We anticipate returning value to shareholders after satisfying our debt obligations and providing for working capital needs.

Safeguard's existing group of partner companies consists principally of technology-driven businesses in healthcare, financial services and digital media that are capitalizing on the next wave of enabling technologies including business intelligence and predictive analytics. We strive to create long-term value for our shareholders by helping our partner companies to increase their market penetration, grow revenue and improve cash flow. Safeguard typically deploys up to \$25 million in a company.

#### Results of Operations

We operate as one operating segment based upon the similar nature of our technology-driven partner companies, the functional alignment of the organizational structure, and the reports that are regularly reviewed by the chief operating decision maker for the purpose of assessing performance and allocating resources.

There is intense competition in the markets in which our partner companies operate. Additionally, the markets in which these companies operate are characterized by rapidly changing technology, evolving industry standards, frequent introduction of new products and services, shifting distribution channels, evolving government regulation, frequently changing intellectual property landscapes and changing customer demands. Their future success depends on each company's ability to execute its business plan and to adapt to its respective rapidly changing market. As previously stated, throughout this document, we use the term "partner company" to generally refer to those companies in which we have an economic interest and in which we, generally, but not all cases, are actively involved influencing development, usually through board representation in addition to our equity ownership.

The following listing of our partner companies includes only entities which were considered partner companies as of March 31, 2019. Certain entities which may have been partner companies in previous periods are omitted if, as of March 31,

2019, they had been sold or are no longer considered a partner company.

Safeguard Primary Ownership as of  
March 31,

Partner Company	2019	2018	Accounting Method
Aktana, Inc.	18.9%	24.6%	Equity
Clutch Holdings, Inc.	41.2%	41.3%	Equity
Flashtalking	10.1%	10.3%	Other
Hoopla Software, Inc.	25.5%	25.5%	Equity
InfoBionic, Inc.	25.4%	39.5%	Equity
Lumesis, Inc.	43.6%	43.8%	Equity
MediaMath, Inc.	13.4%	20.5%	Other
meQuilibrium	33.1%	36.2%	Equity
Moxe Health Corporation	32.4%	32.4%	Equity
NovaSom, Inc.	31.7%	31.7%	Equity
Prognos Health Inc.	28.7%	28.7%	Equity
QuanticMind, Inc.	24.2%	24.7%	Equity
Sonobi, Inc.	21.6%	21.6%	Equity
Syapse, Inc.	20.0%	20.1%	Equity
T-REX Group, Inc.	17.8%	21.1%	Equity
Transactis, Inc.	23.6%	23.8%	Equity
Trice Medical, Inc.	16.7%	24.8%	Equity
WebLinc, Inc.	38.5%	38.0%	Equity
Zipnosis, Inc.	34.7%	25.4%	Equity

Three months ended March 31, 2019 versus the three months ended March 31, 2018

	Three months ended March 31,		
	2019	2018	Variance
	(In thousands)		
General and administrative expense	\$(3,057 )	\$(5,589 )	\$2,532
Other loss, net	(1,885 )	(1,435 )	(450 )
Interest income	873	798	75
Interest expense	(2,535 )	(2,690 )	155
Equity income, net	28,267	2,746	25,521
	\$21,663	\$(6,170)	\$27,833

**General and Administrative Expense.** General and administrative expense decreased \$2.5 million for the three months ended March 31, 2019 compared to the prior year period primarily due to the lower overall level of staffing, the absence of the \$1.1 million severance charge for employees who were terminated in connection with our change in strategy in 2018, and \$1.1 million of lower professional fees for the three months ended March 31, 2019, compared to the prior year period, primarily due to costs associated with activist shareholder matters in the prior year. The three months ended March 31, 2019 also includes an increase of \$0.4 million for depreciation of our leasehold improvements as a result of our expectation to exit our current facility by June 2019.

**Other Loss.** Other loss increased \$0.5 million for the three months ended March 31, 2019 compared to the prior year period. Other loss for the three months ended March 31, 2019 included a \$2.0 million loss related to an increase in the fair value of the amended credit facility repayment feature liability. Other loss for the three months ended March 31, 2018 principally reflected a \$1.2 million decrease in the fair value of shares of Invitae Corporation common stock obtained in connection with the sale of Good Start Genetics in August 2017.

**Interest Income.** Interest income increased \$0.1 million for the three months ended March 31, 2019 compared to the prior year period was primarily attributable to higher investment income resulting from our marketable securities resulting from a higher daily average investment balances, partially offset by lower average notes receivable from our partner companies.

**Interest Expense.** Interest expense decreased \$0.2 million for the three months ended March 31, 2019 compared to the prior year period primarily due to lower borrowings related to the credit facility and the absence of any borrowings under the convertible debentures that were outstanding in the first quarter of 2018.

**Equity Income, net.** Equity income, net increased \$25.5 million for the three months ended March 31, 2019 compared to the prior year period. The components of equity income (loss) for the three months ended March 31, 2019 and 2018 were as follows:

	Three months ended March 31,		
	2019	2018	Variance
	(In thousands)		
Gain on sale of partner interests	\$35,132	\$14,181	\$20,951
Unrealized dilution gain (loss) on the decrease of our percentage ownership in partner companies	470	(434 )	904
Loss on impairment of partner companies	—	—	—
Share of loss of our equity method partner companies	(7,335 )	(11,001 )	3,666
	\$28,267	\$2,746	\$25,521

The gain on sale of partner interests for the three months ended March 31, 2019 is primarily comprised of Propeller. The gain on the sale of partner company interests for the three months ended March 31, 2018 is comprised of Spongecell's merger with Flashtalking and the repayment of the note from Nexxt (fka Beyond.com).

The unrealized dilution gain for the three months ended March 31, 2019 was the result of Trice and T-Rex, who each raised additional equity capital that diluted the Company's interest in those entities.

There were no losses on impairment of partner companies for the three months ended March 31, 2019 or 2018, respectively.

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The change in our share of equity loss of our equity method partner companies for the three months ended March 31, 2019 compared to the prior year period was due to a decrease in the number of partner companies and a decrease in losses associated with those partner companies.

#### Income Tax Benefit (Expense)

Income tax benefit (expense) was \$0.0 million for the three and three months ended March 31, 2019 and 2018. 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 income tax provision that would have been recognized in the three months ended March 31, 2019 and 2018 was offset by changes in the valuation allowance.

#### Liquidity and Capital Resources

As of March 31, 2019, we had \$44.6 million of cash and cash equivalents and \$33.2 million of marketable securities and trading securities for a total of \$77.8 million. As of March 31, 2019, we had \$68.6 million of principal outstanding on our Credit Facility due in May 2020.

In January 2018, Safeguard announced that, from that date forward, we will not deploy any capital into new partner company opportunities and will focus on supporting our existing partner companies and maximizing monetization opportunities to return value to shareholders. In that context, we have, are and will consider initiatives including, among others: the sale of individual partner companies, the sale of certain partner company interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. We anticipate returning value to shareholders from the sale of partner companies or partner company interests, as applicable, after satisfying our debt obligations and working capital needs.

The Company's is subject to a Credit Facility consisting of a term loan. Repayment terms under the Credit Facility include a make-whole interest provision equal to the interest that would have been payable had the principal amount subject to repayment been outstanding through the maturity date of the Credit Facility. If the aggregate amount of our qualified cash at any quarter end date exceeds \$50.0 million, we will be required to prepay outstanding principal amounts under the Credit Facility, plus any applicable interest and prepayment fees, in an amount equal to such excess. Based on this requirement, the Company made a principal payment of \$24.0 million and a make-whole interest payment of \$2.9 million on April 15, 2019 based on the Company's qualified cash at March 31, 2019. Further, as a result of the Company's existing cash and securities resources, as well as the expectation of additional asset sales during 2019, the credit facility liability is presented as current based on management's expectation to repay the facility within one year.

The Credit Facility requires us to (i) maintain a liquidity threshold of at least \$20 million of unrestricted cash; (ii) maintain a minimum aggregate appraised value of our ownership interests in our partner companies, plus unrestricted cash in excess of the liquidity threshold, of at least \$350 million less the aggregate amount of all prepayments; (iii) limit deployments to only existing partner companies and such deployments may not exceed, when combined with deployments after January 1, 2018, \$40.0 million in the aggregate through the maturity date; and (iv) limit certain expenses (which shall exclude severance payments, interest expense, depreciation and stock-based compensation) incurred or paid to no more than \$11.5 million in any twelve-month period after the date of the amendment (or such shorter period as has elapsed since the date of the amendment). Additionally, the Company is restricted from repurchasing shares of its outstanding common stock and/or issuing dividends until such time as the Credit Facility is repaid in full. As of March 31, 2019 and the date these consolidated financial statements were issued, we were in compliance with all applicable covenants.

In 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. During the year ended December 31, 2018 and the quarter ended March 31, 2019, we did not repurchase any shares under this authorization.

We are required to return a portion or all the distributions we received as a general partner of a private equity fund for further distribution to such fund's limited partners ("clawback"). 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. In 2017, we were notified by the fund's manager that the fund was being dissolved and \$1.0 million of our clawback liability was paid. The maximum additional clawback liability is \$0.3 million which was reflected in Other long-term liabilities on the Consolidated Balance Sheet at March 31, 2019.

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. 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 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. The Company believes that its cash, cash equivalents and marketable securities at March 31, 2019 will be sufficient to fund operations past one year from the issuance of these financial statements.

#### Analysis of Consolidated Cash Flows

Cash flow activity was as follows:

	Three months ended March 31,		
	2019	2018	Variance
	(In thousands)		
Net cash used in operating activities	\$(5,782 )	\$(6,774 )	\$ 992
Net cash provided by investing activities	42,845	11,131	31,714
Net cash used in financing activities	(149 )	(150 )	1
	\$36,914	\$4,207	\$32,707

#### Net Cash Used In Operating Activities

Net cash used in operating activities decreased by \$1.0 million for the three months ended March 31, 2019 compared to the prior year period. The change was primarily the result of various non-cash adjustments to net income, including the \$28.3 million of equity income, \$2.0 million loss from the increase in the fair value of derivative, depreciation, and the amortization of debt discount. Also, the Company made \$1.9 million of cash interest payments for the three months ended March 31, 2019 as compared to \$1.3 million of cash interest payments for the three months ended March 31, 2018.

#### Net Cash Provided by Investing Activities

Net cash provided by investing activities increased by \$31.7 million for the three months ended March 31, 2019 compared to the prior year period. The increase primarily related to \$41.5 million in proceeds from the sale of Propeller as compared to a \$10.5 million repayment of an outstanding note from Nexxt, Inc. in the previous year. The Company also had \$5.0 million of marketable securities mature in excess of purchases during the quarter as compared to \$1.4 million of marketable securities sales in the previous year.

#### Net Cash Used In Financing Activities

There were no significant financing activities for the three months ended March 31, 2019 or 2018, respectively.

#### Contractual Cash Obligations and Other Commercial Commitments

The following table summarizes our contractual obligations and other commercial commitments as of March 31, 2019, by period due or expiration of the commitment.

	Payments Due by Period				
	Total	2019 (remainder)	2020 and 2021	2022 and 2023	After 2023
	(In millions)				
Contractual Cash Obligations:					
Credit facility	68.6	68.6	—	—	—
Interest payments on debt	9.6	9.6	—	—	—
Operating leases (a)	4.2	0.4	1.2	1.2	1.4
Severance payments	0.5	0.3	0.2	—	—
Potential clawback liabilities (b)	0.3	—	0.3	—	—
Other long-term obligations (c)	2.0	0.8	1.2	—	—
Total Contractual Cash Obligations (d)	\$85.2	\$ 79.7	\$ 2.9	\$ 1.2	\$ 1.4

In 2015, we entered into an agreement for the lease of our principal executive offices which expires in April 2026.

- (a) In March 2019, we entered into a sublease for these offices which is expected to result in aggregate sublease receipts of \$3.7 million through April 2026.
- (b) We are required to return a portion or all the distributions we received as a general partner of a private equity fund for further distribution to such fund's limited partners ("clawback"). 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

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default. We were notified by the fund's manager that the fund is being dissolved and \$1.0 million of our clawback liability was paid in the first quarter of 2017. The maximum clawback liability is \$0.3 million which is reflected in Other long-term liabilities on the Consolidated Balance Sheets at March 31, 2019.

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

(d) The maximum aggregate exposure under employment and severance agreements for remaining employees was approximately \$4.8 million at March 31, 2019 (not reflected in the table above).

### 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.

The intended monetization of our partner company interests and return of capital to shareholders are subject to factors beyond our control.

In January 2018, we announced that we will not deploy any capital into new partner companies. We will instead focus on supporting, and maximizing monetization opportunities for our existing partner company interests to return value to shareholders. However, this strategic plan may require providing additional capital and operational support to such existing partner companies and we may not be able to sell our partner company interests during any specific time frame or otherwise on desirable terms, if at all, and there can be no assurance as to how long this process will take or the results that this process will yield. There can be no assurance as to whether we will realize the value of escrowed proceeds, holdbacks or other contingent consideration, if any, associated with the sale of partner company interests. Additionally, there can be no assurance that we will be able to satisfy our liabilities during this process. Further, the method, timing and amount of any return of capital resulting from the monetization of existing partner companies will be at the discretion of our Board of Directors and will depend on market and business conditions and our overall liabilities, capital structure and liquidity position.

The continuing costs and burdens associated with being a public company will constitute a much larger percentage of our expenses and we may in the future delist our Common Stock with the New York Stock Exchange and seek to deregister our Common Stock with the SEC.

We will remain a public company and will continue to be subject to the listing standards of the New York Stock Exchange and SEC rules and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002. The costs and burdens of being a public company will be a significant and continually increasing portion of our expenses if we are able to monetize partner company interests. As part of such monetization efforts, we will likely in the future, once the majority of our partner company interests have been monetized, delist our Common Stock from the New York Stock Exchange and seek to deregister our Common Stock with the SEC. However, there can be no assurance as to the timing of such transactions, or whether such transactions will be completed at all, and we will continue to face the costs and burdens of being a public company until such time as our Common Stock is delisted with the New York Stock Exchange and deregistered with the SEC.

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

If we make poor decisions regarding the deployment of capital into, and subsequent disposition of, existing partner companies, our business strategy will not succeed. 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 Credit Facility subjects us to interest rate risk.

In May 2017, we entered into a secured credit facility with HPS Investment Partners, LLC (“Lender”), (as amended the “Credit Facility”). Debt service costs under the Credit Facility are subject to interest rate changes. Interest rates could rise from time to time and significantly increase our cost of borrowing. If that were to occur, replacing the Credit Facility with alternative credit arrangements having a lower cost of borrowing would likely not be possible and no assurance can be given that we would be able to refinance the Credit Facility on attractive terms or at all.

Servicing the indebtedness under the Credit Facility will require a significant amount of cash and our ability to generate cash depends on many factors beyond our control.

Our ability to service and pay the indebtedness under the Credit Facility will depend on our ability to generate cash in the future. We generate cash from proceeds we receive in connection with the sales of our interests in our partner companies. Due to the nature of the mergers and acquisitions market, and the developmental cycle of companies like our partner companies, our ability to generate specific amounts of liquidity from sales of our partner company interests in any given period of time cannot be assured. Our ability to generate cash is also, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. The risk exists that our business will be unable to generate sufficient cash flow to service and pay our indebtedness under the Credit Facility.

Covenants in the agreements governing the Credit Facility could adversely affect our business and/or result in the operation of our business in a way other than as desired by management; our ability to comply with such covenants may be affected by events beyond our control; and a breach of any of these covenants could result in a default under the agreements governing the Credit Facility, which, if not cured or waived, could result in the acceleration of the indebtedness under the Credit Facility.

The Credit Facility contains various covenants that prohibit or limit, subject to certain exceptions, our ability to, among other things:

• Sell, transfer, lease, convey or otherwise dispose of all or any part of our business or property;

• Make deployments to companies other than our existing partner companies;

• Make deployments that, when combined with deployments after January 1, 2018, exceed \$40.0 million in the aggregate;

• Following May, 2018, incur or pay for any expenses in any twelve-month period in excess of \$11.5 million;

• Incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;

• Pay any dividends or make any distribution (in cash or in kind) or payment in respect of, or redeem, retire or purchase any capital stock;

• Enter into, or permit any of our subsidiaries to enter into, any sale and leaseback transaction;

• Wind-up, liquidate or dissolve, or merge, consolidate or amalgamate with any person, or permit any of our subsidiaries to do (or agree to do) so;

• Enter into certain transactions with affiliates; and

• Amend, modify or otherwise change any of our governing documents.

In addition, the Credit Facility requires us to among other things, maintain (i) a liquidity threshold of at least \$20 million of unrestricted cash; and (ii) a minimum aggregate appraised value of the Company’s ownership interests in its partner companies, plus unrestricted cash in excess of the liquidity threshold, of at least \$350 million less certain prepayments made under the Credit Facility.

The foregoing covenants could adversely affect our ability to finance our operations, engage in business activities that may be in our interest and plan for or react to market conditions or otherwise execute our business strategies.

Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

Our failure to comply with any of these covenants could result in a default under the Credit Facility. If that were to occur, the Lender could choose to accelerate the maturity of the indebtedness. If the Lender were to accelerate the maturity of the indebtedness, we may not have sufficient liquidity to repay the entire balance of the outstanding borrowings and other obligations under the Credit Facility.





As we execute against our strategy, a significant amount of our deployed capital may be concentrated in partner companies operating in the same or similar industries, limiting our diversification.

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 do not provide us with 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 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 do not provide us with 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 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.

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. 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 intrinsic value. 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. On April 6, 2018, we publicly announced a series of management changes intended to streamline our organizational structure and reduce our operating costs. These aggressive cost-reduction initiatives better aligned our cost structure with the strategy we announced in January 2018. A loss of one or more of the remaining 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 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

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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 be limited in the manner or timing in which we sell our interests in a partner company. Our ownership levels also may be affected if our partner companies are acquired by third parties or if our partner companies issue stock which dilutes our ownership interest. The actions we may need to take to address these issues while maintaining compliance with the 40% Test could adversely affect our ability to create and realize value at our partner companies.

Economic disruptions and downturns may have negative repercussions for us.

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

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

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

**Risks Related to Our Partner Companies**

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

Most of our partner companies have a history of operating losses and/or limited operating history, have significant historical losses and may never be profitable. Many have incurred substantial costs to develop and market their products, have incurred net losses and cannot fund their cash needs from operations. We expect that the operating

expenses of certain of our partner companies will increase substantially in the foreseeable future as they continue to develop products and services, increase sales and marketing efforts, and expand operations.

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

There is intense competition in the technology marketplaces, and we expect competition to intensify in the future. Our business, financial condition, and results of operations 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 technologies, medical devices, financial services, healthcare diagnostics, etc.

Our partner companies' business strategies are often highly dependent upon the successful launch and commercialization of an innovative technology or device, including, without limitation, technologies or devices used in healthcare, financial services or digital media. Despite all of our efforts to understand the research and development underlying the innovation or creation of such technologies and devices before we deploy capital into a partner company, sometimes the performance of the technology or device does not match our expectations or those of our partner company. In those situations, it is likely that we will incur a partial or total loss of the capital which we deployed in such partner company.

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

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

The technology marketplaces are characterized by:

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

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

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

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

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

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

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, or decline 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 from third parties, either debt or equity, such capital may rank senior to, or dilute, 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. We may not be able to, or decline to, provide partner companies with sufficient capital resources to enable them to reach a cash-flow positive position or a sale of the company. 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 from third parties, either debt or equity, such capital may be dilutive, making our interests less valuable or if such capital ranks senior to the capital we have deployed, such capital may entitle its holders to receive returns of capital before 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 current partner companies have not been the subject of a work stoppage, any future work stoppage could have a material adverse effect on their respective operations. A shortage in the availability of the requisite qualified personnel or work stoppage would limit the ability of our partner companies to grow, to increase sales of their existing products and services, and to launch new products and services.

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

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

Some of our partner companies may be subject to significant environmental, health, data security 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, some of our partner companies are subject to federal, state and local financial securities and data security regulations, including, without limitation, the Health Insurance Portability and Accountability Act of 1996, as amended, and the European General Data Protection Regulation, which impose varying degrees of additional obligations, costs and risks upon such partner companies, including the imposition of significant penalties in the event of any non-compliance. Further, 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 information we previously disclosed under Item 7A of Part II of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 1, 2019.

### 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 March 31, 2019 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

Except as included under the heading "Factors That May Affect Future Results" above, there have been no material changes in our risk factors from the information set forth in our Annual Report on Form 10-K for the year ended December 31, 2018.

## 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 March 31, 2019, 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)
January 1, 2019 - January 31, 2019	241	\$ 9.83	—	\$ 14,636,135
February 1, 2019 - February 28, 2019	—	\$ —	—	\$ 14,636,135
March 1, 2019 - March 31, 2019	13,412	\$ 10.93	—	\$ 14,636,135
Total	13,653	\$ 10.16	—	

(a) During the first quarter of 2019, the Company repurchased an aggregate of 14 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. Under the amended credit facility, the Company is restricted from repurchasing shares of its common stock until such time as the amended credit facility is repaid in full.

## 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 †	<u>Certification of Brian J. Sisko pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934.</u>
31.2 †	<u>Certification of Mark A. Herndon pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934.</u>
32.1 ‡	<u>Certification of Brian J. Sisko pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2 ‡	<u>Certification of Mark A. Herndon pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following materials from Safeguard Scientifics, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, 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: May 2, 2019 /s/ Brian J. Sisko

Brian J. Sisko

President and Chief Executive Officer

Date: May 2, 2019 /s/ Mark A. Herndon

Mark A. Herndon

Senior Vice President and Chief Financial Officer