SAFEGUARD SCIENTIFICS INC
Form 10-Q
April 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From ____________ to ___________
Commission File Number 1-5620

Safeguard Scientifics, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	
(State or other jurisdiction of incorporation or organization)	23-1609753 (I.R.S. Employer ID No.)
170 North Radnor-Chester Road Suite 200 Radnor, PA	19087
(Address of principal executive offices)	(Zip Code)

(610) 293-0600
Registrant’s telephone number, including area code

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ
Number of shares outstanding as of April 27, 2016
Common Stock 20,153,261

SAFEGUARD SCIENTIFICS, INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

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

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$28,163	$ 32,838
Marketable securities	10,936	31,020
Prepaid expenses and other current assets	5,159	5,810
Total current assets	44,258	69,668
Property and equipment, net	2,087	2,145
Ownership interests in and advances to partner companies	182,851	171,601
Loan participations receivable	2,627	2,649
Long-term marketable securities	3,250	9,743
Other assets	1,037	1,037
Total Assets	$236,110	$ 256,843
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$220	$ 290
Accrued compensation and benefits	1,748	3,338
Accrued expenses and other current liabilities	3,315	2,789
Total current liabilities	5,283	6,417
Other long-term liabilities	4,030	3,965
Convertible senior debentures	51,344	50,956
Total Liabilities	60,657	61,338
Commitments and contingencies		
Equity:		
Preferred stock, $0.10 par value; 1,000 shares authorized	—	—
Common stock, $0.10 par value; 83,333 shares authorized; 21,573 shares issued at March 31, 2016 and December 31, 2015	2,157	2,157
Additional paid-in capital	818,271	817,434
Treasury stock, at cost; 1,420 and 993 shares at March 31, 2016 and December 31, 2015, respectively	(24,997)	(19,570)
Accumulated deficit	(619,722)	(604,270)
Accumulated other comprehensive loss	(256)	(246)
Total Equity	175,453	195,505
Total Liabilities and Equity	$236,110	$ 256,843

See Notes to Consolidated Financial Statements.

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

	Three months ended March 31,	
	2016	2015
General and administrative expense	$5,228	$4,880
Operating loss	(5,228)	(4,880)
Other income (loss), net	—	(388)
Interest income	420	449
Interest expense	(1,149)	(1,122)
Equity loss	(9,495)	(8,662)
Net loss before income taxes	(15,452)	(14,603)
Income tax benefit (expense)	—	—
Net loss	$(15,452)	$(14,603)
Net loss per share:		
Basic	$(0.76)	$(0.70)
Diluted	$(0.76)	$(0.70)
Weighted average shares used in computing loss per share:		
Basic	20,448	20,861
Diluted	20,448	20,861

See Notes to Consolidated Financial Statements.

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

	Three months ended March 31,	
	2016	2015
Net loss	$(15,452)	$(14,603)
Other comprehensive loss:		
Share of other comprehensive loss of equity method investments	(10)	—
Total comprehensive loss	$(15,462)	$(14,603)

See Notes to Consolidated Financial Statements.

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

	Three months ended March 31, 2016	2015
Cash Flows from Operating Activities:		
Net cash used in operating activities	$(5,840)	$(6,481)
Cash Flows from Investing Activities:		
Proceeds from sales of and distributions from companies	4,194	2,192
Acquisitions of ownership interests in companies	(17,073)	(14,129)
Advances and loans to companies	(7,119)	(8,338)
Repayment of advances and loans to companies	28	28
Increase in marketable securities	—	(9,337)
Decrease in marketable securities	26,602	8,815
Capital expenditures	(22)	(110)
Net cash provided by (used in) investing activities	6,610	(20,879)
Cash Flows from Financing Activities:		
Issuance of Company common stock, net	—	549
Repurchase of Company common stock	(5,445)	—
Net cash provided by (used in) financing activities	(5,445)	549
Net change in cash and cash equivalents	(4,675)	(26,811)
Cash and cash equivalents at beginning of period	32,838	111,897
Cash and cash equivalents at end of period	$28,163	$85,086

See Notes to Consolidated Financial Statements.

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

	Total	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock		Additional Paid-in Capital	Treasury Stock	
				Shares	Amount		Shares	Amount
Balance - December 31, 2015	$195,505	$(604,270)	$(246)	21,573	$2,157	$817,434	993	$(19,570)
Net loss	(15,452)	(15,452)	—	—	—	—	—	—
Repurchase of common stock	(5,445)	—	—	—	—	—	428	(5,445)
Issuance of restricted stock, net	48	—	—	—	—	30	(1)	18
Stock-based compensation expense	807	—	—	—	—	807	—	—
Other comprehensive loss	(10)	—	(10)	—	—	—	—	—
Balance - March 31, 2016	$175,453	$(619,722)	$(256)	21,573	$2,157	$818,271	1,420	$(24,997)

See Notes to Consolidated Financial Statements.

SAFEGUARD SCIENTIFICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

Retrospective Adoption of Accounting Guidance

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

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. The Company adopted the ASU in the first quarter of 2016. As a result of the adoption of ASU No. 2015-03, the Company reclassified its capitalized debt issuance costs previously recorded within Other assets to a contra-liability reducing Convertible senior debentures on the Consolidated Balance Sheets. The reclassification was $0.8 million as of December 31, 2015. The ASU had no effect on the Company's results of operations or liquidity.

2. Ownership Interests in and Advances to Partner Companies

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

	March 31, 2016	December 31, 2015
	(Unaudited - In thousands)	
Equity Method:		
Partner companies	$156,792	$ 150,898
Private equity funds	869	942
	157,661	151,840
Cost Method:		
Partner companies	5,774	5,024
Private equity funds	1,852	1,966
	7,626	6,990
Advances to partner companies	17,564	12,771
	$182,851	$ 171,601

In April 2016, the Company received $3.3 million associated with the achievement of the final performance milestone related to the December 2013 sale of ThingWorx, Inc. to PTC, Inc., resulting in a gain of $3.3 million which is included in Equity income (loss), net in the Consolidated Statements of Operations for the three months ended March 31, 2016. This amount was included in Prepaid expenses and other current assets in the Consolidated Balance Sheets as of March 31, 2016 as the Company was owed such amount as of March 31, 2016. In January 2016, the Company received $4.1 million in connection with the expiration of the escrow period related to the transaction, which was included in Prepaid expenses and other current assets in the Consolidated Balance Sheets as of December 31, 2015 as the Company had earned such amount as of December 31, 2015.

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

3. Acquisitions of Ownership Interests in Partner Companies

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

In March 2016, the Company funded $0.5 million of a convertible loan to NovaSom, Inc. The Company had previously deployed an aggregate of $21.0 million in NovaSom. NovaSom is a medical device company focused on obstructive sleep apnea, specifically home testing with its FDA-cleared wireless device called AccuSom® Home Sleep Test. The Company accounts for its interest in NovaSom under the equity method.

In March and January 2016, the Company deployed an aggregate of $4.0 million into Full Measure Education, Inc. The Company had previously deployed $4.0 million in Full Measure. Full Measure is a technology company dedicated to the higher education industry. The Company accounts for its interest in Full Measure under the equity method.

In January 2016, the Company funded $1.0 million of a convertible bridge loan to AppFirst, Inc. The Company had previously deployed an aggregate of $11.6 million in AppFirst. AppFirst's patented technology provides enterprises with continuous and complete visibility into all the applications and supporting resources in their IT ecosystem, regardless of infrastructure. The Company accounts for its interest in AppFirst under the equity method.

In January 2016, the Company deployed an additional $4.4 million into WebLinc, Inc. The Company had previously deployed an aggregate of $6.6 million in WebLinc. WebLinc is a commerce platform provider for fast growing online retailers. The Company accounts for its interest in WebLinc under the equity method.

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

In January 2016, the Company deployed an additional $1.0 million into InfoBionic, Inc. The Company had previously deployed an aggregate of $9.5 million in InfoBionic. InfoBionic is an emerging digital health company focused on creating patient monitoring solutions for chronic disease management with an initial market focus on cardiac arrhythmias. The Company accounts for its interest in InfoBionic under the equity method.

In January 2016, the Company deployed an additional $7.5 million into Syapse, Inc. The Company had previously deployed $5.8 million in Syapse. Syapse is a software company that enables healthcare providers to deploy precision medicine programs. The Company accounts for its interest in Syapse under the equity method.

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

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 March 31, 2016 and December 31, 2015:

	Carrying Value	Fair Value Measurement at March 31, 2016		
		Level 1	Level 2	Level 3
	(Unaudited - In thousands)			
Cash and cash equivalents	$28,163	$28,163	$ —	$ —
Marketable securities—held-to-maturity:				
Government agency bonds	$614	$614	$ —	$ —
Certificates of deposit	13,572	13,572	—	—
Total marketable securities	$14,186	$14,186	$ —	$ —

	Carrying Value	Fair Value Measurement at December 31, 2015		
		Level 1	Level 2	Level 3
	(Unaudited - In thousands)			
Cash and cash equivalents	$32,838	$32,838	$ —	$ —
Marketable securities—held-to-maturity:				
Government agency bonds	$1,329	$1,329	$ —	$ —
Certificates of deposit	39,434	39,434	—	—
Total marketable securities	$40,763	$40,763	$ —	$ —

As of March 31, 2016, $10.9 million of marketable securities had contractual maturities which were less than one year and $3.3 million of marketable securities had contractual maturities greater than one year. Held-to-maturity securities are carried at amortized cost, which, due to the short-term maturity of these instruments, approximates fair value using quoted prices in active markets for identical assets or liabilities defined as Level 1 inputs under the fair value hierarchy.

5. Convertible Debentures and Credit Arrangements

Convertible Senior Debentures

In November 2012, the Company issued $55.0 million principal amount of its 5.25% convertible senior debentures due 2018 (the "2018 Debentures"). The 2018 Debentures may be settled in cash or partially in cash upon conversion. Accordingly, the Company separately accounts for the liability and equity components of the 2018 Debentures. The carrying amount of the liability component was determined at the transaction date by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented by the embedded conversion option was determined by deducting the fair value of the liability component from the initial proceeds of the 2018 Debentures as a whole. At March 31, 2016, the fair value of the $55.0 million outstanding 2018 Debentures was approximately $58.0 million, based on the midpoint of the bid and ask prices as of such date. At March 31, 2016, the carrying amount of the equity component was $6.4 million, the principal amount of the liability component was $55.0 million, the unamortized discount was $2.9 million, unamortized debt issuance costs were $0.7 million and the net carrying value of the liability component was $51.3 million. The Company is amortizing the excess of the face value of the 2018 Debentures over their carrying value over their

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

term as additional interest expense using the effective interest method and recorded $0.3 million of such expense for the three months ended March 31, 2016 and 2015. The effective interest rate on the 2018 Debentures is 8.7%.

Credit Arrangements

The Company is party to a loan agreement with a commercial bank which provides it with a revolving credit facility in the maximum aggregate amount of $25.0 million in the form of borrowings, guarantees and issuances of letters of credit, subject to a $20.0 million sublimit. Actual availability under the credit facility is based on the amount of cash maintained at the bank as well as the value of the Company's public and private partner company interests. This credit facility bears interest at the prime rate for outstanding borrowings, subject to an increase in certain circumstances. Other than for limited exceptions, the Company is required to maintain all of its depository and operating accounts at the bank. The credit facility, as amended December 29, 2015, matures on December 19, 2016. Under the credit facility, the Company provided a $6.3 million letter of credit expiring on March 19, 2019 to the landlord of CompuCom Systems, Inc.'s Dallas headquarters which was required in connection with the sale of CompuCom Systems in 2004. Availability under the Company's revolving credit facility at March 31, 2016 was $18.7 million.

6. Stock-Based Compensation

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

	Three months ended March 31,	
	2016	2015
	(Unaudited - In thousands)	
General and administrative expense	$ 807	$ 257
	$ 807	$ 257

The fair value of the Company's option awards to employees was estimated at the date of grant using the Black-Scholes option-pricing model. The risk-free rate was based on the U.S. Treasury yield curve in effect at the end of the quarter in which the grant occurred. The expected term of stock options granted was estimated using the historical exercise behavior of employees. Expected volatility was based on historical volatility measured using weekly price observations of the Company's common stock for a period equal to the stock option's expected term.

At March 31, 2016, the Company had outstanding options that vest based on three different types of vesting schedules:

1) performance-based;
2) market-based; and
3) service-based.

Performance-based awards entitle participants to vest in a number of awards determined by achievement by the Company of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies. Vesting may occur, if at all, once per year. The requisite service periods for the performance-based awards are based on the Company's estimate of when the performance conditions will be met. Compensation expense is recognized for performance-based awards for which the performance condition is considered probable of achievement. Compensation expense is recognized over the requisite service periods using the straight-line method but is accelerated if capital return targets are achieved earlier than estimated. During the three months ended March 31, 2016 and 2015, the Company did not issue any performance-based options to employees. During the three months ended March 31, 2016 and 2015, no performance-based options vested. During the three months ended March 31, 2016 and 2015, no performance-based options were canceled or forfeited. The Company recorded compensation expense related to performance-based options of $0.2 million and $0.0 million for the three months ended March 31, 2016 and 2015, respectively. The maximum number of unvested shares at March 31, 2016 attainable under these grants was 453 thousand shares.

Market-based awards entitle participants to vest in a number of options determined by achievement by the Company of certain target market capitalization increases (measured by reference to stock price increases on a specified number of outstanding shares) over an eight-year period. During the three months ended March 31, 2016 and 2015, the Company did not issue any market-based options to employees. During the three months ended March 31, 2016 and 2015, no market-based options vested. During the three months ended March 31, 2016 and 2016, no market-based options were canceled or forfeited. There is no further expense to be recognized related to market-based options. Depending on the Company’s stock performance, the maximum number of unvested shares at March 31, 2016 attainable under these grants was 136 thousand shares.

All other outstanding options are service-based awards that generally vest over four years after the date of grant and expire eight years after the date of grant. Compensation expense is recognized over the requisite service period using the straight-line method. The requisite service period for service-based awards is the period over which the award vests. During the three months ended March 31, 2016 and 2015, the Company issued 1 thousand and 13 thousand service-based options, respectively, to employees. During the three months ended March 31, 2016 and 2015, 8 thousand and 6 thousand service-based options, respectively, were canceled or forfeited. The Company recorded compensation expense related to service-based options of $0.0 million and $0.1 million for the three months ended March 31, 2016 and 2015, respectively.

Performance-based stock units vest based on achievement by the Company of target capital returns based on net cash proceeds received by the Company on the sale, merger or other exit transaction of certain identified partner companies, as described above related to performance-based awards. Performance-based stock units represent the right to receive shares of the Company's common stock, on a one-for-one basis. During the three months ended March 31, 2016 and 2015, the Company did not issue any performance-based stock units to employees. Under the 2015 and 2014 performance-based award plans, once performance-based stock units are fully vested, participants are entitled to receive cash payments based on their initial performance grant values as target capital returns described above are exceeded. At March 31, 2016, the liability associated with such potential cash payments was $0.0 million.

During the three months ended March 31, 2016 and 2015, the Company issued 5 thousand and 2 thousand deferred stock units, respectively, to non-employee directors for annual service grants or fees earned during the preceding quarter. Deferred stock units issued to directors in lieu of directors fees are 100% vested at the grant date; matching deferred stock units equal to 25% of directors' fees deferred vest one year following the grant date or, if earlier, upon reaching age 65. Deferred stock units are payable in stock on a one-for-one basis. Payments related to the deferred stock units are generally distributable following termination of employment or service, death or permanent disability.

During the three months ended March 31, 2016 and 2015, the Company did not issue any restricted stock awards.

Total compensation expense for deferred stock units, performance-based stock units and restricted stock was $0.6 million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively.

7. Income Taxes

The Company's consolidated income tax benefit (expense) was $0.0 million for the three months ended March 31, 2016 and 2015. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized in the three months ended March 31, 2016 and 2015 was offset by changes in the valuation allowance. During the three months ended March 31, 2016, the Company had no material changes in uncertain tax positions.

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

8. Net Loss Per Share

The calculations of net loss per share were as follows:

	Three months ended March 31,	
	2016	2015
	(Unaudited - In thousands, except per share data)	
Basic:		
Net loss	$ (15,452)	$ (14,603)
Weighted average common shares outstanding	20,448	20,861
Net loss per share	$ (0.76)	$ (0.70)
Diluted:		
Net loss	$ (15,452)	$ (14,603)
Weighted average common shares outstanding	20,448	20,861
Net loss per share	$ (0.76)	$ (0.70)

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

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

Diluted earnings per share for the three months ended March 31, 2016 and 2015 do not reflect the following potential shares of common stock that would have an anti-dilutive effect or have unsatisfied performance or market conditions:

- At March 31, 2016 and 2015, options to purchase 1.1 million and 1.3 million shares of common stock, respectively, at prices ranging from $7.14 to $19.95 for both periods were excluded from the calculations.
- At March 31, 2016 and 2015, unvested restricted stock, performance-based stock units and DSUs convertible into 0.7 million and 0.4 million shares of stock, respectively, were excluded from the calculations.
- At March 31, 2016 and 2015, 3.0 million shares of common stock, representing the effect of the assumed conversion of the 2018 Debentures, were excluded from the calculations.

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

9. Operating Segments
As of March 31, 2016, the Company held interests in 29 non-consolidated partner companies which are included in the Healthcare and Technology segments. The Company's active partner companies by segment were as follows as of March 31, 2016:
Healthcare

Partner Company	Safeguard Primary Ownership as of March 31, 2016	Accounting Method
AdvantEdge Healthcare Solutions, Inc.	40.1%	Equity
Aventura, Inc.	19.9%	Equity
Good Start Genetics, Inc.	29.6%	Equity
InfoBionic, Inc.	39.8%	Equity
Medivo, Inc.	34.5%	Equity
meQuilibrium	31.5%	Equity
NovaSom, Inc.	31.7%	Equity
Propeller Health, Inc.	24.5%	Equity
Putney, Inc.	28.2%	Equity
Syapse, Inc.	29.2%	Equity
Trice Medical, Inc.	27.7%	Equity
Zipnosis, Inc.	26.2%	Equity

Technology

Partner Company	Safeguard Primary Ownership as of March 31, 2016	Accounting Method
AppFirst, Inc.	34.2%	Equity
Apprenda, Inc.	29.5%	Equity
Beyond.com, Inc.	38.2%	Equity
Bridgevine, Inc.	17.1%	Cost
Cask Data, Inc.	34.2%	Equity
CloudMine, Inc.	30.1%	Equity
Clutch Holdings, Inc.	38.5%	Equity
Full Measure Education, Inc.	36.0%	Equity
Hoopla Software, Inc.	25.6%	Equity
Lumesis, Inc.	44.4%	Equity
MediaMath, Inc.	20.5%	Equity
Pneuron Corporation	35.4%	Equity
QuanticMind, Inc.	23.6%	Equity
Sonobi, Inc.	22.6%	Equity
Spongecell, Inc.	23.0%	Equity
Transactis, Inc.	24.3%	Equity
WebLinc, Inc.	38.0%	Equity

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

14

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

Other Items include certain expenses which are not identifiable to the operations of the Company’s operating segments. Other Items primarily consist of general and administrative expenses related to corporate operations, including employee compensation, insurance and professional fees, including legal and finance, interest income, interest expense and other income (loss), equity income (loss) related to certain private equity fund ownership interests and income taxes. Other Items also include interest earned on mezzanine loans, gain (loss) on the mark-to-market of our warrant participations, and impairment on debt and equity participation interests in which the Company participates with Penn Mezzanine as well as equity income (loss) associated with the Company's interest in the management company and general partner of Penn Mezzanine, a mezzanine lender focused on lower middle-market, Mid-Atlantic companies. Penn Mezzanine is not making any new loans and has two remaining loans in which the Company has participating interests.

As of March 31, 2016 and December 31, 2015, all of the Company’s assets were located in the United States. Segment assets in Other Items included primarily cash, cash equivalents, and marketable securities totaling $42.3 million and $73.6 million at March 31, 2016 and December 31, 2015, respectively.

	Three months ended March 31, 2016				
	Healthcare	Technology	Total Segments	Other Items	Total
	(Unaudited - In thousands)				
Operating loss	$—	$ —	$ —	$(5,228)	$(5,228)
Equity income (loss)	(4,996)	(4,500)	(9,496)	1	(9,495)
Net loss	(4,996)	(4,500)	(9,496)	(5,956)	(15,452)
Segment Assets:					
March 31, 2016	57,351	126,043	183,394	52,716	236,110
December 31, 2015	53,332	119,442	172,774	84,069	256,843

	Three months ended March 31, 2015				
	Healthcare	Technology	Total Segments	Other Items	Total
	(Unaudited - In thousands)				
Operating loss	$—	$ —	$ —	$(4,880)	$(4,880)
Other income (loss), net	(239)	—			