

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended September 30, 2020**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 1-5620

**Safeguard Scientifics, Inc.**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

23-1609753  
(I.R.S. Employer ID No.)

100 Matsonford Road  
One Radnor Corporate Center, Suite 110  
Radnor, PA  
(Address of principal executive offices)

19087  
(Zip Code)

(610) 293-0600

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
common stock, par value \$0.10	SFE	New York Stock Exchange

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 the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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 November 2, 2020**  
**Common Stock 20,893,063**

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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)

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 16,437	\$ 25,028
Restricted cash	—	25
Prepaid expenses and other current assets	570	1,297
Total current assets	17,007	26,350
Property and equipment, net	1,869	2,101
Ownership interests in and advances	55,844	77,129
Other assets	1,368	1,997

Total Assets	\$ 76,088	\$ 107,577
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 36	\$ 39
Accrued compensation and benefits	1,706	1,364
Accrued expenses and other current liabilities	531	627
Lease liability - current	338	399
Total current liabilities	2,611	2,429
Lease liability - non-current	2,139	2,380
Other long-term liabilities	1,109	1,027
Total Liabilities	5,859	5,836
Commitments and contingencies (Note 9)		
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 September 30, 2020 and December 31, 2019	2,157	2,157
Additional paid-in capital	809,189	810,856
Treasury stock, at cost; 789 and 930 shares at September 30, 2020 and December 31, 2019, respectively	(11,806)	(14,024)
Accumulated deficit	(729,286)	(697,223)
Accumulated other comprehensive loss	(25)	(25)
Total Equity	70,229	101,741
Total Liabilities and Equity	\$ 76,088	\$ 107,577

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
General and administrative expense	\$ 2,275	\$ 2,262	\$ 7,835	\$ 7,922
Operating loss	(2,275)	(2,262)	(7,835)	(7,922)
Other income (loss), net	(820)	8,777	(7,045)	10,010
Interest income	52	234	209	1,870
Interest expense	—	(5,806)	—	(14,023)
Equity income (loss), net	(1,300)	(3,440)	(15,591)	65,324
Net income (loss) before income taxes	(4,343)	(2,497)	(30,262)	55,259
Income tax benefit (expense)	—	—	—	—
Net income (loss)	\$ (4,343)	\$ (2,497)	\$ (30,262)	\$ 55,259
Net income (loss) per share:				
Basic	\$ (0.21)	\$ (0.12)	\$ (1.46)	\$ 2.68
Diluted	\$ (0.21)	\$ (0.12)	\$ (1.46)	\$ 2.68
Weighted average shares used in computing income (loss) per share:				
Basic	20,786	20,657	20,731	20,623
Diluted	20,786	20,657	20,731	20,623

See Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019

Net income (loss)	\$	(4,343)	\$	(2,497)	\$	(30,262)	\$	55,259
Other comprehensive income (loss):								
Share of other comprehensive income (loss) of equity method interests		—		—		—		(31)
Reclassification adjustment for sale of equity method investments		—		—		—		6
<b>Total comprehensive income (loss)</b>	<b>\$</b>	<b>(4,343)</b>	<b>\$</b>	<b>(2,497)</b>	<b>\$</b>	<b>(30,262)</b>	<b>\$</b>	<b>55,234</b>

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	2019
<b>Cash Flows from Operating Activities:</b>		
Net cash used in operating activities	\$ (7,025)	\$ (18,543)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales of and distributions from ownership interests	7,587	101,190
Acquisitions of ownership interests	(7,510)	(9,500)
Advances and loans to ownership interests	(1,638)	(4,954)
Purchases of marketable securities	—	(57,243)
Proceeds from sales and maturities in marketable securities	—	95,189
Net cash (used in) provided by investing activities	(1,561)	124,682
<b>Cash Flows from Financing Activities:</b>		
Repayments on credit facility	—	(68,568)
Tax withholdings related to equity-based awards	(30)	(210)
Net cash used in financing activities	(30)	(68,778)
Net change in cash, cash equivalents and restricted cash	(8,616)	37,361
Cash, cash equivalents and restricted cash at beginning of period	25,053	8,203
Cash, cash equivalents and restricted cash at end of period	\$ 16,437	\$ 45,564

See Notes to Consolidated Financial Statements.

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**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
<b>Balance - December 31, 2019</b>	\$ 101,741	\$ (697,223)	\$ (25)	21,573	\$ 2,157	\$ 810,856	930	\$ (14,024)
Net loss	(16,008)	(16,008)	—	—	—	—	—	—
Restricted stock awards, forfeitures and shares repurchased for tax withholdings, net	72	—	—	—	—	(32)	(6)	104
Stock-based compensation expense	3	—	—	—	—	3	—	—
<b>Balance - March 31, 2020</b>	\$ 85,808	\$ (713,231)	\$ (25)	21,573	\$ 2,157	\$ 810,827	924	\$ (13,920)
Net loss	(9,911)	(9,911)	—	—	—	—	—	—
Restricted stock awards, forfeitures and shares repurchased for tax withholdings, net	72	—	—	—	—	(1,718)	(114)	1,790
Stock-based compensation expense	146	—	—	—	—	146	—	—
Change in accounting at ownership interests	(1,801)	(1,801)	—	—	—	—	—	—
<b>Balance - June 30, 2020</b>	\$ 74,314	\$ (724,943)	\$ (25)	21,573	\$ 2,157	\$ 809,255	810	\$ (12,130)
Net loss	(4,343)	(4,343)	—	—	—	—	—	—
Restricted stock awards, forfeitures and shares repurchased for tax withholdings, net	73	—	—	—	—	(251)	(21)	324
Stock-based compensation expense	185	—	—	—	—	185	—	—
<b>Balance - September 30, 2020</b>	\$ 70,229	\$ (729,286)	\$ (25)	21,573	\$ 2,157	\$ 809,189	789	\$ (11,806)

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

	Total	Accumulated	Accumulated Other	Common Stock		Additional	Treasury Stock	
		Deficit	Comprehensive Loss	Shares	Amount	Paid-in Capital	Shares	Amount
<b>Balance - December 31, 2018</b>	\$ 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	—
Restricted stock awards, forfeitures and shares repurchased for tax withholdings, net	(149)	—	—	—	—	7	83	(156)
Stock-based compensation expense	417	—	—	—	—	417	—	—
Other comprehensive loss	(31)	—	(31)	—	—	—	—	—
<b>Balance - March 31, 2019</b>	<u>\$ 88,879</u>	<u>\$ (709,442)</u>	<u>\$ (31)</u>	<u>21,573</u>	<u>\$ 2,157</u>	<u>\$ 811,352</u>	<u>998</u>	<u>\$ (15,157)</u>
Net income	36,093	36,093	—	—	—	—	—	—
Restricted stock awards, forfeitures and shares repurchased for tax withholdings, net	(31)	—	—	—	—	(1,220)	(77)	1,189
Stock-based compensation expense	269	—	—	—	—	269	—	—
Other comprehensive income	6	—	6	—	—	—	—	—
<b>Balance - June 30, 2019</b>	<u>\$ 125,216</u>	<u>\$ (673,349)</u>	<u>\$ (25)</u>	<u>21,573</u>	<u>\$ 2,157</u>	<u>\$ 810,401</u>	<u>921</u>	<u>\$ (13,968)</u>
Net loss	(2,497)	(2,497)	—	—	—	—	—	—
Issuance of and restricted stock withheld for taxes	(30)	—	—	—	—	—	7	(30)
Stock-based compensation expense	248	—	—	—	—	248	—	—
Other comprehensive income	—	—	—	—	—	—	—	—
<b>Balance - September 30, 2019</b>	<u>\$ 122,937</u>	<u>\$ (675,846)</u>	<u>\$ (25)</u>	<u>21,573</u>	<u>\$ 2,157</u>	<u>\$ 810,649</u>	<u>928</u>	<u>\$ (13,998)</u>

See Notes to Consolidated Financial Statements.

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**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 2019 Annual Report on Form 10-K.

**Liquidity**

As of September 30, 2020 the Company had \$16.4 million of cash and cash equivalents.

In January 2018, Safeguard announced that, from that date forward, the Company will not deploy any capital into new opportunities and will focus on supporting our existing companies and maximizing monetization opportunities to return value to shareholders. In that context, the Company has, is and will consider initiatives including, among others: the sale of individual ownership interests, the sale of certain or all ownership interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. As we seek to provide additional funding to existing companies where we have an ownership interest, we may be required to expend our cash or incur debt, which will decrease our liquidity. From time to time, we are engaged in discussions concerning acquisitions and dispositions which, if consummated, could impact our liquidity, perhaps significantly. Accordingly, the Company could also pursue other sources of capital in order to maintain its liquidity.

The Company believes that its cash and cash equivalents at September 30, 2020 will be sufficient to fund operations past one year from the issuance of these Consolidated Financial Statements.

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

**Principles of Accounting for Ownership Interests**

The Company accounts for its ownership interests 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 companies in the form of promissory notes which are included in the Ownership interests in and advances on the Consolidated Balance Sheets.

*Equity Method.* The Company accounts for ownership interests 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 an ownership interest depends on an evaluation of several factors including, among others, representation on the board of directors and our ownership level, which is generally a 20% to 50% interest in the voting securities of a 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 company's financial statements within our Consolidated Financial Statements; however, our share of the income or loss of such company is reflected in Equity income (loss) in the Consolidated Statements of Operations. The Company includes the carrying value of equity method companies in Ownership interests in and advances on the Consolidated Balance Sheets. Any excess of the Company's cost over its underlying interest in the net assets of equity method 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 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 companies.

When the Company's carrying value in an equity method 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 company. When such equity method 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 interest 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 interests in Ownership interests and advances on the Consolidated Balance Sheets.

**Impairment of Ownership Interests and Advances**

On a periodic basis, but no less frequently than quarterly, the Company evaluates the carrying value of its ownership interests and advances for possible impairment based on achievement of business plan objectives and milestones, the estimated fair value of each company relative to its carrying value, the financial condition and prospects of the company and other relevant factors. The business plan objectives and milestones the Company considers include, among others, those related to financial performance, such as achievement of planned financial results or completion of capital raising activities, and those that are not primarily financial in nature, such as hiring of key employees or the establishment of strategic relationships.

Management then determines whether there has been an other than temporary decline in the value of its ownership interest in the company. Impairment is measured as the amount by which the carrying value of an asset exceeds its estimated fair value.

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

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

The reduced cost basis of a previously impaired company accounted for using the Equity method is not written-up even if circumstances suggest the value of the company has subsequently recovered.



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

***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 was 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. Additionally, on June 3, 2020 the FASB issued ASU 2020-05, which extended the adoption of ASC 606 for all nonpublic business entities that have not issued their 2019 financial statements as of June 3, 2020, until January 1, 2020.

As the new standard superseded most existing revenue guidance, it impacted revenue and cost recognition for certain companies in which we hold an ownership interest. Any change in revenue or cost recognition for companies in which we hold an ownership interest could affect the Company's recognition of its share of the results of its equity method 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, certain of the Company's private, calendar year companies adopted the revenue standard for the year ending December 31, 2019, including a cumulative effect where applicable as of the first day of the 2019 reporting period.

For our ownership interests that have adopted ASU 2014-09, the impact of adoption of the new revenue standard is reflected in the Company's financial results for the interim and annual reporting periods beginning in 2020 on a one quarter-lag basis. The impact upon adoption resulted in a decrease to retained earnings and ownership interests of \$1.8 million, net, due to the deferral of revenue and certain costs at our underlying ownership interests. Our results of operations for the nine months ended September 30, 2020 reflect a benefit of \$1.8 million due primarily to the recognition of revenue in 2019 that was previously deferred as a result of the adoption of ASU 2014-09. Accordingly, the cumulative impact of the adoption of ASU 2014-09 was not significant. The Company continues to monitor the impact of ASU 2014-09 to our ownership interests that have not finalized their 2019 adoption or that may further delay adoption based on the June 3, 2020 update, however we do not expect any further adjustments to be significant.

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

**2. Ownership Interests in and Advances**

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<u>(Unaudited - In thousands)</u>	
Equity Method:		
Companies	\$ 30,436	\$ 34,271
Private equity funds	271	271
	<u>30,707</u>	<u>34,542</u>
Other Method:		
Companies	20,015	27,031
Private equity funds	423	453
	<u>20,438</u>	<u>27,484</u>
Advances to companies	4,699	15,103
	<u>\$ 55,844</u>	<u>\$ 77,129</u>

In September 2020, Sonobi, Inc. was acquired by another entity for cash. The Company received \$6.6 million in cash proceeds in connection with this transaction, excluding holdbacks and escrows. The Company recognized an insignificant gain on the sale, which is included in Equity income (loss) in the Consolidated Statements of Operations for the three and nine months ended September 30, 2020.

During the nine months ended September 30, 2020, Company recorded impairments of \$9.2 million related to the ownership interests of WebLinc, Inc., QuanticMind, Inc. and Sonobi, Inc. accounted for under the equity method, which are reflected in Equity income (loss) in the Consolidated Statement of Operations. During the three months and nine months ended September 30, 2020, the Company also recorded impairments of \$0.4 million and \$8.1 million, respectively, related to the ownership interests of T-REX Group, Inc., b8ta and others accounted for under the Other method, which are reflected in Other income (loss), net in the Consolidated Statement of Operations. The impairments were determined based on declines in the fair value of our ownership interests resulting from reduced valuation expectations and extended exit timelines resulting from the more challenging mergers and acquisitions environment related to COVID-19 and the related uncertain economic impact. The measurement of fair value for these impairments was estimated based on evaluating several valuation methods available for each of the applicable ownership interests, primarily including the value at which independent third parties have invested, the valuation of comparable public companies, the valuation of acquisitions of similar companies and the present value of our expected outcomes. Assumptions considered within these methods include determining which public companies are comparable, projecting forward revenues for the measured ownership interest, discounts to apply for the lack of marketability or lack of comparability, other factors and the relative weight to apply to each valuation method available. The aggregate estimated fair value of the ownership interests for which impairments were recorded is \$12.5 million, \$9.1 million and \$2.2 million at March 31, 2020, June 30, 2020, and September 30, 2020, respectively. Due to the unobservable nature of some of these inputs, we have determined these fair value estimates to be Level 3 fair value measurements.

During the nine months ended September 30, 2020, the Company recorded a \$1.5 million non-cash gain based upon an observable price change related to our ownership interest in Flashtalking Inc. accounted for under the Other method, which is reflected in Other income (loss), net in the Consolidated Statement of Operations. During the three months ended September 30, 2020, the Company also recorded a \$0.5 million Other loss of an other equity security based on an observable price change.

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

**Summarized Financial Information**

The following table summarizes the statement of operations data for the companies accounted for under the equity method for the three and nine months ended September 30, 2020 and 2019, respectively. These results have been compiled from the respective companies' 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Unaudited - In thousands)			
<b>Results of Operations:</b>				
Revenue	\$ 39,388	\$ 28,940	\$ 119,270	\$ 112,540
Gross profit	\$ 23,244	\$ 14,448	\$ 73,395	\$ 61,401
Net loss	\$ (15,650)	\$ (30,470)	\$ (56,684)	\$ (99,282)

**3. Acquisitions of Ownership Interests**

The following is a summary of additional deployments during the nine month period ended September 30, 2020:

The Company deployed an additional \$2.5 million to Aktana, Inc. during the three month period ended September 30, 2020. The Company had previously deployed an aggregate of \$11.7 million. Aktana leverages big data and machine learning to enable pharmaceutical brands to dynamically optimize their strategy and enhance sales execution.

The Company deployed an additional \$1.0 million to meQuilibrium. The Company had previously deployed an aggregate of \$13.0 million. meQuilibrium is a digital coaching platform that delivers clinically validated and highly personalized resilience solutions to employers, health plans, wellness providers, and consumers increasing engagement, productivity and performance, as well as improving outcomes in managing stress, health and well-being.

The Company deployed an additional \$4.4 million to Syapse, Inc., including the \$0.6 million of convertible loans deployed in the first quarter of 2020, which was converted to equity in the second quarter. The Company had previously deployed \$20.6 million. Syapse drives healthcare transformation through precision medicine, enabling provider systems to improve clinical outcomes, streamline operations, and shift to new payment models.

The Company funded an additional \$0.7 million of convertible loans to Trice Medical, Inc. The Company had previously deployed an aggregate of \$10.2 million. Trice is focused on orthopedic diagnostics using fully integrated camera-enabled technologies to provide clinical solutions to physicians.

The Company deployed an aggregate of \$0.2 million to Clutch Holdings. The Company had previously deployed an aggregate of \$16.7 million. 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 funded an additional \$0.2 million of convertible loans to QuanticMind. The Company had previously deployed an aggregate of \$13.5 million. QuanticMind delivers an intelligent, scalable and fast platform for maximizing digital marketing performance, including paid search and social, for enterprises.

The Company funded an aggregate of \$0.1 million of convertible loans to WebLinc, Inc. The Company had previously deployed an aggregate of \$16.1 million. WebLinc is an e-commerce platform for online retailers.

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

**4. Fair Value Measurements**

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

Sheets are categorized as follows:

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

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

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

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

The following table provides the carrying value and fair value of certain financial assets and liabilities of the Company measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019:

	Carrying Value	Fair Value Measurement at September 30, 2020		
		Level 1	Level 2	Level 3
		(Unaudited - In thousands)		
Cash and cash equivalents	\$ 16,437	\$ 16,437	\$ —	\$ —

	Carrying Value	Fair Value Measurement at December 31, 2019		
		Level 1	Level 2	Level 3
		(Unaudited - In thousands)		
Cash and cash equivalents	\$ 25,028	\$ 25,028	\$ —	\$ —
Restricted cash equivalents	\$ 25	\$ 25	\$ —	\$ —

## 5. Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Unaudited - In thousands)			
General and administrative expense	\$ 452	\$ 248	\$ 979	\$ 934
	\$ 452	\$ 248	\$ 979	\$ 934

During the nine months ended September 30, 2020 and 2019, the Company granted 79 thousand and 30 thousand restricted stock awards, respectively to non-employee directors for compensation.

## 6. Income Taxes

The Company's consolidated income tax benefit (expense) was \$0.0 million for the three and nine months ended September 30, 2020 and 2019. 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 that would have been recognized in the three and nine months ended September 30, 2020 was offset by changes in the valuation allowance. During the three and nine months ended September 30, 2020, the Company had no material changes in uncertain tax positions.

## 7. Net Income (Loss) Per Share

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

	30,		30,	
	2020	2019	2020	2019
	(Unaudited - In thousands, except per share data)			
<b>Basic:</b>				
Net income (loss)	\$ (4,343)	\$ (2,497)	\$ (30,262)	\$ 55,259
Weighted average common shares outstanding	20,786	20,657	20,731	20,623
Net income (loss) per share	\$ (0.21)	\$ (0.12)	\$ (1.46)	\$ 2.68
<b>Diluted:</b>				
Net income (loss) for dilutive share computation	\$ (4,343)	\$ (2,497)	\$ (30,262)	\$ 55,259
Number of shares used in basic per share computation	20,786	20,657	20,731	20,623
Unvested restricted stock and DSU's	—	—	—	—
Employee stock options	—	—	—	—
Weighted average common shares outstanding	20,786	20,657	20,731	20,623
Net income (loss) per dilutive share	\$ (0.21)	\$ (0.12)	\$ (1.46)	\$ 2.68

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 an equity method 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 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:

- At September 30, 2020 and 2019, options to purchase 0.2 million and 0.2 million shares of common stock, respectively, at prices ranging from \$10.37 to \$17.11 and \$9.83 to \$19.41, respectively, were excluded from the calculations.
- At September 30, 2020 and 2019, unvested restricted stock, performance-based stock units and DSUs convertible into 0.3 million and 0.3 million shares of stock, respectively, were excluded from the calculations.

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

**8. Segment Reporting**

The Company operates as one operating segment based upon the similar nature of its technology-driven 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 September 30, 2020, the Company held ownership interests accounted for using the equity method in 12 non-consolidated companies.

Certain of the Company's ownership interests as of September 30, 2020 included the following:

Company Name	Safeguard Primary Ownership as of September 30, 2020	Accounting Method
Aktana, Inc.	15.2%	Equity
Clutch Holdings, Inc.	41.2%	Equity
Flashtalking	13.4%	Other
InfoBionic, Inc.	25.2%	Equity
Lumesis, Inc.	43.5%	Equity
MediaMath, Inc.	13.3%	Other
meQuilibrium	32.0%	Equity
Moxe Health Corporation	29.9%	Equity
Prognos Health Inc.	28.5%	Equity
QuanticMind, Inc.	24.2%	Equity
Syapse, Inc.	19.6%	Equity
T-REX Group, Inc.	13.7%	Other
Trice Medical, Inc.	16.6%	Equity
WebLinc, Inc.	39.9%	Equity
Zipnosis, Inc.	37.7%	Equity

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

**9. Commitments and Contingencies**

In March 2019, the Company entered into a sublease of its prior corporate headquarters office space beginning in June 2019. The term of the sublease is through April 2026, the same as the Company's underlying lease. Fixed sublease payments to the Company are escalating over the term of the sublease and are reported as a component of general and administrative expenses.

In April 2019, the Company entered into a sublease for replacement office space with a related party, a company in which we hold an ownership interest, beginning in June 2019. The term of this sublease expires during the fourth quarter of 2020 and is not expected to be renewed.

A summary of the Company's operating lease cash flows at September 30, 2020 follows:

	<b>Operating lease payments</b>	<b>Expected sublease receipts</b>
	<b>(Unaudited - In thousands)</b>	
2020 (three months ending December 31)	\$ 170	\$ 129
2021	595	525
2022	601	540
2023	607	556
2024	613	573
2025	619	590
Thereafter	208	199
Total future minimum lease payments	3,413	\$ 3,112
Less imputed interest	(936)	
Total operating lease liabilities	<u>\$ 2,477</u>	

The Company and the companies in which it holds ownership interests 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 companies. The Company records costs associated with legal fees as such services are rendered.

The Company had outstanding guarantees of \$3.8 million at September 30, 2020 which related to one of the Company's private equity holdings.

In 2018, the Board of Directors (the "Board") of the Company adopted a long-term incentive plan, which was amended in February 2019 and June 2020, known as 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. The June 2020 amendment lowered the level of the first threshold and the resulting bonus pool percentage as an incentive to employees to accelerate actions consistent with the business strategy. Under the LTIP, participants, which include certain current and former employees, have received awards that may result in cash payments in connection with sales of the Company's ownership interests ("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 0.2% (previously 1.0%) of received proceeds at the first threshold to 1.3% 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 within 60 days 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. The Company has accrued approximately \$1.5 million under the LTIP as of September 30, 2020, which \$0.9 million is estimated as current accrued compensation.

The Company recorded severance expense of \$1.9 million during the nine months ended September 30, 2020 primarily for the former CEO in accordance with an existing employment arrangement. Obligations under this arrangement with the former CEO were paid during the second quarter. Other accrued compensation amounts previously deferred will be paid during the fourth quarter of 2020. Additional contingent amounts could be paid based on continued participation in prior awards granted pursuant to the LTIP. 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 \$2.5 million at September 30, 2020.

In June 2011, the Company's former ownership interest, 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 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.

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## 10. 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 2019 or the nine months ended September 30, 2020.

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 2019 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. If such beneficial ownership is acquired without the approval of the Board, 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.

## 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 that 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 ownership interests may vary from period to period, our substantial capital requirements and absence of liquidity from our holdings, fluctuations in the market prices of our publicly traded holdings, competition, our inability to obtain maximum value for our ownership interests, or at all, and the return of value to our shareholders, our ability to attract and retain qualified employees, our ability to execute our strategy, market valuations in sectors in which our ownership interests operate, our inability to control our ownership interests, our need to manage our assets to avoid registration under the Investment Company Act of 1940, and risks associated with our ownership interests and their performance, including the fact that most of our ownership interests 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 ownership interests operate, including the impact of COVID-19, 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.

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## Business Overview

Over the recent past, Safeguard has provided capital and relevant expertise to fuel the growth of technology-driven businesses. In many, but not all cases, we are actively involved, influencing development through board representation and management support, in addition to the influence we exert through our equity ownership. We also continue to 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, those ownership interests relate to residual interests from prior larger interests or from companies that acquired companies in which we had ownership interests.

In January 2018, Safeguard announced that we will not deploy any capital into new opportunities and will focus on supporting our existing companies and maximizing monetization opportunities to enable the return of value to shareholders. In that context, we have, are and will consider initiatives including, among others: the sale of our ownership interests, the sale of certain or all ownership interests in secondary market transactions, or a combination thereof, as well as other opportunities to maximize shareholder value. We initiated the return of value to shareholders in 2019 with a \$1.00 per share special dividend. We anticipate additional actions could occur in the future, once significant dispositions occur, in the form of stock repurchases and/or special dividends based on available cash resources, prevailing market conditions and other factors.

During 2020, Safeguard was impacted by the circumstances of COVID-19 and the related economic impacts. In addition to a slowed mergers and acquisitions environment, our companies have been impacted in a variety of operational ways including general declines in the markets in which they operate, reduced access to customers or prospective customers, reduced or delayed collections of amounts due from customers and different ways to work with their employee base. Our companies have also been negatively impacted in their ability to access debt or equity capital. The management teams of the entities in which the Company holds such ownership interests are continuing to take actions to respond to the rapidly changing environment, including implementing cost reduction efforts, securing additional capital or other actions, which could mitigate some of the expected impacts. There are uncertainties as to if these actions will be successful or adequate in this uncertain economic environment.

## Results of Operations

We operate as one operating segment based upon the similar nature of our technology-driven 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 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.

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The following is a listing of certain of our ownership interests as of September 30, 2020 and 2019, respectively.

Safeguard Primary Ownership as of September 30,			
Company Name	2020	2019	Accounting Method
Aktana, Inc.	15.2%	17.9%	Equity
Clutch Holdings, Inc.	41.2%	41.2%	Equity
Flashtalking	13.4%	10.1%	Other
InfoBionic, Inc.	25.2%	25.2%	Equity
Lumesis, Inc.	43.5%	43.6%	Equity
MediaMath, Inc.	13.3%	13.4%	Other
meQuilibrium	32.0%	32.7%	Equity
Moxe Health Corporation	29.9%	32.4%	Equity
Prognos Health Inc.	28.5%	28.7%	Equity
QuanticMind, Inc.	24.2%	24.2%	Equity
Syapse, Inc.	19.6%	20.1%	Equity
T-REX Group, Inc.	13.7%	14.2%	Other
Trice Medical, Inc.	16.6%	16.7%	Equity
WebLinc, Inc.	39.9%	38.5%	Equity
Zipnosis, Inc.	37.7%	37.7%	Equity

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Three months ended September 30, 2020 versus the three months ended September 30, 2019

	Three Months Ended September 30,		
	2020	2019	Variance
	(In thousands)		
General and administrative expense	\$ (2,275)	\$ (2,262)	\$ (13)
Other income (loss), net	(820)	8,777	(9,597)
Interest income	52	234	(182)



Interest expense	—	(5,806)	5,806
Equity income (loss), net	(1,300)	(3,440)	2,140
	<u>\$ (4,343)</u>	<u>\$ (2,497)</u>	<u>\$ (1,846)</u>

*General and Administrative Expense.* General and administrative expense did not vary significantly for the three months ended September 30, 2020 as compared to the prior year quarter, and included decreases to professional fees of \$0.2 million, employee compensation of \$0.1 million, certain 2019 retirement costs that did not recur of \$0.1 million, and other various lower costs, which were offset by higher stock based compensation of \$0.2 million and higher insurance costs of \$0.1 million. General and administrative expense includes stock based compensation of \$0.5 million for the three months ended September 30, 2020 as compared to \$0.2 million in the comparable prior year quarter. The increase in stock based compensation is the result of a larger proportion of management's compensation, including a portion of previously existing accruals under the existing management incentive plan, that are to be settled in vested stock as well as Director compensation, which in 2020 is settled entirely in vested stock.

*Other Income (loss), net.* Other income (loss), net decreased \$9.6 million for the three months ended September 30, 2020 compared to the prior year quarter. During the three months ended September 30, 2020, the Company recorded an impairment of \$0.4 million related to the ownership interest of T-REX, which is accounted for under the Other method. The impairment was determined based on a decline in the fair value of our ownership interest resulting from lower current and future revenue growth expectations. During the three months ended September 30, 2020, the Company also recorded a \$0.5 million reduction in the carrying value of an other equity security based on an observable price change. Other income (loss), net for the three months ended September 30, 2019 included \$4.3 million of non-cash gains from the increase in the value of certain equity securities based upon observable price changes and \$4.1 million of income related to the decrease in the fair value of the Credit Facility repayment feature liability, which did not recur in 2020. The Credit Facility was repaid in full during 2019 resulting in the elimination of the Credit Facility repayment feature liability.

*Interest Income.* Interest income decreased \$0.2 million for the three months ended September 30, 2020 compared to the prior year period primarily attributable to lower average notes receivable and lower average investment and cash equivalent balances at lower rates in 2020.

*Interest Expense.* Interest expense decreased \$5.8 million for the three months ended September 30, 2020 compared to the prior year period due to the pay-off of borrowings under the Credit Facility in 2019.

*Equity Income (loss), net.* Equity income (loss), net decreased \$2.1 million for the three months ended September 30, 2020 compared to the prior year period. The components of equity income (loss), net for the three months ended September 30, 2020 and 2019 were as follows:

	<b>Three Months Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
	<b>(In thousands)</b>		
Gains on sales of ownership interests	\$ 58	\$ 1,801	\$ (1,743)
Unrealized dilution gains	2,471	1,026	1,445
Loss on impairments	—	—	—
Share of loss of our equity method companies, net	(3,829)	(6,267)	2,438
	<u>\$ (1,300)</u>	<u>\$ (3,440)</u>	<u>\$ 2,140</u>

There were no material gains or losses on sales of ownership interests for the three months ended September 30, 2020. The amounts reported as gains on sales of ownership interests for the three months ended September 30, 2019 are comprised the collection of escrow from prior transactions, including \$1.2 million related to Cask Data, \$0.3 million related to Transactis, and \$0.3 million related to Invitae shares in connection with the Good Start Genetics sale.

The unrealized dilution gains for the three months ended September 30, 2020 and 2019 were the result of Aktana, Inc., who raised additional equity capital during each of those three month periods that diluted the Company's interest.

The change in our share of loss of our equity method companies for the three months ended September 30, 2020 compared to the prior year period of \$2.4 million was due to a decrease in losses associated with our ownership interests.

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*Nine months ended September 30, 2020 versus the Nine months ended September 30, 2019*

	<b>Nine Months Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
	<b>(In thousands)</b>		
General and administrative expense	\$ (7,835)	\$ (7,922)	\$ 87
Other income (loss), net	(7,045)	10,010	(17,055)
Interest income	209	1,870	(1,661)
Interest expense	—	(14,023)	14,023
Equity income (loss), net	(15,591)	65,324	(80,915)
	<u>\$ (30,262)</u>	<u>\$ 55,259</u>	<u>\$ (85,521)</u>

*General and Administrative Expense.* General and administrative expense decreased \$0.1 million for the nine months ended September 30, 2020 compared to the prior year period primarily due to decreases in depreciation of \$0.8 million, employee compensation of \$0.3 million, lower office rental costs of \$0.2 million, lower professional fees of \$0.6 million, certain 2019 retirement costs that did not recur of \$0.2 million and other various costs, which were partially offset by \$1.9 million of severance charges and higher insurance costs of \$0.2 million. General and administrative expense also includes stock based compensation of

\$1.0 million for the nine months ended September 30, 2020 as compared to \$0.9 million in the comparable prior year. Stock based compensation expense for the nine months ended September 30, 2020 includes the impact of a larger proportion of management's compensation, including a portion of previously existing accruals under the management incentive plan, that are to be settled in vested stock as well as Director compensation, which in 2020 is settled entirely in vested stock.

*Other Income (loss), net.* Other income (loss), net decreased \$17.1 million for the nine months ended September 30, 2020 compared to the prior year period. During the nine months ended September 30, 2020, the Company recorded impairments of \$8.1 million related to the ownership interests of T-REX, b8ta and others accounted for under the Other method. The impairments were determined based on declines in the fair value of our ownership interests resulting from reduced valuation expectations and extended exit timelines resulting from the more challenging mergers and acquisitions environment related to COVID-19 and the related uncertain economic impact. The Company also recorded a \$0.5 million reduction in the carrying value of an other equity security based on an observable price change. Partially offsetting these impairments, was a \$1.5 million non-cash gain for the increase in the fair value our ownership interest in Flashtalking based upon an observable price change. Other income (loss), net for the nine months ended September 30, 2019 included \$4.5 million of non-cash gains on the increase in the value of certain equity securities based upon observable price changes and \$5.1 million of income related to the decrease in the fair value of the Credit Facility repayment feature liability. The Credit Facility was repaid in full during 2019 resulting in the elimination of the Credit Facility repayment feature liability.

*Interest Income.* Interest income decreased \$1.7 million for the nine months ended September 30, 2020 compared to the prior year period primarily attributable to lower average notes receivable and lower average investment and cash equivalent balances at lower rates in 2020.

*Interest Expense.* Interest expense decreased \$14.0 million for the nine months ended September 30, 2020 compared to the prior year period due to the payoff of borrowings under the Credit Facility in 2019.

*Equity Income (loss), net.* Equity income (loss), net decreased \$80.9 million for the nine months ended September 30, 2020 compared to the prior year period. The components of equity income (loss), net for the nine months ended September 30, 2020 and 2019 were as follows:

	<b>Nine Months Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
	<b>(In thousands)</b>		
Gains on sales of ownership interests	\$ 183	\$ 87,374	\$ (87,191)
Unrealized dilution gains	3,161	2,786	375
Loss on impairments	(9,200)	(2,965)	(6,235)
Share of loss of our equity method companies, net	(9,735)	(21,871)	12,136
	<u>\$ (15,591)</u>	<u>\$ 65,324</u>	<u>\$ (80,915)</u>

The gains on sales of ownership interests for the nine months ended September 30, 2019 is comprised primarily of gains related to the sale of Propeller in the amount of \$34.9 million and Transactis in the amount of \$50.7 million.

The unrealized dilution gains for the nine months ended September 30, 2020 were the result of Aktana, meQuilibrium and Syapse, who each raised additional equity capital that diluted the Company's interest in those entities. The unrealized dilution gains for the nine months ended September 30, 2019 were the result of Aktana, meQuilibrium, Syapse, Trice and T-REX.

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During the nine months ended September 30, 2020, the Company recorded impairments of \$9.2 million related to the ownership interests of WebLinc, Inc., QanticMind, Inc. and Sonobi accounted for under the equity method. The impairments were determined based on declines in the fair value of our ownership interests resulting from reduced valuation expectations and extended exit timelines resulting from the more challenging mergers and acquisitions environment related to COVID-19 and the related uncertain economic impact. The loss on impairment for the nine months ended September 30, 2019 is due to NovaSom, Inc.'s August 2019 bankruptcy filing.

The change in our share of loss of our equity method companies for the nine months ended September 30, 2020 compared to the prior year period was due to a decrease in the number of ownership interests accounted for under the equity method and a decrease in losses associated with the remaining ownership interests, including the \$1.8 million benefit that resulted from the recognition of revenue in the current period at one of our ownership interests upon the adoption of ASU 2014-09 which was considered deferred revenue at the beginning of their adoption period under the new standard.

***Income Tax Benefit (Expense)***

Income tax benefit (expense) was \$0.0 million for the three and nine months ended September 30, 2020 and 2019. 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 and nine months ended September 30, 2020 and 2019 was offset by changes in the valuation allowance.

***Liquidity and Capital Resources***

As of September 30, 2020, we had \$16.4 million of cash and cash equivalents.

In January 2018, Safeguard announced that, from that date forward, we will not deploy any capital into new opportunities and will focus on supporting our existing ownership interests 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 ownership interests, the sale of certain ownership interests in secondary market transactions, or a combination

thereof, as well as other opportunities to maximize shareholder value.

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, 2019 and the nine months ended September 30, 2020, we did not repurchase any shares under this authorization.

Our ability to generate liquidity from transactions involving our ownership interests has been adversely affected from time to time by adverse circumstances in the U.S. capital markets and other factors, including the impact of COVID-19. We may be required to provide additional capital to our companies, which may cause us to face liquidity issues that will constrain our ability to execute our business strategy and limit our ability to provide financial support to all of our existing companies in the amounts that we desire. 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 companies where we have an ownership interest 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 our ownership interests, 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. Accordingly, the Company could also pursue other sources of capital in order to maintain its liquidity. The Company believes that its cash and cash equivalents at September 30, 2020 will be sufficient to fund operations past one year from the issuance of these financial statements.

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***Analysis of Consolidated Cash Flows***

Cash flow activity was as follows:

	<b>Nine Months Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Variance</b>
	<b>(In thousands)</b>		
Net cash used in operating activities	\$ (7,025)	\$ (18,543)	\$ 11,518
Net cash (used in) provided by investing activities	(1,561)	124,682	(126,243)
Net cash used in financing activities	(30)	(68,778)	68,748
	<u>\$ (8,616)</u>	<u>\$ 37,361</u>	<u>\$ (45,977)</u>

***Net Cash Used In Operating Activities***

Net cash used in operating activities decreased by \$11.5 million for the nine months ended September 30, 2020 compared to the prior year period. The activity during the nine months ended September 30, 2020 was primarily the result of various non-cash adjustments to net loss, including the \$15.6 million of equity loss and \$8.1 million of impairments to Other method ownership interests, which were partially offset by non-cash gains, net, of \$1.5 million for observable price changes. The Company did not make any cash interest payments for the nine months ended September 30, 2020 as compared to \$11.5 million of cash interest payments for the nine months ended September 30, 2019. The activity during the nine months ended September 30, 2019 was primarily the result of various non-cash adjustments to net income, including \$27.5 million of equity income, a \$5.1 million loss from the increase in the fair value of the repayment feature derivative, a \$1.4 million gain for an observable price change, depreciation, and the amortization of debt discount.

***Net Cash (Used in) Provided by Investing Activities***

Net cash (used in) provided by investing activities decreased by \$126.2 million for the nine months ended September 30, 2020 compared to the prior year period. The decrease primarily related to \$99.0 million in proceeds from the sale of Propeller and Transactis in the previous year, offset by the \$6.6 million of proceeds from the sale of Sonobi in the third quarter of 2020. In addition, the Company's investing outflows resulting from deployments and advances to ownership interests during the nine months ended September 30, 2020 were \$5.3 million less than the comparable prior year period. The Company also did not have any marketable security activity during the nine months ended September 30, 2020 as compared to \$37.9 million of marketable securities sales exceeding purchases during the nine months ended September 30, 2019.

***Net Cash Used In Financing Activities***

There were no significant financing activities for the nine months ended September 30, 2020. The primary financing activity during the nine months ended September 30, 2019 was a principal payment of \$68.6 million on its Credit Facility.

**Contractual Cash Obligations and Other Commercial Commitments**

The following table summarizes our contractual obligations and other commercial commitments as of September 30, 2020, by period due or expiration of the commitment.

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>2020 (remainder)</b>	<b>2021 and 2022</b>	<b>2023 and 2024</b>	<b>After 2024</b>
	<b>(In millions)</b>				
<b>Contractual Cash Obligations:</b>					
Operating leases (a)	\$ 3.4	0.2	1.2	1.2	0.8
<b>Total Contractual Cash Obligations (b)</b>	<u>\$ 3.4</u>	<u>\$ 0.2</u>	<u>\$ 1.2</u>	<u>\$ 1.2</u>	<u>\$ 0.8</u>

- (a) In 2015, we entered into an agreement for the lease of our former principal executive offices which expires in April 2026. In March 2019, we entered into a sublease for these offices which is expected to result in future aggregate sublease receipts of \$3.1 million through April 2026.
- (b) The maximum aggregate exposure under employment and severance agreements for remaining employees was approximately \$2.5 million at September 30, 2020 (not reflected in the table above).

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**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 COVID-19 pandemic is adversely affecting the businesses, financial conditions and operating results of the companies in which we have an ownership interest, as well as our ability to monetize such interests, and it may also cause us to increase the amount of additional capital we will need to provide to such companies.*

The current economic and market conditions caused by the COVID-19 pandemic are negatively impacting the companies in which we have ownership interests, including, without limitation, their operations, supply chains, sales infrastructures and the demand for their products and services. This is negatively affecting their businesses, financial conditions and operating results. As a result, we may be required to provide additional capital to such companies, which may cause us to face liquidity issues that will constrain our ability to execute our business strategy and limit our ability to provide financial support to all of our existing companies in the amounts that we desire. We are also experiencing a more challenging mergers and acquisitions market in general for such companies, which has resulted in lower valuation expectations and extended exit timelines for such companies, which, in turn, could negatively affect the amount and timing of the monetization opportunities for such companies and our ability to return value to shareholders.

*The COVID-19 pandemic may adversely affect parties with obligations to us, including the subtenant of our previous office space.*

In March 2019, we entered into a sublease of our prior corporate headquarters office space beginning in June 2019. The term of the sublease is through April 2026, the same as our underlying lease. Fixed sublease payments to us are escalating over the term of the sublease. We remain obligated under the original lease for such office space and, in the event the subtenant of such office space fails to satisfy its obligations under the sublease, we would be required to satisfy our obligations directly to the landlord under such original lease.

*The intended monetization of our company interests and the return of value to shareholders are subject to factors beyond our control.*

In January 2018, we announced that we will not deploy any capital into new companies. We will instead focus on supporting, and maximizing monetization opportunities for, our existing company interests to return value to shareholders. However, this strategic plan may require providing additional capital and operational support to such existing companies and we may not be able to sell our 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 our 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 value resulting from the monetization of existing company interests 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.

*A disposition of one or more of our company interests may occur at a time that will yield less value than if we held such interests for a longer period of time.*

Our companies are at various stages in their lifecycles. The value of our interests in our companies at any point in time is highly dependent on the progress and success such companies have made at such time with respect to the development and marketing of their products and services and that value may fluctuate significantly. In order to effect our strategy of monetizing our interests in our companies, we may dispose of such interests at a time prior to the applicable company reaching its maximum value. Doing so will result in a return of value to shareholders that is less than that which may have been returned if we retained our interests in such company for a longer period of time.

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

If we make poor decisions regarding the deployment of capital into, and subsequent disposition of, our existing companies, our business strategy will not succeed. If such 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 companies include:

- most of our companies have a history of operating losses and/or limited operating history;
- the intense competition affecting the products and services our 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 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 companies; and
- the inability to plan for and manage catastrophic events.

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

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

Our capital deployments could be concentrated in several 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 companies operated in more diversified industries.

***Our business model does not rely upon, or plan for, the receipt of operating cash flows from our companies. Our 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 companies. We also need cash to finance our corporate overhead and meet our existing funding commitments. As a result, we have substantial cash requirements. Our companies do not provide us with cash flow from their operations. To the extent our 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, company liquidity events and new capital raising activities to meet our cash needs. If we are unable to find ways of monetizing our holdings of company interests 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 companies.

***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 companies. If we were to divest all or part of our holdings in a company, we may have to sell our interests at a relative discount to intrinsic value. For 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 company in which we have an interest may be small relative to our holdings. As a result, any significant open-market divestiture by us of our holdings in such a 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 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 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. In connection with our new strategy announced in 2018, we made a series of management changes intended to streamline our organizational structure and reduce our operating costs and since then we have made, and may make, further management changes from time to time. 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 companies participate decline.***

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

***Our 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 companies, we do not maintain a controlling interest in any of our companies. Acquisitions of interests in companies in which we share or have no control, and the dilution of our interests in or a further reduction of our control of companies, will involve additional risks that could cause the performance of our interests and our operating results to suffer, including:

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

Our inability to control our 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 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 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 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 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 company. Our ownership levels also may be affected if our companies are acquired by third parties or if our 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 companies.

### **Risks Related to Our Companies**

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

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

***Our 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 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 companies. This may place our companies at a disadvantage in responding to the offerings of their competitors, technological changes or changes in client requirements. Also, our 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 companies may compete against one another.

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

Our 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 company, sometimes the performance of the technology or device does not match our expectations or those of such company. In those situations, it is likely that we will incur a partial or total loss of the capital which we deployed in such company.

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

If our 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 companies will achieve or maintain market penetration or commercial success, or that the businesses of our 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 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 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 companies may not be able to respond to the marketplace changes in an economically efficient manner, and our companies may become or remain unprofitable.

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

We expect some of our companies to grow rapidly. Rapid growth often places considerable operational, managerial and financial strain on a business. To successfully manage rapid growth, our 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 companies are unable to manage their growth successfully, their ability to respond effectively to competition and to achieve or maintain profitability will be adversely affected.

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***Based on our business model, some or all of our 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 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 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 our 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 companies to fund their operations from other stockholders and capital sources. We also may fail to accurately project the capital needs of companies. If our companies need capital, but are not able to raise capital from us or other outside sources, they may need to cease or scale back operations. In such event, our interest in any such company will become less valuable. If our 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 one or more our companies, holders of such 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 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 company.

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

Many of our 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 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 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 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 companies may be unable to protect their proprietary rights and may infringe on the proprietary rights of others.***

Our companies assert various forms of intellectual property protection. Intellectual property may constitute an important part of our companies' 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 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 companies and the demands of quick delivery of products and services to market, create a risk that our companies' efforts to prevent misappropriation of their technology will prove inadequate.

Some of our 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 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 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 companies incur costly litigation and their personnel are not effectively deployed, the expenses and losses incurred by our companies will increase and their profits, if any, will decrease.

Third parties have and may assert infringement or other intellectual property claims against our companies based on their patents or other intellectual property claims. Even though we believe our 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 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 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 companies could face legal liabilities from claims made against their operations, products or work.***

Because the manufacture and sale of certain company products entail an inherent risk of product liability, certain of our companies maintain product liability insurance. Although none of our current 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 company's financial stability, revenues and results of operations. In addition, many of the engagements of our companies involve projects that are critical to the operation of their clients' businesses. If our 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. Our companies' 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 companies or may not be enforceable. Also, some of our 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 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 companies' success depends on their ability to attract and retain qualified personnel.***

Our companies depend upon their ability to attract and retain senior management and key personnel, including trained technical and marketing personnel. Our companies also will need to continue to hire additional personnel as they expand. Although our current 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 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 companies.***

Manufacturers of 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 companies. If Medicare or private payers change the rates at which our companies or their customers are reimbursed by insurance providers for their products, such changes could adversely impact our companies.

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

Some of our 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 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, the California Consumer Privacy Act and the European General Data Protection Regulation, which impose varying degrees of additional obligations, costs and risks upon such 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 companies, and the failure to comply could negatively affect the operations and results of some of our companies.

***Catastrophic events may disrupt our companies' businesses.***



Some of our 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 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 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 companies from fulfilling customer orders or maintaining certain service level requirements, particularly in respect of their SaaS offerings. While certain of our 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 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.

### **Risks Related to an Investment in our Securities**

#### ***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.

#### ***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 our company interests. As part of such monetization efforts, we will likely in the future, once the majority of our 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.

#### ***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 companies and selling our interests in 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.

### **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, 2019, filed with the SEC on February 28, 2020.

### **Item 4. Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Executive Chairman 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 Executive Chairman and Chief Financial Officer concluded that our disclosure controls and procedures as of September 30, 2020 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 Executive Chairman 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, 2019.

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#### 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 September 30, 2020, 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)
July 1, 2020 - July 31, 2020	—	\$ —	—	\$ 14,636,135
August 1, 2020 - August 31, 2020	—	\$ —	—	\$ 14,636,135
September 1, 2020 - September 30, 2020	1,457	\$ 5.39	—	\$ 14,636,135
Total	1,457	\$ 5.39	—	

- (a) During the third quarter of 2020, the Company repurchased an aggregate of 1 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.

#### Item 3. *Defaults Upon Senior Securities*

None.

#### Item 4. *Mine Safety Disclosures*

Not applicable.

#### Item 5. *Other Information*

None.

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#### 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 †	<a href="#">Certification of Robert J. Rosenthal pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934.</a>
31.2 †	<a href="#">Certification of Mark A. Herndon pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934.</a>
32.1 ‡	<a href="#">Certification of Robert J. Rosenthal pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2 ‡	<a href="#">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.</a>
101	Inline The following materials from Safeguard Scientifics, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline 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).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).
†	Filed herewith
‡	Furnished herewith
*	This exhibit relates to management contracts or compensatory plans, contracts or arrangement in which directors and/or executive officers of the Registrant may participate. Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10) of Regulation S-K.

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#### 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.

Date:	November 9, 2020	SAFEGUARD SCIENTIFICS, INC.
		/s/ Robert J. Rosenthal
		Robert J. Rosenthal
		<i>Executive Chairman</i>
Date:	November 9, 2020	/s/ Mark A. Herndon
		Mark A. Herndon
		<i>Senior Vice President and Chief Financial Officer</i>

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## CERTIFICATION

I, Robert J. Rosenthal, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Safeguard Scientifics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

SAFEGUARD SCIENTIFICS, INC.

Date: November 9, 2020

/s/ Robert J. Rosenthal  
Robert J. Rosenthal  
Executive Chairman

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## CERTIFICATION

I, Mark A. Herndon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Safeguard Scientifics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

SAFEGUARD SCIENTIFICS, INC.

Date: November 9, 2020

/s/ Mark A. Herndon

Mark A. Herndon

Senior Vice President and Chief Financial Officer

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**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Safeguard Scientifics, Inc. ("Safeguard") on Form 10-Q for the nine months ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Rosenthal, Executive Chairman of Safeguard, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, (15 U.S.C. 78m(a)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Safeguard.

SAFEGUARD SCIENTIFICS, INC.

Date: November 9, 2020

/s/ Robert J. Rosenthal  
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Robert J. Rosenthal  
Executive Chairman

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**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Safeguard Scientifics, Inc. ("Safeguard") on Form 10-Q for the nine months ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark A. Herndon, Senior Vice President and Chief Financial Officer of Safeguard, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, (15 U.S.C. 78m(a)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Safeguard.

SAFEGUARD SCIENTIFICS, INC.

Date: November 9, 2020

/s/ Mark A. Herndon

Mark A. Herndon

Senior Vice President and Chief Financial Officer

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