SIGNATURE GROUP HOLDINGS, INC.
Form 10-Q
December 29, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2011
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 001-08007

SIGNATURE GROUP HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	95-2815260 (I.R.S. Employer Identification Number)
15303 Ventura Blvd., Ste. 1600 Sherman Oaks, California 91403 (Address of Principal Executive Offices)(Zip Code)	(805) 435-1255 (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 90days.þ Yes o No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, 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). R Yes £ No

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

o Large Accelerated Filer	o Accelerated Filer
o Non-Accelerated Filer (Do not check if a smaller reporting company)	þ Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).£ Yes R No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.þ Yes o No

The number of shares outstanding of the registrant's common stock as of December 20, 2011 was 117,431,856 shares.

Table of Contents

SIGNATURE GROUP HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarterly Period Ended September 30, 2011

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statement of Changes in Shareholders’ Equity	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Comprehensive Loss	5
Notes to Unaudited Consolidated Financial Statements	- 6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3. Quantitative and Qualitative Disclosures About Market Risks	57
Item 4. Controls and Procedures	57
PART II OTHER INFORMATION	59
Item 1. Legal Proceedings	59
Item 1A. Risk Factors	61
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	61
Item 3. Defaults Upon Senior Securities	61
Item 4. Reserved	61
Item 5. Other Information	61
Item 6. Exhibits	62

Table of Contents

EXPLANATORY NOTE

Signature Group Holdings, Inc. ("Signature," formerly Fremont General Corporation ("Fremont"), or "Company", "we," "us" or "our") is filing this Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2011 (the "Form 10-Q") as part of its efforts to become current in its filing obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). With the filing of this Form 10-Q, the Company is now current in its Exchange Act periodic reporting.

On June 18, 2008 (the "Petition Date"), Fremont filed a voluntary petition for relief under Chapter 11 of Title 11 of the U.S. Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Central District of California, Santa Ana Division (the "Bankruptcy Court"). Prior to filing for bankruptcy protection, Fremont was not current in its annual and quarterly periodic reporting requirements under Section 13 of the Exchange Act and did not file its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 nor its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008. While under the jurisdiction of the Bankruptcy Court, Fremont did not file subsequent Annual Reports on Form 10-K for the fiscal years ended December 31, 2008 and 2009, nor its Quarterly Reports on Form 10-Q for the quarterly periods ended June 30, 2008, September 30, 2008, March 31, 2009, June 30, 2009, September 30, 2009 and March 31, 2010 (collectively, the "Prior Delinquent Filings").

Fremont emerged from bankruptcy on June 11, 2010 and our new management team and Board of Directors immediately set upon a corporate initiative to return the Company to compliance with its Exchange Act reporting obligations. With a focus on preparing the Prior Delinquent Filings, the Company was not able to timely file with the Securities and Exchange Commission ("SEC") its Annual Report on Form 10-K for the fiscal year ended December 31, 2010 as well as its Quarterly Reports for the quarterly periods ended June 30, 2010; September 30, 2010; March 31, 2011; June 30, 2011; and September 30, 2011.

On May 17, 2011, Signature filed a Comprehensive Annual Report on Form 10-K (the "Comprehensive Form 10-K") that included, in one comprehensive filing, business and financial information for the fiscal years ended December 31, 2009, 2008 and 2007; selected, unaudited quarterly financial information of the Company for the fiscal years 2009 and 2008, which had not been previously filed with the SEC; as well as certain disclosures of subsequent events pertaining to material events occurring up until the date of filing of the Comprehensive Form 10-K.

On July 5, 2011, Signature filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2010 contemporaneously with the Company's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2010, June 30, 2010, and September 30, 2010, which had not been previously filed.

On September 29, 2011, Signature filed its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which had not been previously filed.

On December 12, 2011, Signature filed its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, which had not been previously filed.

For a more complete understanding of the matters involving the Company, this Form 10-Q should be read together with the Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Signature Group Holdings, Inc.
Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 46,977	$ 70,424
Investment securities, available for sale	4,961	2,184
Loans receivable, net	8,216	1,967
Trade and other receivables, net	4,997	198
Inventories	8,577	-
Income taxes receivable	845	797
Intangible assets, net	8,617	-
Goodwill	18,381	-
Other assets	2,030	2,713
Assets of discontinued operations	45,503	57,261
TOTAL ASSETS	$ 149,104	$ 135,544
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Lines of credit	$ 4,680	$ -
Accrued expenses and other liabilities	6,123	2,033
Contingent consideration	3,525	-
Long-term debt	52,000	39,000
Common stock warrant liability	2,224	5,700
Liabilities of discontinued operations	13,676	15,090
TOTAL LIABILITIES	82,228	61,823
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock, $0.01 par value; 10,000 shares authorized; none issued or outstanding	-	-
Common stock, $0.01 par value; 190,000,000 shares authorized; 117,431,856 and 112,104,768 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	1,151	1,118
Additional paid-in capital	446,420	444,103
Accumulated deficit	(380,633)	(371,541)
Accumulated other comprehensive (loss) income	(69)	41
Total shareholders' equity - Signature Group Holdings, Inc.	66,869	73,721
Noncontrolling interest	7	-
TOTAL SHAREHOLDERS' EQUITY	66,876	73,721
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 149,104	$ 135,544

See accompanying notes to consolidated financial statements.

1

Table of Contents

Signature Group Holdings, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2011	2010	2011	2010
Revenues:				
Net sales	$6,309	$-	$7,149	$-
Interest	303	62	731	237
Total revenues	6,612	62	7,880	237
Expenses:				
Cost of goods sold	3,772	-	4,293	-
Selling, general and administrative	1,517	876	4,146	3,202
Interest	952	892	2,746	3,189
Amortization of intangibles	649	-	752	-
Compensation	1,954	478	2,996	1,403
Professional fees	1,945	781	4,480	1,325
Total expenses	10,789	3,027	19,413	9,119
Other income (expense):				
Change in fair value of common stock warrant liability	2,803	249	3,476	428
Gain on acquisition	-	-	281	-
Other income	1,412	-	1,412	86
Total other income (expense)	4,215	249	5,169	514
Earnings (loss) from continuing operations before reorganization items, net and income taxes	38	(2,716)	(6,364)	(8,368)
Reorganization items, net	63	794	1,388	10,844
Loss from continuing operations before income taxes	(25)	(3,510)	(7,752)	(19,212)
Income tax benefit	(2,650)	-	(2,762)	-
Earnings (loss) from continuing operations	2,625	(3,510)	(4,990)	(19,212)
Loss from discontinued operations, net of income taxes	(1,381)	(6,026)	(4,195)	(12,302)
Net earnings (loss)	1,244	(9,536)	(9,185)	(31,514)
Loss attributable to noncontrolling interest	(31)	-	(93)	-
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$1,275	$(9,536)	$(9,092)	$(31,514)
EARNINGS (LOSS) PER SHARE:				
Basic and diluted:				
Earnings (loss) from continuing operations	$0.02	$(0.03)	$(0.04)	$(0.21)
Loss from discontinued operations, net of income taxes	(0.01)	(0.06)	(0.04)	(0.13)
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$0.01	$(0.09)	$(0.08)	$(0.34)

See accompanying notes to consolidated financial statements.

2

Table of Contents

Signature Group Holdings, Inc.
Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)

	Preferred Stock		Common Stock						
(Dollars in thousands)	Number of Outstanding Shares	Amount	Number of Outstanding Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance, December 31, 2010	-	$ -	112,104,768	$ 1,118	$ 444,103	$ (371,541)	$ 41	$ -	$ 73,721
Net loss attributable to Signature Group Holdings, Inc.	-	-	-	-	-	(9,092)	-	-	(9,092)
Noncontrolling interest from acquisition	-	-	-	-	-	-	-	100	100
Loss attributable to noncontrolling interest	-	-	-	-	-	-	-	(93)	(93)
Issuance of shares in business combination	-	-	3,012,048	30	1,807	-	-	-	1,837
Proceeds from common stock warrants	-	-	-	-	60	-	-	-	60
Issuance of restricted stock, net of forfeitures	-	-	2,315,040	-	-	-	-	-	-
Restricted stock vested	-	-	-	3	(3)	-	-	-	-
Amortization of share-based compensation	-	-	-	-	453	-	-	-	453
Change in accumulated other comprehensive income	-	-	-	-	-	-	(110)	-	(110)
Balance, September 30, 2011	-	$ -	117,431,856	$ 1,151	$ 446,420	$ (380,633)	$ (69)	$ 7	$ 66,876

See accompanying notes to consolidated financial statements.

Table of Contents

Signature Group Holdings, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flows from operating activities:		
Net loss	$(9,185)	$(31,514)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations, net of income taxes	4,195	12,302
Depreciation and amortization	606	85
Impairment of investment securities, available for sale	-	55
Change in fair value of common stock warrant liability	(3,476)	(428)
Provision for loan losses	2	38
Gain on extinguishment of debt - TOPrS	-	(3,530)
Gains on sales and calls of investment securities, available for sale	(71)	-
Gain on sale of premises	(1,388)	-
Senior debt claims paid	-	(183,267)
Amortization of share-based compensation	453	-
TOPrS claims paid	-	(45,000)
Gain on acquisition	(281)	-
Interest income accretion	(219)	-
Changes in assets and liabilities:		
Trade and other receivables	892	-
Inventories	(373)	-
Income taxes receivable	(48)	94
Other assets	(785)	(315)
Accrued expenses and other liabilities	(1,846)	1,763
Net cash used in operating activities of discontinued operations	(3,796)	(70,608)
Net cash used in operating activities	(15,320)	(320,325)
Cash flows from investing activities:		
Acquisition of businesses, net of cash	(24,248)	-
Purchases of loans receivable	(4,250)	-
Proceeds from investment securities, available for sale	2,000	-
Purchase of investment securities, available for sale	(4,715)	(2,154)
Proceeds from sale of premises	3,759	-
Advances on loans receivable, net of repayments	(1,782)	107
Purchases of property and equipment	(7)	-
Net cash provided by investing activities of discontinued operations	9,494	7,491
Net cash (used in) provided by investing activities	(19,749)	5,444
Cash flows from financing activities:		
Borrowings on lines of credit, net of repayments	3,111	-
Borrowings from Term Loan	8,000	-
Proceeds from common stocks warrants	60	-
Issuance of shares and warrants	-	10,060
Net cash provided by financing activities	11,171	10,060

Decrease in cash and cash equivalents	(23,898)	(304,821)
Cash and cash equivalents, beginning of period	70,992	356,223
Cash and cash equivalents, end of period	$47,094	$51,402
Cash and cash equivalents, end of period - continuing operations	$46,977	$50,950
Cash and cash equivalents, end of period - discontinued operations	117	452
Cash and cash equivalents, end of period	$47,094	$51,402
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$490	$495
Cash paid for interest	2,688	24,158
Notes payable issued as partial settlement of TOPrS	-	39,000
Common stock issued as partial settlement of TOPrS	-	16,800
Transfers of loans held for sale to real estate owned	1,365	9,600
Transfer of other assets to premises, held for sale	2,348	-

See accompanying notes to consolidated financial statements.

Table of Contents

Signature Group Holdings, Inc.
Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2011	2010	2011	2010
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$1,275	$(9,536)	$(9,092)	$(31,514)
Other comprehensive loss:				
Net change in unrealized losses during period:				
Investment securities, available for sale	(57)	(6)	(39)	(6)
Reclassification of realized amounts included in net earnings (loss)	(71)	-	(71)	-
Other comprehensive loss	(128)	(6)	(110)	(6)
Total comprehensive earnings (loss)	$1,147	$(9,542)	$(9,202)	$(31,520)

See accompanying notes to consolidated financial statements.

Table of Contents

Signature Group Holdings, Inc.
Notes to Unaudited Consolidated Financial Statements

NOTE 1 — BUSINESS AND OPERATIONS

Signature Group Holdings, Inc. (“Signature” or the “Company”), formerly known as Fremont General Corporation (“Fremont”), is a diversified business and financial services enterprise that intends to generate strong, risk-adjusted return on equity while protecting shareholder capital. Signature presently operates in two primary business lines: (i) Special Situation Lending and (ii) Strategic Acquisitions, through its subsidiaries, Signature Credit Partners, Inc., North American Breaker Co., Inc. (“NABCO”) and Cosmed, Inc. (“Cosmed”). Additionally, Signature maintains and is managing certain assets and liabilities related to Fremont’s former businesses, which include a portfolio of subprime residential real estate mortgages, residential real estate, commercial real estate investments and litigation claims under fidelity insurance bonds Fremont held (“Legacy Assets”). The Legacy Assets are being managed to maximize cash recoveries and value for Signature’s shareholders and are expected to be redeployed into its long term business strategy over time.

NOTE 2 — FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements of Signature and its wholly-owned and majority-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. The Company evaluates subsequent events through the date of filing with the SEC. Operating results for the three and nine months ended September 30, 2011 are not indicative of the results that may be expected for the year ending December 31, 2011, particularly related to acquisition activity during the period. These interim period consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2010, which are included in the Company’s Annual Report on Form 10-K (the “Annual Report”).

All significant inter-company balances and transactions have been eliminated in consolidation.

Certain previously reported amounts as of December 31, 2010 and for the periods ended September 30, 2010 have been reclassified to conform to the current period presentation.

Use of Estimates
The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain of the accounts that require significant judgment by management include valuation of loans held for sale, commercial real estate investments, real estate owned, common stock warrant liability and contingent consideration; the allowance for loan losses on loans receivable; litigation and repurchase reserves; impairment of long-lived assets; valuation allowance on deferred tax assets; and fair values used in the allocation of purchase price in business combinations.

The Company’s significant accounting policies are disclosed in the Annual Report. There have been no material changes to these accounting policies, except as described below.

Business Combinations

Business combinations are accounted for using the acquisition method and accordingly, the assets and liabilities of the acquired business are recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. The excess of the estimated fair values of the net assets acquired over the purchase price is recorded as a gain on acquisition. Any changes in the estimated fair values of the net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed a reasonable period of time (generally one year from the date of acquisition), will change the amount of the purchase price allocable to goodwill or gain on acquisition.

Table of Contents

The Company estimates and records the acquisition date estimated fair value of contingent consideration as part of purchase price consideration. Additionally, each reporting period, the Company estimates changes in the fair value of contingent consideration and any change in fair value is recognized in the Company's consolidated statements of operations. An increase in the expected earn-out will result in a charge to operations in the quarter the anticipated fair value of contingent consideration increases, while a decrease in the expected earn-out will result in a credit to operations in the quarter the anticipated fair value of contingent consideration decreases. The estimate of the fair value of contingent consideration requires subjective assumptions to be made about future operating results, discount rates, and probabilities of various projected operating result scenarios. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and, therefore, materially affect the Company's future financial results.

Acquisition costs are expensed as incurred. The results of operations of acquired businesses are included in the Company's consolidated financial statements from the acquisition date.

Goodwill and Intangibles
Identifiable intangible assets and liabilities with finite lives are amortized over their estimated useful lives, which represent the period over which the asset or liability is expected to contribute directly or indirectly to future cash flows. Intangible assets and liabilities with finite lives are reviewed for impairment whenever events and circumstances indicate the carrying value of such asset or liability may not be recoverable. Goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis, or sooner if an indicator of impairment is present. Tests for impairment or recoverability require significant management judgment, and future events affecting cash flows and market conditions could result in impairment losses.

Revenue Recognition
Revenues from product sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of the risk of loss related to those goods. Revenues are reported on a net sales basis, which is computed by deducting from gross sales amounts related to product returns, discounts and allowances.

Inventories
Inventories, consisting of manufactured goods and goods acquired for resale, are stated at the lower of cost or market. Inventory costs are determined on a first-in, first-out basis for consumer products and on a moving average historical cost basis for electrical components.

Loans Receivable, Net
Loans receivable, net, consists of commercial real estate loans, commercial lines of credit and purchased credit-impaired commercial term loans. Loans receivable, net are reported at the principal amount outstanding, net of deferred fees and costs, if any, discounts or premiums and the allowance for loan losses. The allowance for loan losses is increased by provisions charged against operations and reduced by loan amounts charged off by the Company. The allowance is maintained at a level considered adequate to provide for probable and inherent losses on loans receivable based on the Company's evaluation of the portfolio. Future additions or reductions may be necessary based on changes in the amounts and timing of expected future cash flows due to changes in collateral values supporting loans receivable, general economic conditions and the financial condition of individual borrowers. Loans receivable, net, including purchased credit-impaired loans, are classified as held for investment based on the Company's intent and ability to hold such loans for the foreseeable future.

Purchased credit-impaired loans are loans acquired at a discount to face value where, at the acquisition date, based on the credit quality of the borrower, the Company expects to collect less than the contractual amounts due under the terms of the loan. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, the excess of

the cash flows expected to be collected over the initial investment is referred to as the accretable yield and is recognized in interest income over the expected life of the loans using the effective yield method. The excess of contractual cash flows over cash flows expected to be collected at acquisition is referred to as the non-accretable difference and is not recognized as an adjustment of yield, loss accrual, or valuation allowance. Subsequent increases in cash flows expected to be collected are recognized prospectively through adjustment of the loan's yield over its remaining life. Subsequent decreases in cash flows expected to be collected are evaluated to determine whether the loan is impaired.

Premises, Held for Sale

Assets are classified as held for sale when (i) management commits to a plan to sell which is actively being pursued; (ii) it is available for immediate sale in its present condition and the sale is expected to be completed within one year; and (iii) it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. In isolated instances, assets held for sale may exceed one year due to events or circumstances beyond the Company's control. Upon being classified as held for sale, the recoverability of the carrying value must be assessed. Assets held for sale are reported at the lower of the carrying value or fair value less cost to sell ("net realizable value"), and the assets are no longer depreciated or amortized. An impairment charge is recognized if the carrying value exceeds the net realizable value.

Table of Contents

During the first quarter of 2011, the Company placed its former executive and administrative offices located in Anaheim Hills, California for sale. At the time the property was placed for sale, it was reclassified as premises held for sale in the consolidated balance sheets. No impairment was recognized at the time of transfer as the carrying value of the associated building and land was less than the net realizable value. During the third quarter of 2011, the Company sold the property for net proceeds of $3.8 million, resulting in a gain of $1.4 million, included in other income (expense) in the accompanying consolidated statements of operations.

Recent Accounting Standards

In December 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-29 ("ASU 2010-29") Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations. ASU 2010-29 requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendments in ASU 2010-29 are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of ASU 2010-29 on January 1, 2011 did not have any impact on the Company's consolidated financial statements as it only affected disclosures.

In April 2011, the FASB issued ASU No. 2011-02 Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring ("ASU 2011-02"). ASU 2011-02 provides creditors with additional guidance in determining whether a restructuring constitutes a troubled debt restructuring by concluding that both the following conditions exist (1) a creditor has granted a concession, and (2) the borrower is experiencing financial difficulties. Additionally, ASU 2011-02 ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011, and is required to be applied retrospectively to the beginning of the annual period of adoption. The adoption of ASU 2011-02 did not have a significant impact on its consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 increases the prominence of other comprehensive income in financial statements. Under ASU 2011-05, companies will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity and is applied retrospectively. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-05 to have a significant impact on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment ("ASU 2011-08"). ASU 2011-08 simplifies how entities test goodwill for impairment by permitting entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011. The Company does not expect the adoption of ASU 2011-08 to have a significant impact on its consolidated financial statements.

NOTE 3 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents are held in non-interest bearing deposit accounts in financial institutions and money market funds. As of September 30, 2011 and December 31, 2010, $2.9 million of cash and cash equivalents were restricted, including $0.9 million related to amounts on deposit securing a letter of credit associated with insurance policies; and $2.0 million related to amounts on deposit pending a decision on a legal case currently on appeal. No other cash and cash equivalents were restricted as of September 30, 2011 and December 31, 2010. Included in cash and cash equivalents as of September 30, 2011 and December 31, 2010 was $1.1 million and $2.5 million, respectively, representing borrower remittances, held in trust accounts maintained by the Company's loan servicer.

Table of Contents

NOTE 4 — BUSINESS COMBINATIONS

NABCO

On July 29, 2011, Signature acquired 100% of the common stock of NABCO. NABCO, headquartered in Burbank, California, is a nationwide quick-turn supplier of circuit breakers that maintains a significant depth of certified, new product inventory used in various commercial, industrial and residential applications, including products that have been discontinued by the manufacturer and are no longer broadly available. NABCO operates from five distribution centers across the country to offer customers quick and reliable delivery nationwide in the repair and replacement niche. The total consideration paid at the closing of the transaction was $36.9 million, which included a cash payment of approximately $23.4 million, the issuance of $5.0 million in subordinated, unsecured promissory notes ("Seller Notes"), the issuance of Signature common stock with a fair value of $1.8 million, the assumption of $3.1 million in liabilities and a $3.5 million estimated liability for contingent consideration. The former NABCO shareholders may earn contingent consideration of up to $4.0 million, subject to the achievement of certain earnings before interest, taxes, depreciation, and amortization milestones for the fiscal year ended December 31, 2012. At the time of acquisition, the Company identified temporary differences related to the book basis and tax basis of the acquired identifiable assets and assumed liabilities and recorded a deferred tax liability of $2.7 million. The recognition of this $2.7 million deferred tax liability resulted in a reduction in the valuation allowance against the Company's deferred tax assets. In addition, the Company recorded acquisition related transaction costs of approximately $0.2 million.

Table of Contents

The following table presents the components of the purchase consideration and allocation of the purchase consideration to the estimated fair value of the assets acquired and liabilities assumed:

(Dollars in thousands)	
Cash consideration	$23,413
Signature Group Holdings, Inc. common stock	1,837
Seller Notes	5,000
Assumption of liabilities	3,149
Contingent consideration	3,478
Total purchase consideration	$36,877
Purchase price allocation:	
Assets:	
Cash	$165
Trade receivables	5,119
Inventories	6,800
Other assets	1,012
Identifiable intangible assets	8,150
Total assets	21,246
Liabilities:	
Identifiable intangible liabilities	100
Deferred income tax liabilities	2,650
Total liabilities	2,750
Estimated fair value of net assets acquired	18,496
Goodwill	18,381
Total purchase consideration	$36,877

The following table presents the estimated fair value of identifiable intangible assets and liabilities and related estimated useful lives:

(Dollars in thousands)	Estimated Fair Value	Useful Life (Years)
Identifiable intangible assets and liabilities:		
Customer relationships	$7,300	7.5
Trade name	850	5.0
Lease intangibles	(100)	3.0
Total	$8,050	

Total amortization of intangibles was $0.6 million for the three and nine months ended September 30, 2011 and zero for the three and nine months ended September 30, 2010.

Table of Contents

At September 30, 2011, aggregate future amortization of identifiable intangibles is estimated to be:

(Dollars in thousands)	
2011	$857
2012	2,346
2013	1,588
2014	1,074
2015	758
Thereafter	857
Total	$7,480

The operating results of NABCO are included in the Company's consolidated financial statements from the acquisition date. For the period from the acquisition date through September 30, 2011, NABCO's total revenues and net earnings were $6.1 million and $0.3 million, respectively.

The following selected unaudited pro forma results of operations of the Company for the three and nine months ended September 30, 2011 and 2010, give effect to this business combination as though the transaction occurred on January 1, 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2011	2010	2011	2010
Total revenues:				
As reported	$6,612	$62	$7,880	$237
Pro forma	9,665	7,896	25,775	19,858
Net loss attributable to Signature Group Holdings, Inc.:				
As reported	$1,275	$(9,536)	$(9,092)	$(31,514)
Pro forma	2,015	(8,586)	(6,025)	(27,481)

Cosmed

On February 18, 2011, Cosmed, a newly-formed subsidiary of Signature, acquired certain assets and assumed certain of the liabilities of Costru Company, LLC ("Costru") for consideration totaling $2.7 million. Cosmed, which does business under the trade name CosmedicineTM, manufactures a line of skin care products for women, which is available in retail stores across the country. Signature currently owns 92% of the outstanding common stock of Cosmed, with the remaining 8% held by the former owners of Costru.

Under purchase accounting, the total purchase price was allocated to Costru's assets, identifiable intangible assets and liabilities based on their estimated fair values at the acquisition date. The estimated fair value of the noncontrolling interest was determined using a market value approach considering the fair values of the assets acquired and liabilities assumed, adjusted to account for the lack of control.

During the first quarter of 2011, the Company recorded acquisition-related costs of approximately $72 thousand, which are included in selling, general and administrative expenses in the Company's consolidated statement of operations for the nine months ended September 30, 2011.

Table of Contents

The following table presents the components of the purchase consideration and allocation of the purchase consideration to the estimated fair value of the assets acquired and liabilities assumed:

(Dollars in thousands)	
Cash consideration	$ 1,000
Assumption of liabilities	1,569
Noncontrolling interest	100
Total purchase consideration	2,669
Purchase price allocation:	
Trade receivables	572
Inventories	1,350
Property and equipment	5
Identifiable intangible assets	1,225
Trade payables	(90)
Deferred tax liabilities	(112)
Net assets acquired	2,950
Gain on acquisition	$ 281

The Company recorded a gain on acquisition of $0.3 million during the first quarter of 2011, based on the difference between the fair value of assets acquired and liabilities assumed and the total purchase consideration. The gain recognized at the time of the acquisition resulted from depressed market conditions within the consumer products industry and Signature's ability to negotiate a purchase price below the estimated fair value of the net assets acquired.

In addition to the initial cash consideration, the Company is obligated to make an additional earn-out payment of up to $5.0 million, subject to a revenue target of $60.0 million in annualized revenues being achieved over any three month period within 36 months of the acquisition date, or if the Company sells Cosmed for at least $60.0 million during a specified time period, not to exceed 39 months from the acquisition date. At both the acquisition date and at September 30, 2011, management determined the fair value of this contingent consideration to be zero, based upon current and projected revenues over the requisite earn-out period.

The following table presents the estimated fair value of identifiable intangible assets and related estimated useful lives:

(Dollars in thousands)	Estimated Fair Value	Useful Life (Years)
Identifiable intangible assets:		
Product formulas	$ 800	10.0
Trademarks	190	10.0
Customer lists	125	3.0
Domain names	100	3.0
Non-compete agreements	10	10.0
Identifiable intangible assets	$ 1,225	

Total amortization of intangible assets was $78 thousand and zero for the three months ended September 30, 2011 and 2010, respectively. Total amortization of intangible assets was $0.2 million and zero for the nine months ended September 30, 2011 and 2010, respectively.

Table of Contents

At September 30, 2011, aggregate future amortization of identifiable intangible assets is estimated to be:

(Dollars in thousands)	
2011	$78
2012	193
2013	164
2014	109
2015	101
Thereafter	399
Total	$1,044

The operating results of Cosmed are included in the Company's consolidated financial statements from the acquisition date. For the period from the acquisition date through September 30, 2011, Cosmed's total revenues and net loss were $1.1 million and $0.9 million, respectively.

The following selected unaudited pro forma results of operations of the Company for the three and nine months ended September 30, 2011 and 2010, give effect to this business combination as though the transaction occurred on January 1, 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2011	2010	2011	2010
Total revenues:				
As reported	$6,612	$62	$7,880	$237
Pro forma	6,612	715	8,428	2,387
Net earnings (loss) attributable to Signature Group Holdings, Inc.:				
As reported	$1,275	$(9,536)	$(9,092)	$(31,514)
Pro forma	1,312	(9,773)	(8,917)	(32,059)

NOTE 5 — INVESTMENT SECURITIES, AVAILABLE FOR SALE

The following table presents the components of investment securities, available for sale as of:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Corporate bonds	$4,657	$1,880
Estate bonds	304	304
Investment securities, available for sale	$4,961	$2,184

At September 30, 2011, corporate bonds included one security with a $3.0 million par value, a coupon of 11.25% per annum and a maturity of March 2015, purchased for $2.7 million. Additionally, corporate bonds include two securities with an aggregate par value of $2.7 million, coupons of 13.00% per annum and maturity dates of October 2014, purchased for $2.0 million.

At December 31, 2010, corporate bonds included one security with a principal balance of $2.0 million and an interest rate of 10.00% per annum, which matures in March 2012. This security was called during the three months ended September 30, 2011, resulting in a gain of $71 thousand. Gains and losses on investment securities, available for sale

are determined on a specific identification method.

At September 30, 2011 and December 31, 2010, estate bonds included $3.3 million of matured bonds of an institution seized by the FDIC, purchased for $0.4 million. Holders of the estate bonds, which include both senior and subordinate debentures, are currently engaged in litigation over the distribution of the remaining funds of the estate.

Table of Contents

The amortized cost and gross unrealized holding gains for investment securities, available for sale, consisted of the following as of:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Amortized cost	$ 5,030	$ 2,143
Gross unrealized holding (losses) gains	(69)	41
Estimated fair value	$ 4,961	$ 2,184

NOTE 6 — LOANS RECEIVABLE, NET

Loans receivable, net consisted of the following as of:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Commercial real estate loans:		
Unpaid principal balance	$ 1,944	$ 2,015
Allowance for loan losses	(50)	(48)
Total commercial real estate loans	1,894	1,967
Commercial loans:		
Revolving lines of credit	5,353	-
Purchased credit-impaired term loan	969	-
Total commercial loans	6,322	-
Loans receivable, net	$ 8,216	$ 1,967

Commercial real estate loans consist of a participation interest in a pool of adjustable rate multi-family loans.

On February 22, 2011, Signature Credit Partners, Inc., a wholly-owned subsidiary of Signature, purchased $8.4 million in senior secured debt of a manufacturing company that specializes in retail store fixtures and merchandise displays for $4.3 million. At the time of acquisition, the estimated fair value of the performing revolving line of credit and credit-impaired term loan totaled $3.2 million and $1.1 million, respectively. For the period from acquisition through September 30, 2011, advances on the revolving line of credit, net of repayments totaled $1.9 million.

The following table presents a summary of credit-impaired commercial term loans purchased during the nine months ended September 30, 2011:

(Dollars in thousands)	
Contractually required payments receivable	$5,449
Less: Non-accretable difference	(1,355)
Cash flows expected to be collected	4,094
Less: accretable yield	(2,994)
Fair value of loans acquired	$1,100

Table of Contents

The following table shows activity for the accretable yield on purchased credit-impaired commercial term loans for the three and nine months ended September 30, 2011:

(Dollars in thousands)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Accretable yield, beginning of period	$ 3,206	$ -
Purchases of credit-impaired loans	-	2,994
Accretion	(102)	(219)
Reclassifications (1)	-	329
Accretable yield, end of period	$ 3,104	$ 3,104

(1) During the second quarter of 2011, $0.3 million was reclassified to accretable yield from non-accretable difference based on changes in estimated future cash flows.

NOTE 7 — INVENTORIES

Inventories within the Company's Consumer Products segment consist of a line of skin care products for women, which is available in retail stores across the country. Inventories within the Company's Distribution segment consist of electrical components, primarily new electrical circuit breakers for use in commercial, industrial and residential applications. The following table presents the composition of the Company's inventories as of:

(Dollars in thousands)	September 30, 2011
Raw materials	$ 743
Work in progress	106
Finished goods	7,728
Total	$ 8,577

At September 30, 2011, all inventories are pledged as collateral to secure outstanding balances on NABCO's and Cosmed's lines of credit. There were no inventories at December 31, 2010.

NOTE 8 — DEBT

The following table presents the Company's debt as of:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Lines of credit	$ 4,680	$ -
Notes payable	$ 39,000	$ 39,000
Term loan	8,000	-
Seller notes	5,000	-
Long-term debt	$ 52,000	$ 39,000

Lines of credit

On September 30, 2011, NABCO completed a $16.0 million debt financing transaction (the "NABCO Financing") with a third-party lender (the "Lender"). The NABCO Financing was completed pursuant to the terms of two business loan agreements (the "Loan Agreements"), the first provides for an $8.0 million revolving, asset-based loan (the "Revolving

Loan”). The second provides for an $8.0 million term loan (the “Term Loan”) (see Term loan below). As a result of the NABCO Financing, NABCO repaid the Company $12.5 million that was previously used to acquire NABCO on July 29, 2011. The Company is not a borrower, obligor nor a guarantor under the Loan Agreements. The Loan Agreements require NABCO to maintain compliance with certain financial covenants. The $8.0 million Revolving Loan matures in September 2014 and is subject to a borrowing base. The borrowing base is calculated by a formula, which is based on 80% of NABCO’s eligible accounts receivable plus 60% of NABCO’s eligible inventory, not to exceed $5.0 million, less reserves as further described in the Loan Agreements. The Revolving Loan has a variable interest rate based upon the Lender’s Base Rate. In the event of default, the interest rate will increase by 5.00% per annum. The Revolving Loan is secured by all of NABCO’s assets.

Table of Contents

In February 2011, Cosmed entered into a $3.0 million line of credit with a third-party lender to fund its operations. The line of credit is secured by all of Cosmed's assets. Advances are based on a percentage of eligible trade receivables and inventory. The line of credit is due on demand and bears interest at the prime rate plus 2.25% with a floor rate of 6.00% per annum. Interest is due monthly in arrears on the first day of the month. At September 30, 2011, $64 thousand was outstanding on the line of credit. Under the terms of the line of credit, Cosmed is required to maintain certain financial covenants. At September 30, 2011, Cosmed was not in compliance with certain financial covenants and further advances on the line of credit are not available. Signature has provided working capital financing to Cosmed from the time advances were no longer available under the line of credit.

Total interest expense on lines of credit was $17 thousand and zero for the three months ended September 30, 2011 and 2010, respectively. Total interest expense on lines of credit was $55 thousand and zero for the nine months ended September 30, 2011 and 2010, respectively.

Notes payable

In June and July 2010, as partial settlement of the Company's then outstanding 9.0% Trust Originated Preferred Securities (the "TOPrS") bankruptcy claims, the former holders of the TOPrS received $45 million in cash, subject to charging liens of the indenture trustee, 21 million shares of Signature's common stock, and were issued an aggregate of $39 million in notes payable, due December 2016 ("Notes Payable") and bearing interest at a rate of 9.0% per annum. The Notes Payable were issued on July 16, 2010.

The indenture, dated June 11, 2010 (the "Notes Payable Indenture"), contains covenants that limit the ability of the Company and certain subsidiaries, subject to certain exceptions and qualifications, to (i) pay dividends or make distributions, repurchase equity securities, or make guarantee payments on the foregoing; (ii) make payments on debt securities that rank pari passu or junior to the Notes Payable; (iii) effect a change of control of the Company; or (iv) enter into transactions with insiders.

Interest expense on Notes Payable was $0.9 million for the three months ended September 30, 2011 and 2010. Interest expense on Notes Payable was $2.6 million and $1.1 million for the nine months ended September 30, 2011 and 2010, respectively.

Term loan

The $8.0 million Term Loan matures in September 2016 and is subject to annual principal payments of 10% of the original principal amount of the Term Loan in year 1, 15% of the original principal amount of the Term Loan in each of years 2 and 3, 20% of the original principal amount of the Term Loan in each of years 4 and 5, with a balloon payment of any remaining principal balance due at maturity. The Term Loan has a variable interest rate based upon the Lender's Base Rate plus 1.00% per annum. In the event of default, the interest rate will increase by 5.00% per annum. At September 30, 2011, the interest rate on the Term Loan was 5.00%. The Term Loan is secured by all of NABCO's assets.

Seller notes

In connection with the NABCO Acquisition, NABCO issued $5.0 million in notes (the "Seller Notes") to the former NABCO shareholders as part of the total consideration paid. The Seller Notes mature on January 29, 2016 and are subject to scheduled quarterly principal payments of $0.2 million beginning December 2011. In addition to the scheduled quarterly principal payments, additional principal payments will be made subject to NABCO exceeding certain annual earnings before interest, taxes, depreciation and amortization ("EBITDA") targets beginning with the fiscal year ending December 31, 2011. If NABCO exceeds the EBITDA targets, the additional principal payments are due quarterly beginning in the first quarter of the subsequent year. The Seller Notes bear interest at 6.00% per annum and are paid quarterly beginning in the fourth quarter of 2011.

Total interest expense on the Seller Notes was $53 thousand for the three and nine months ended September 30, 2011.

Table of Contents

NOTE 9 — COMMON STOCK WARRANT LIABILITY

In connection with the Company's emergence from bankruptcy proceedings on June 11, 2010 (the "Effective Date"), Signature issued warrants (the "Warrants") to purchase an aggregate of 15 million shares of the Company's common stock to Signature Group Holdings, LLC, an investment management company owned by Craig Noell and Kyle Ross; Kenneth Grossman; and NWRA Capital Partners LLC (collectively, the "Warrant Investors") for an aggregate cash purchase price of $300,000. The Warrants have a term of 10 years and an originial exercise price of $1.03 per share. The Warrants vest 20% on the Effective Date and 20% in annual installments until the Warrants are fully vested on the fourth anniversary of the Effective Date. The $300,000 purchase price for the Warrants is payable as the Warrants vest. Accordingly, the Warrant Investors paid an aggregate amount of $60,000 on the Effective Date and will pay $60,000 in the aggregate on each subsequent vesting installment. The Warrants were issued to the Warrant Investors without registration in reliance on the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended. The Warrants include customary terms that provide for certain adjustments of the exercise price and the number of shares of common stock to be issued upon exercise of the Warrants in the event of stock splits, stock dividends, pro rata distributions and certain fundamental transactions. In addition, the Warrants are also subject to "full ratchet" anti-dilution protection. The anti-dilution protection provisions of the Warrants provide that certain issuances of new shares of common stock during the term of the Warrants at prices below the current exercise price of the Warrants automatically reduce the exercise price to the lowest per share purchase price of any shares of common stock issued.

As part of the consideration paid for the NABCO acquisition (refer to Note 4 – Business Combinations), the Company issued 3,012,048 shares of Signature common stock to the former owners of NABCO, which triggered the anti-dilution protection provisions of the Warrants. This resulted in a reduction in the Warrant exercise price from $0.69 to $0.66 per share. However, the holders of approximately 79% of the Warrants, including Signature Group Holdings, LLC and Kenneth Grossman, waived the anti-dilution protection provisions related to the shares issued as part of the NABCO transaction as it applied to them.

The Company estimates the fair value of the common stock warrant liability each period utilizing a lattice option pricing model, which includes various assumptions, including expected term, volatility, risk-free interest rate, share issuance frequency and exercise price. For the three and nine months ended September 30, 2011, the change in fair value of common stock warrant liability was $2.8 million and $3.5 million, respectively. The changes in fair value are primarily attributable to decreases in the underlying market price of the Company's common stock and reductions in the remaining contractual term of the Warrants. Partially offsetting the decrease in estimated fair value of the common stock warrant liability was a decrease in exercise price associated with anti-dilution protection provisions.

NOTE 10 — INCOME TAXES

Deferred income taxes are computed using the liability method in accordance with the provisions of FASB ASC Topic 740, Income Taxes. Under this method, deferred income taxes represent the tax effect of differences between the financial and income tax bases of assets and liabilities.

As of December 31, 2010, the Company had estimated federal and California state net operating loss ("NOL") carryforwards of approximately $889.1 million and $1.0 billion, respectively, which expire at various dates between 2016 and 2030. The Company's federal NOLs have a 20-year life and begin to expire in 2027. The Company's state NOLs have either a 10-year or 20-year life and begin to expire in 2016. The Company maintained a full valuation allowance against its deferred tax assets at September 30, 2011 and December 31, 2010, as it believed, at such time, it was more likely than not that the deferred tax assets would not be realized.

Income tax benefit, within continuing operations was $2.7 million and zero for the three months ended September 30, 2011 and 2010, respectively. Income tax benefit, within continuing operations was $2.8 million and zero for the nine months ended September 30, 2011 and 2010, respectively. The income tax benefit is primarily attributable to a decrease in the Company's valuation allowance on deferred tax assets related to recognizing deferred tax liabilities in connection with the NABCO Acquisition and the acquisition of assets and assumption of certain liabilities of Costru.

Income tax expense, within discontinued operations, was $0.6 million and zero for the three months ended September 30, 2011 and 2010, respectively. Income tax expense, within discontinued operations, was $1.0 million and $0.2 million for the nine months ended September 30, 2011 and 2010, respectively. Income tax expense during the three and nine months ended September 30, 2011 is attributable to increases in taxable income associated with previous deferred tax liabilities that have generated current taxable income, primarily in California. Based on California's temporary suspension of the use of net operating loss carryforwards, the current taxable income results in a current period obligation. Additionally, for federal purposes, the Company is subject to alternative minimum taxes, which limit the utilization of net operating loss carryforwards to 90% of taxable income.

Table of Contents

NOTE 11 — MANAGEMENT AGREEMENT

On July 28, 2011, the Company terminated the Interim Investment Management Agreement dated June 11, 2010 (the "Interim Management Agreement"), by and between the Company and Signature Capital Advisers, LLC ("SCA"), effective July 31, 2011 (the "Termination Date"). Pursuant to the terms of the Interim Management Agreement, the Board was permitted to terminate the agreement at any time, without the payment of any penalty, upon 60 days' written notice to SCA (the "Advance Notice Requirement"). In connection with the termination of the Interim Management Agreement, SCA and the Company agreed that: (i) the Advance Notice Requirement shall be waived; (ii) the Company's obligation to pay the management fee pursuant to the Interim Management Agreement terminated as of the Termination Date; (iii) the management fee payable to SCA for services provided in July 2011 will exclude the monthly compensation payments for Craig Noell, Kenneth Grossman, Kyle Ross and Thomas Donatelli (collectively, the "SCA Executives"), each of whom have entered into employment agreements with the Company; and (iv) the terms and conditions of the Interim Management Agreement shall be terminated and of no further force or effect as of the Termination Date, except for the limitation of liability and indemnification provision of the Interim Management Agreement, which shall remain in full force and effect.

Pursuant to the Interim Management Agreement, the Company contracted with SCA to provide general business management for its operations through December 31, 2010 with annual renewals if a revised management agreement had not yet been entered into between the parties. The Interim Management Agreement had been renewed by the Board through December 31, 2011. During the second quarter of 2011, the Board undertook an evaluation of its external management structure with SCA and explored alternative management structures that were available to the Company. At the conclusion of the evaluation, the Company terminated the Interim Management Agreement and adopted an internal management structure, which included the Company entering into employment agreements with the SCA Executives. The terms of such employment agreements were based on analysis and recommendations from a nationally recognized executive compensation consulting firm. In addition, all other SCA employees became employees of the Company as of August 1, 2011.

NOTE 12 — SHARE-BASED PAYMENTS

Share-based compensation awards, which include awards of restricted stock and stock options, are amortized at their grant date fair value. Compensation expense for share-based awards is recognized on a straight-line basis over the requisite service period. Nonvested restricted stock awards are not recorded as part of common stock in the consolidated balance sheets until they are earned. However, since the shares are issued when granted, the shares are included as part of the total number of shares issued and outstanding in the parenthetical disclosure on the face of the consolidated balance sheets.

The fair value of awards of restricted stock is determined based on the closing trade price of the Company's shares on the grant date. The fair value of stock options containing only service conditions is estimated using the Black-Scholes option pricing model. The fair value of stock options containing both service and market conditions is estimated using a trinomial lattice pricing model.

On April 21, 2011, each of three newly appointed independent members of the Board of Directors was issued 75,640 restricted shares of common stock. These restricted shares vest on December 31, 2011, subject to immediate vesting in the event of a change in control. On the grant date, the total number of restricted shares of common stock issued was 226,920, with an aggregate fair value of $0.2 million. Unvested restricted shares issued to former Board members who resigned during 2011 have been forfeited.

On August 8, 2011 ("Award Date"), the Company granted an aggregate of 8,816,000 stock options and 1,779,903 shares of restricted stock to executives under the Signature Group Holdings, Inc. 2006 Performance Incentive Plan (the

"Incentive Plan"). The stock options were granted with an exercise price equal to the average of the closing prices of the Company's common stock for the three-business-day period ending on the business day immediately before the Award Date. Subject to acceleration of vesting and to such other terms and conditions as are set forth in the respective award agreements, the stock options vest as follows: (i) twenty-five percent (25%) on the six (6) month anniversary of the Award Date; (ii) twenty-five percent (25%) on the eighteen (18) month anniversary of the Award Date; (iii) twenty-five percent (25%) on the thirty (30) month anniversary of the Award Date; and (iv) twenty-five percent (25%) on July 1, 2015, with this final tranche subject to the Company's common stock achieving certain trading prices as of such date. On December 6, 2011, the Company and Kenneth S. Grossman modified the vesting schedule of Mr. Grossman's stock option agreement to extend the vesting of the first twenty-five percent (25%) of stock options to coincide with the vesting of the second twenty-five percent (25%) of stock options on the eighteen (18) month anniversary of the Award Date. This modification to the vesting schedule results in additional compensation cost of approximately $6 thousand over the remaining requisite service period. Subject to acceleration of vesting and to such other terms and conditions as are set forth in the respective award agreements, the shares of restricted stock vest on December 31, 2013. The aggregate grant-date fair value of the stock options and restricted stock was $1.7 million and $1.0 million, respectively.

Table of Contents

For the three months ended September 30, 2011 and 2010, compensation expense for share-based awards was $0.3 million and zero, respectively. For the nine months ended September 30, 2011 and 2010, compensation expense for share-based awards was $0.5 million and zero, respectively. At September 30, 2011 and December 31, 2010, unrecognized compensation expense for share-based awards was $2.6 million and zero, respectively.

The following table presents the changes in nonvested shares of restricted stock during the nine months ended September 30, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested shares, December 31, 2010	316,267	$ 0.83
Granted	2,725,996	0.62
Vested	(316,267)	(0.83)
Forfeited	(410,956)	(0.73)
Nonvested shares, September 30, 2011	2,315,040	$ 0.60

The following table presents the changes in nonvested stock options during the nine months ended September 30, 2011:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested stock options, December 31, 2010	-	$ -
Granted	8,816,000	0.19
Vested	-	-
Forfeited	-	-
Nonvested stock options, September 30, 2011	8,816,000	$ 0.19

There were no vested stock options outstanding at September 30, 2011.

In connection with the share-based awards granted to the SCA Executives, the Board, on July 28, 2011, also approved an amendment to the Incentive Plan that increased the authorized aggregate number of shares of the Company's common stock that may be issued pursuant to the Incentive Plan to 25,000,000 shares.

On October 27, 2011, the Board amended the Incentive Plan to remove the annual limitation on equity awards to participants under the Incentive Plan, which was formerly 250,000 shares per individual, per calendar year.

NOTE 13 — EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to Signature Group Holdings, Inc. by the weighted average number of common shares outstanding for the reporting period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted earnings (loss) per share, the basic weighted average number of shares is increased by the dilutive effect of stock options, restricted share awards and the Warrants determined using the treasury stock method.

19

Table of Contents

The following table sets forth the computation of basic and diluted earnings (loss) per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2011	2010	2011	2010
Earnings (loss) from continuing operations	$2,625	$(3,510)	$(4,990)	$(19,212)
Loss attributable to noncontrolling interest	(31)	-	(93)	-
Earnings (loss) from continuing operations attributable to Signature Group Holdings, Inc.	2,656	(3,510)	(4,897)	(19,212)
Loss from discontinued operations, net of income taxes	(1,381)	(6,026)	(4,195)	(12,302)
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$1,275	$(9,536)	$(9,092)	$(31,514)
Weighted-average basic shares outstanding	114,200,106	111,788,501	112,810,889	92,032,091
Weighted-average diluted shares outstanding	114,415,778	111,788,501	112,810,889	92,032,091
Basic earnings (loss) per share:				
Continuing operations	$0.02	$(0.03)	$(0.04)	$(0.21)
Discontinued operations	(0.01)	(0.06)	(0.04)	(0.13)
Basic earnings (loss) per share	$0.01	$(0.09)	$(0.08)	$(0.34)
Diluted earnings (loss) per share:				
Continuing operations	$0.02	$(0.03)	$(0.04)	$(0.21)
Discontinued operations	(0.01)	(0.06)	(0.04)	(0.13)
Diluted earnings (loss) per share	$0.01	$(0.09)	$(0.08)	$(0.34)

Diluted earnings (loss) per share for the three months ended September 30, 2011, excludes 28,024 incremental shares related to restricted stock; 2,198,524 incremental shares related to stock options and 4,314,093 incremental shares related to the Warrants as they would be antidilutive. Diluted earnings (loss) per share for the nine months ended September 30, 2011, excludes 1,024 incremental shares related to restricted stock; 277,526 incremental shares related to stock options and 712,244 incremental shares related to the Warrants as they would be antidilutive.

Restricted stock, stock options and the Warrants are anti-dilutive and excluded from the computation of diluted earnings per share if the assumed proceeds upon exercise or vest are greater than the cost to reacquire the same number of shares at the average market price during the period. The dilutive impact of these securities could be included in future computations of diluted earnings per share if the market price of the Company’s common stock increases.

NOTE 14 — FAIR VALUES OF FINANCIAL INSTRUMENTS

FASB ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.

- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Table of Contents

Recurring Fair Value Measurements

The following table presents, for each of the levels within the fair value hierarchy, the Company's assets and liabilities that are measured at fair value on a recurring basis:

(Dollars in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
As of September 30, 2011:				
Assets:				
Investment securities, available for sale	$ 4,657	$ 304	$ -	$ 4,961
Liabilities:				
Contingent consideration	$ -	$ -	$ 3,525	$ 3,525
Common stock warrant liability	-	-	2,224	2,224
Total	$ -	$ -	$ 5,749	$ 5,749
As of December 31, 2010:				
Assets:				
Investment securities, available for sale	$ 1,880	$ 304	$ -	$ 2,184
Liabilities:				
Common stock warrant liability	$ -	$ -	$ 5,700	$ 5,700

The following table presents the reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

(Dollars in thousands)	Beginning Balance	Amounts Realized in Earnings	Transfers In/Out of Level 3	Purchases	Issuances	Settlements	Ending Balance
Three months ended September 30, 2011:							
Contingent consideration	$-	$47	$-	$-	$3,478	$-	$3,525
Common stock warrant liability	5,027	(2,803)	-	-	-	-	2,224
Total	$5,027	$(2,756)	$-	$-	$3,478	$-	$5,749
Three months ended September 30, 2010:							
Common stock warrant liability	$4,926	$(249)	$-	$-	$-	$-	$4,677
Nine months ended September 30, 2011:							

Contingent consideration	$-	$47	$-	$-	$3,478	$-	$3,525
Common stock warrant liability	5,700	(3,476)	-	-	-	-	2,224
Total	$5,700	$(3,429)	$-	$-	$3,478	$-	$5,749
Nine months ended September 30, 2010:							
Common stock warrant liability	$-	$(428)	$-	$-	$5,105	$-	$4,677

Table of Contents

Nonrecurring Fair Value Measurements

From time to time, the Company is required to measure certain assets and liabilities at estimated fair value. These fair value measurements typically result from the application of specific accounting guidance under GAAP and are considered nonrecurring fair value measurements under FASB ASC Topic 820-10. The following table presents financial and non-financial assets and liabilities measured using nonrecurring fair value measurements:

(Dollars in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
As of September 30, 2011:				
Assets:				
Real estate owned, net (1)	$ -	$ -	$ 1,313	$ 1,313
Loans held for sale, net	-	-	36,900	36,900
Total	$ -	$ -	$ 38,213	$ 38,213
As of December 31, 2010:				
Assets:				
Real estate owned, net (1)	$ -	$ -	$ 2,571	$ 2,571
Loans held for sale, net	-	-	38,938	38,938
Total	$ -	$ -	$ 41,509	$ 41,509

(1) Amounts represent the Company's real estate owned ("REO") that resulted in gains (losses) recorded on a non-recurring basis during the period.

The following table summarizes the total gains (losses) on assets and liabilities measured using estimated fair values on a nonrecurring basis for the periods indicated:

(Dollars in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Real estate owned, net	$(267)	$(737)	$(543)	$(1,578)
Loans held for sale, net	391	(2,086)	1,036	2,143
Commercial real estate investments	-	-	(445)	-
Discontinued lease liability	-	(14)	-	(47)
Total	$124	$(2,837)	$48	$518

Table of Contents

FASB ASC Topic 825, Financial Instruments, requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. The following table presents the carrying values and fair value estimates of financial instruments as of:

	September 30, 2011		December 31, 2010	
(Dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
ASSETS				
Continuing Operations:				
Cash and cash equivalents	$46,977	$46,977	$70,424	$70,424
Investment securities, available for sale	4,961	4,961	2,184	2,184
Loans receivable, net	8,216	8,216	1,967	1,967
Discontinued Operations:				
Cash and cash equivalents	117	117	568	568
FHLB stock	2,051	2,051	2,051	2,051
Loans held for sale, net	36,900	36,900	38,938	38,938
Commercial real estate investments	327	327	5,484	5,484
Note receivable	1,806	1,806	1,639	1,639
LIABILITIES				
Continuing Operations:				
Lines of credit	$4,680	$4,680	$-	$-
Contingent consideration	3,525	3,525	-	-
Long-term debt	52,000	46,150	39,000	35,685
Common stock warrant liability	2,224	2,224	5,700	5,700

The Company used the following methods and assumptions to estimate the fair value of each class of financial instrument at September 30, 2011 and December 31, 2010:

Cash and cash equivalents
Cash and cash equivalents are recorded at historical cost. The carrying amount is a reasonable estimate of fair value as these instruments have short-term maturities and market interest rates.

Investment securities, available for sale
Fair values for investment securities, available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments with similar credit, maturity, and interest rate characteristics.

Loans receivable, net
Loans receivable, net, consists of commercial real estate loans, commercial lines of credit and purchased credit-impaired commercial term loans. The fair value of commercial real estate loans and commercial lines of credit considers estimated credit losses and variable interest rates, which approximate market interest rates. The fair value of purchased credit-impaired commercial term loans is based on a discounted cash flow analysis utilizing assumptions, including interest rates that approximate market rates and the amount and timing of expected cash flows and other recoveries.

FHLB stock
Federal Home Loan Bank (“FHLB”) stock is recorded at cost. Fremont’s former primary operating subsidiary, Fremont Investment & Loan (“FIL”), was previously a member of the FHLB of San Francisco. Ownership of these securities is

restricted to member banks and purchases and sales of these securities are at par value with the issuer. The fair value of investments in FHLB stock is equal to the carrying amount.

Loans held for sale, net

The fair value of loans held for sale, net is based on several factors, including current bids and market indications for similar assets, recent sales, discounted cash flow analyses, estimated values of underlying collateral and actual loss severity experience in portfolios backed by similar assets.

Commercial real estate investments

The fair value of commercial real estate investments is based on various factors including current bids and market indications of similar assets, recent sales and discounted cash flow analyses.

Table of Contents

Note receivable
The note receivable is a short-term note received in connection with the sale of commercial real estate investments. The fair value of the note receivable considers the short-term nature of the instrument, as well as the estimated credit worthiness of the counterparty.

Lines of credit
Lines of credit are short-term in nature and carrying value is considered to approximate fair value.

Contingent consideration
The fair value of contingent consideration is based on the Company's expectation of future operating results and includes assumptions related to discount rates, and probabilities of various projected operating result scenarios.

Long-term debt
Long-term debt includes Notes Payable, Term Loan and Seller Notes. The fair value of Notes Payable is based on quoted market prices. The Term Loan and Seller Notes were newly issued during the quarter ended September 30, 2011 at market terms.

Common stock warrant liability
The fair value of the common stock warrant liability is based on a lattice option pricing model that utilizes various assumptions, including expected term, volatility, risk-free interest rate, share issuance frequency and exercise price.

NOTE 15 — OPERATIONS BY REPORTABLE SEGMENT

The Company has four primary operating segments, which include Special Situation Lending, Strategic Acquisitions – Distribution, Strategic Acquisitions – Consumer Products and Discontinued Operations. Results of operations and other financial measures that are not included in the Company's four primary operating segments are included in Corporate and Other. The following tables present the operating results and other key financial measures for the Company's operating segments as of and for the periods indicated.

	Continuing Operations							
		Strategic Acquisitions						
(Dollars in thousands)	Special Situation Lending	Distribution	Consumer Products	Corporate and Other	Eliminations	Total	Discontinued Operations	Total
Three months ended September 30, 2011:								
Revenues	$548	$6,082	$227	$49	$(294)	$6,612	$1,741	$8,353
Expenses	2	5,239	617	5,225	(294)	10,789	2,501	13,290
Other income (expense)	71	(47)	-	4,191	-	4,215	-	4,215
Earnings (loss) before reorganization items, net and income taxes	617	796	(390)	(985)	-	38	(760)	(722)
Reorganization items, net	-	-	-	63	-	63	-	63
Earnings (loss) before income taxes	617	796	(390)	(1,048)	-	(25)	(760)	(785)

and loss attributable to noncontrolling interest								
Income tax expense (benefit)	54	317	-	(3,021)	-	(2,650)	621	(2,029)
Net earnings (loss)	563	479	(390)	1,973	-	2,625	(1,381)	1,244
Loss attributable to noncontrolling interest	-	-	(31)	-	-	(31)	-	(31)
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$563	$479	$ (359)	$ 1,973	$ -	$2,656	$ (1,381)	$1,275

	Continuing Operations							
		Strategic Acquisitions						
(Dollars in thousands)	Special Situation Lending	Distribution	Consumer Products	Corporate and Other	Eliminations	Total	Discontinued Operations	Total
Three months ended September 30, 2010:								
Revenues	$53	$-	$ -	$ 9	$ -	$62	$ (2,123)	$(2,061)
Expenses	-	-	-	3,027	-	3,027	3,903	6,930
Other income (expense)	-	-	-	249	-	249	-	249
Earnings (loss) before reorganization items, net and income taxes	53	-	-	(2,769)	-	(2,716)	(6,026)	(8,742)
Reorganization items, net	-	-	-	794	-	794	-	794
Earnings (loss) before income taxes	53	-	-	(3,563)	-	(3,510)	(6,026)	(9,536)
Income tax expense	-	-	-	-	-	-	-	-
Net earnings (loss)	$53	$-	$ -	$ (3,563)	$ -	$(3,510)	$ (6,026)	$(9,536)

Table of Contents

(Dollars in thousands)	Continuing Operations						Discontinued Operations	Total
	Special Situation Lending	Distribution	Consumer Products	Corporate and Other	Eliminations	Total		
Nine months ended September 30, 2011:								
Revenues	$ 953	$ 6,082	$ 1,067	$ 117	$ (339)	$ 7,880	$ 4,923	$ 12,803
Expenses	2	5,239	2,224	12,287	(339)	19,413	8,070	27,483
Other income (expense)	71	(47)	281	4,864	-	5,169	-	5,169
Earnings (loss) before reorganization items, net and income taxes	1,022	796	(876)	(7,306)	-	(6,364)	(3,147)	(9,511)
Reorganization items, net	-	-	-	1,388	-	1,388	-	1,388
Earnings (loss) before income taxes and loss attributable to noncontrolling interest	1,022	796	(876)	(8,694)	-	(7,752)	(3,147)	(10,899)
Income tax expense (benefit)	60	317	-	(3,139)	-	(2,762)	1,048	(1,714)
Net earnings (loss)	962	479	(876)	(5,555)	-	(4,990)	(4,195)	(9,185)
Loss attributable to noncontrolling interest	-	-	(93)	-	-	(93)	-	(93)
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$ 962	$ 479	$ (783)	$ (5,555)	$ -	$ (4,897)	$ (4,195)	$ (9,092)

(Dollars in thousands)	Continuing Operations						Discontinued Operations	Total
	Special Situation Lending	Distribution	Consumer Products	Corporate and Other	Eliminations	Total		
Nine months ended September 30, 2010:								
Revenues	$ 115	$ -	$ -	$ 122	$ -	$ 237	$ 3,619	$ 3,856
Expenses	38	-	-	9,081	-	9,119	15,377	24,496
Other income (expense)	-	-	-	514	-	514	-	514
Earnings (loss) before reorganization	77	-	-	(8,445)	-	(8,368)	(11,758)	(20,126)

items, net and income taxes								
Reorganization items, net	-	-	-	10,844	-	10,844	394	11,238
Earnings (loss) before income taxes	77	-	-	(19,289)	-	(19,212)	(12,152)	(31,364)
Income tax expense	-	-	-	-	-	-	150	150
Net earning (loss)	$ 77	$ -	$ -	$ (19,289)	$ -	$ (19,212)	$ (12,302)	$ (31,514)

	Continuing Operations							
		Strategic Acquisitions						
	Special Situation			Corporate			Discontinued	
(Dollars in thousands)	Lending	Distribution	Consumer Products	and Other	Eliminations	Total	Operations	Total
Segment assets:								
At September 30, 2011	$ 18,845	$ 39,245						