SIGNATURE GROUP HOLDINGS, INC.
Form 10-Q
November 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2014

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)

Delaware	46-3783818
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
15301 Ventura Boulevard, Suite 400	
Sherman Oaks, California 91403	(805) 435-1255
(Address of Principal Executive Offices)(Zip Code)	(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. þ Yes ¨ 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). þ 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 Securities Exchange Act of 1934.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). ¨ Yes þ 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 ¨ No

As of November 1, 2014, there were 12,604,649 shares of the Registrant's common stock outstanding.

SIGNATURE GROUP HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Period Ended September 30, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
Signature Group Holdings, Inc.

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)	September 30, 2014	December 31, 2013
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 44,754	$ 47,913
Restricted cash	21	2,805
Trade accounts receivable, net	4,907	3,737
Inventory	11,602	10,777
Other current assets	1,804	902
Current assets of discontinued operations	116	223
Total current assets	63,204	66,357
Intangible assets, net	2,002	2,904
Goodwill	17,780	18,180
Other noncurrent assets	2,915	2,682
TOTAL ASSETS	$ 85,901	$ 90,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 4,838	$ 3,228
Line of credit	1,180	500
Long-term debt due within one year	3,900	3,600
Other current liabilities	1,610	1,094
Current liabilities of discontinued operations	198	2,264
Total current liabilities	11,726	10,686
Long-term debt	10,675	13,600
Common stock warrant liability	5,900	9,300
Other noncurrent liabilities	354	119
Noncurrent liabilities of discontinued operations	5,750	6,500
TOTAL LIABILITIES	34,405	40,205
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.001 par value; 66,500,000 shares authorized; 12,304,649 issued and outstanding as of September 30, 2014; and 12,213,219 issued and 12,201,102 outstanding as of December 31, 2013	12	12
Treasury stock, at cost; zero and 12,117 shares, respectively, as of	—	(130)

September 30, 2014 and December 31, 2013		
Additional paid-in capital	452,923	451,853
Accumulated deficit	(401,439)	(401,817)
Total stockholders’ equity — Signature Group Holdings, Inc.	51,496	49,918
Noncontrolling interest	—	—
TOTAL STOCKHOLDERS’ EQUITY	51,496	49,918
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 85,901	$ 90,123

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands, except per share amounts)	2014	2013	2014	2013
Operating revenues:				
Industrial Supply	$10,947	$10,230	$29,325	$28,054
Special Situations	40	(453)	124	6,165
Corporate and Other	—	4	—	35
Total operating revenues	10,987	9,781	29,449	34,254
Operating costs:				
Cost of goods sold	6,888	6,498	19,162	17,795
Selling, general and administrative	5,356	4,382	12,777	13,880
Interest expense	219	985	706	2,992
Amortization of intangibles	276	413	883	1,238
Total operating costs	12,739	12,278	33,528	35,905
Operating loss	(1,752)	(2,497)	(4,079)	(1,651)
Other income (expense):				
Change in fair value of common stock warrant liability	2,400	(3,300)	3,400	(8,450)
Goodwill impairment	—	—	(400)	—
Other, net	8	5	53	107
Total other income (expense)	2,408	(3,295)	3,053	(8,343)
Earnings (loss) from continuing operations before income taxes	656	(5,792)	(1,026)	(9,994)
Income tax expense (benefit)	317	(7)	527	86
Earnings (loss) from continuing operations	339	(5,785)	(1,553)	(10,080)
Earnings (loss) from discontinued operations, net of income taxes	428	(74)	1,931	(468)
Net earnings (loss)	767	(5,859)	378	(10,548)
Earnings (loss) attributable to noncontrolling interest	—	—	—	—
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$767	$(5,859)	$378	$(10,548)
EARNINGS (LOSS) PER SHARE				
Basic:				
Continuing operations	$0.03	$(0.48)	$(0.13)	$(0.85)
Discontinued operations	0.03	(0.01)	0.16	(0.04)
Basic earnings (loss) per share	$0.06	$(0.49)	$0.03	$(0.89)
Diluted:				

Continuing operations	$0.03	$(0.48)	$(0.13)	$(0.85)
Discontinued operations	0.03	(0.01)	0.16	(0.04)
Diluted earnings (loss) per share	$0.06	$(0.49)	$0.03	$(0.89)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$767	$(5,859)	$378	$(10,548)
Other comprehensive loss:				
Net change in unrealized gains during the period:				
Investment securities, available for sale	—	—	—	156
Reclassification of realized amounts included in net earnings (loss)	—	—	—	(380)
Other comprehensive loss	—	—	—	(224)
Total comprehensive income (loss)	$767	$(5,859)	$378	$(10,772)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Condensed Consolidated Statement of Changes in Stockholders' Equity

(Unaudited)

(Dollars in thousands)	Preferred Stock Number of Outstanding Shares	Preferred Stock Amount	Common Stock Number of Outstanding Shares	Common Stock Amount	Treasury Stock Number of Treasury Shares	Treasury Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interest	Total
Balance, December 31, 2013	—	$ —	12,201,102	$ 12	12,117	$ (130)	$ 451,853	$ (401,817)	$ —	$ 49,918
Net earnings (loss)	—	—	—	—	—	—	—	378	—	378
Common stock acquired	—	—	(9,229)	—	9,229	(99)	—	—	—	(99)
Issuance of restricted common stock, net of forfeitures	—	—	62,776	—	(21,346)	229	(229)	—	—	—
Common stock warrant consideration	—	—	—	—	—	—	48	—	—	48
Common stock options exercised	—	—	50,000	—	—	—	286	—	—	286
Amortization of share-based compensation	—	—	—	—	—	—	965	—	—	965
Balance, September 30, 2014	—	$ —	12,304,649	$ 12	—	$ —	$ 452,923	$ (401,439)	$ —	$ 51,496

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013
Cash flows from operating activities:		
Net earnings (loss)	$378	$(10,548)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Loss (earnings) from discontinued operations, net of income taxes	(1,931)	468
Depreciation and amortization	992	1,313
Change in fair value of common stock warrant liability	(3,400)	8,450
Gain on sale of investment securities, available for sale	—	(380)
Amortization of share-based compensation	965	1,503
Nonmarketable equity securities impairment	—	581
Inventory impairment	432	—
Goodwill impairment	400	—
Proceeds from sale of loans held for sale, net	—	27,073
Gain on sale of loans held for sale, net	—	(5,026)
Other	29	(211)
Changes in assets and liabilities:		
Restricted cash	2,784	—
Trade accounts receivable, net	(1,199)	(530)
Inventory	(1,257)	(172)
Other current assets	(902)	512
Other noncurrent assets	(276)	39
Trade payables	1,610	1,348
Other current liabilities	516	317
Other noncurrent liabilities	254	176
Net cash used in operating activities of discontinued operations	(898)	(1,256)
Net cash provided by (used in) operating activities	(1,503)	23,657
Cash flows from investing activities:		
Proceeds from sale of investment securities, available for sale	—	3,228
Advances, net under revolving credit facilities in loans receivable, net	—	(2,272)
Principal collections on loans receivable, net	153	483
Purchases of property and equipment	(219)	(252)
Net cash provided by investing activities of discontinued operations	114	2,633
Net cash provided by investing activities	48	3,820
Cash flows from financing activities:		
Advances (repayments), net on line of credit	680	(500)
Principal payments on long-term debt	(2,625)	(2,633)

Common stock acquired	(99)	(41)
Payment of contingent consideration	—	(4,000)
Proceeds from exercise of common stock options	286	62
Common stock warrant consideration	48	60
Net cash used in financing activities	(1,710)	(7,052)
Increase (decrease) in cash and cash equivalents	(3,165)	20,425
Cash and cash equivalents, beginning of period	48,018	51,056
Cash and cash equivalents, end of period	$44,853	$71,481
Cash and cash equivalents, end of period — continuing operations	$44,754	$71,376
Cash and cash equivalents, end of period — discontinued operations	99	105
Cash and cash equivalents, end of period	$44,853	$71,481
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$317	$598
Cash paid for interest	221	2,939
Supplemental disclosure of noncash information:		
Transfer of loans receivable, net to loans held for sale, net	$—	$21,846
Transfer of nonmarketable equity securities from other noncurrent assets to other current assets	—	1,940

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 — BUSINESS AND OPERATIONS

Signature Group Holdings, Inc. ("Signature") is a holding company that owns all of the outstanding interests of its operating company, SGGH, LLC. The Company's operations are largely concentrated in one operating segment, Industrial Supply. Signature's board of directors (the "Board") and management expect to grow the business through acquisitions, as well as through organic efforts within existing operations. Signature's current business strategy seeks to leverage its public company status, considerable federal and California net operating loss tax carryforwards ("NOLs"), and the experience of the Board and management to acquire operating businesses at prices and on terms that are aligned with current growth plans. On October 17, 2014, Signature entered into a definitive purchase agreement (the "Purchase Agreement") to purchase the global recycling and specification alloys business ("GRSA Business") from Aleris Corporation ("Aleris") for $525.0 million (the "GRSA Acquisition"). See Note 15—Subsequent Events for additional information about the GRSA Acquisition.

Signature's 'continuing operations' includes one primary operating segment, Industrial Supply, and a second segment, Special Situations, which no longer meets the criteria of a reportable segment but is presented for comparative purposes to prior periods when it met the criteria of a reportable segment.

Industrial Supply. The Industrial Supply segment, which includes one of the largest circuit breaker suppliers in the United States, North American Breaker Co., LLC ("NABCO"), is headquartered in Burbank, California. NABCO focuses on the replacement market for commercial and industrial circuit breakers where replacement time is extremely important, and also supplies residential circuit breakers in order to provide its customers with a single source solution for their circuit breaker needs. Industrial Supply sells from nine warehouse locations across North America to facilitate next day ground shipping service to a broad section of its customer base.

In October 2014, management engaged an investment banking advisor to explore strategic alternatives, including the possible sale of the NABCO.

Special Situations. Special Situations selectively acquired sub-performing and nonperforming commercial and industrial loans, leases and mortgages, typically at a discount to unpaid principal balance, and also took positions in corporate bonds and other structured debt instruments, which were generally sub-performing or nonperforming. Special Situations opportunistically exited the majority of its investment positions and sold the majority of its assets in 2013. As of September 30, 2014, Special Situations maintains a small portfolio of commercial real estate loans and a nonmarketable preferred equity investment in a private company, each of which is classified in other noncurrent assets.

Additionally, Signature's operations include a discontinued operations segment, where it holds and manages certain assets and liabilities related to its former businesses, then known as Fremont General Corporation ("Fremont") and its primary operating subsidiary, Fremont Investment & Loan ("FIL"). As of September 30, 2014, there are assets with nominal carrying values in discontinued operations and the remaining liabilities are being managed to limit costs and exposures.

See Note 12—Operations by Reportable Segments for additional information about Signature's operating segments.

NOTE 2 — FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements include the accounts of Signature, its wholly owned subsidiaries and its majority owned subsidiaries (collectively, the “Company”). The Company accounts for investments in companies over which it has the ability to exercise significant influence, but does not hold a controlling interest, under the equity method of accounting, and records its proportionate share of income or losses in other income (expense) in the unaudited condensed consolidated statements of operations. The Company accounts for investments in companies over which it does not have the ability to exercise significant influence under the cost method of accounting. These investments are carried at cost within other noncurrent assets in the unaudited condensed consolidated balance sheets.

The accompanying unaudited condensed consolidated financial statements 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 Article 10 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 Securities and Exchange Commission (“SEC” or “Commission”). Operating results for the nine months ended September 30, 2014 are not indicative of the results that may be expected for the year ending December 31, 2014. These interim period unaudited condensed 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, 2013, which are included in the Company’s Annual Report on Form 10-K, as filed with the SEC on March 13, 2014 (the “Annual Report”).

Certain amounts in the accompanying unaudited condensed consolidated financial statements have been reclassified to conform to the current presentation, including the reclassification of Cosmed, Inc. ("Cosmed"), into continuing operations, following suspension of the Company's efforts to sell Cosmed in April 2014.

The Company's significant accounting policies are disclosed in the consolidated financial statements included in Part IV, Item 15 of the Annual Report, and there have been no material changes to those accounting policies during the nine months ended September 30, 2014.

Recent accounting standards updates

In April 2014, the Financial Accounting Standards Board ("FASB") issued accounting guidance (Topic 250, Presentation of Financial Statements and Topic 360, Property, Plant and Equipment) that changes the criteria for reporting discontinued operations and enhances related disclosures. Under the new guidance, only disposals representing a strategic shift in operations are presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Additionally, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. The new guidance is effective for annual reporting periods beginning after December 15, 2014, including interim reporting periods within that reporting period. Early adoption is permitted, but only for certain disposals. The new guidance is not expected to have a significant impact on the Company's consolidated financial statements or disclosures.

In May 2014, the FASB issued accounting guidance (Topic 606, Revenue from Contracts with Customers) that supersedes existing revenue recognition guidance and most industry-specific revenue recognition guidance. The new guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early application is not permitted. The Company is currently assessing the impact of the new guidance on its consolidated financial statements and disclosures.

In June 2014, the FASB issued accounting guidance (Topic 718, Stock Compensation) on share-based compensation with performance targets. The new guidance provides that an equity grant performance target that affects vesting, and could be achieved after the requisite service period, be treated as a performance condition. The new guidance is effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period. Early adoption is permitted and entities may apply the new guidance either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The new guidance is not expected to have a significant impact on the Company's consolidated financial statements or disclosures.

NOTE 3 — CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The following table presents cash and cash equivalents, within continuing operations, as of September 30, 2014 and December 31, 2013:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Noninterest-bearing deposits	$ 4,825	$ 3,020
Short-term money market funds	39,929	44,893
Total cash and cash equivalents	$ 44,754	$ 47,913

The following table presents restricted cash as of September 30, 2014 and December 31, 2013:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Noninterest-bearing deposits — securing a letter of credit	$ 21	$ 784
Noninterest-bearing deposits — legal settlement reserve funds	—	2,021
Total restricted cash	$ 21	$ 2,805

NOTE 4 — TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, net consisted of the following as of September 30, 2014 and December 31, 2013:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Trade accounts receivable	$ 5,156	$ 3,953
Estimated sales returns and allowances	(214)	(169)
	4,942	3,784
Allowance for doubtful accounts	(35)	(47)
Trade accounts receivable, net	$ 4,907	$ 3,737

NOTE 5 — INVENTORY

Finished goods inventory at Industrial Supply consists of electrical components, primarily new electrical circuit breakers for use in commercial, industrial and residential applications. Raw materials consisted of packaging and shipping materials related to Cosmed and were destroyed, at management's direction, in the first quarter of 2014. The following table presents the composition of the Company's inventory as of September 30, 2014 and December 31, 2013:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Finished goods:		
Industrial Supply	$ 11,627	$ 10,370
Raw materials:		
Cosmed	—	432
	11,627	10,802
Valuation adjustment for damaged inventory	(25)	(25)
Inventory	$ 11,602	$ 10,777

NOTE 6 — DEBT

The following table presents the Company's debt as of September 30, 2014 and December 31, 2013:

(Dollars in thousands)	September 30, 2014	December 31, 2013

Line of credit	$	1,180		$	500	
Long-term debt:						
$8,000 term loan issued at par in September 2011 at a base rate plus 1.00%, due September 29, 2016	$	4,800		$	5,700	
$11,500 term loan issued at par in December 2013 at 5.0%, due December 31, 2018		9,775			11,500	
		14,575			17,200	
Less: Principal due within one year		(3,900	)		(3,600	)
Long-term debt	$	10,675		$	13,600	

Line of credit

Line of credit consists of NABCO's $4.0 million asset-based revolving loan that is subject to a borrowing base. As of September 30, 2014 and December 31, 2013, outstanding borrowings on the revolving line of credit were $1.2 million and $0.5 million, respectively. As of September 30, 2014, available borrowing capacity under the revolving line of credit was $2.8 million. The line of credit has a variable interest rate based upon the lender's base rate, which was 4.0% on September 30, 2014, and is secured by all of NABCO's assets. Interest expense on the line of credit was $6 thousand and $23 thousand for the three months ended September 30, 2014 and 2013, respectively, and $35 thousand and $72 thousand for the nine months ended September 30, 2014 and 2013, respectively.

Term loans

Term loans include NABCO's term loans that are subject to quarterly principal payments with balloon payments of any remaining principal balance due at maturity. As of September 30, 2014, the interest rate on the variable rate term loan was 5.00%. In the event of default, the interest rates on both term loans increase by 5.00% per annum. Interest expense on the term loans was $0.2 million and

$0.1 million for the three months ended September 30, 2014 and 2013, respectively, and $0.6 million and $0.2 million for the nine months ended September 30, 2014 and 2013, respectively.

Under the terms of the $11.5 million term loan, Signature has guaranteed $5.0 million of the loan should NABCO not meet its obligations under the loan agreement. The guarantee is effective until such time as NABCO's senior debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio is reduced to 1.5:1.0 (as long as no event of default has occurred and is continuing).

As of September 30, 2014, all of NABCO's trade accounts receivable and inventory, totaling $5.2 million and $11.6 million, respectively, were pledged under NABCO's line of credit and term loans. The Company was in compliance with all of the covenants under its debt agreements as of September 30, 2014 and December 31, 2013.

NOTE 7 — COMMON STOCK WARRANT LIABILITY

In June 2010, Signature issued warrants to purchase an aggregate of 1.5 million shares of the Company's common stock (the "Warrants"). The aggregate purchase price for the Warrants was $0.3 million, due in equal installments as the Warrants vested. The Warrants vested 20% upon issuance and, thereafter, vested 20% annually on the anniversary of the issuance date. Pursuant to the Warrant vesting schedule, as of September 30, 2014, the Warrants are 100% vested, however the Company has not received $12 thousand of the aggregate purchase price. The Warrants expire in June 2020 and had an original exercise price of $10.30 per share. The Warrants were issued without registration in reliance on the exemption set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

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 the exercise of the Warrants in the event of stock splits, stock dividends, pro rata distributions and certain other fundamental transactions. Additionally, the Warrants are subject to pricing protection provisions. During the term of the Warrants, the pricing protection provisions provide that certain issuances of new shares of common stock at prices below the current exercise price of the Warrants automatically reduce the exercise price of the Warrants to the lowest per share purchase price of common stock issued.

In October 2010, January 2011, and April 2011, restricted common stock was issued to nonexecutive members of the Board under the Company's director compensation program (the "Director Compensation Program") that each triggered the pricing protection provisions of the Warrants. The restricted common stock issued to nonexecutive members of the Board in April 2011 reduced the exercise price of the Warrants to $6.90 per share, the grant date fair value of the restricted common stock issued. In July 2011, the Company issued approximately 0.3 million shares of common stock as purchase consideration in the NABCO business combination. The NABCO business combination common stock was issued at $6.64 per share, thereby reducing the exercise price of the Warrants to $6.64 per share; however, the holders of approximately 79.3% of the Warrants waived the pricing protection provisions related to shares issued in the NABCO business combination and the exercise price related to those Warrants remains at $6.90 per share.

The Company utilizes a trinomial lattice option pricing model to estimate the fair value of the common stock warrant liability. A decrease in the common stock warrant liability results in other income, while an increase in the common stock warrant liability results in other expense. As of September 30, 2014, the common stock warrant liability has not been adjusted for the Warrants for which the purchase price has not been received. The following table presents changes in fair value of common stock warrant liability during the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Beginning balance	$8,300	$7,500	$9,300	$2,350
Change in fair value of common stock warrant liability	(2,400)	3,300	(3,400)	8,450
Ending balance	$5,900	$10,800	$5,900	$10,800

See Note 11—Fair Value Measurements for additional information on the assumptions used to estimate the fair value of common stock warrant liability.

NOTE 8 — INCOME TAXES

The following table summarizes income tax expense, within continuing operations, for the three and nine months ended September 30, 2014 and 2013:

(Dollars in thousands)	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Current income tax expense:				
Federal	$291	$ —	$451	$ —
State	22	—	71	76
Total current income tax expense	313	—	522	76
Deferred income tax expense (benefit):				
Federal	—	—	—	—
State	4	(7)	5	10
Total deferred income tax expense (benefit)	4	(7)	5	10
Total income tax expense (benefit)	$317	$ (7)	$527	$ 86

Income tax expense is primarily comprised of estimated income tax in jurisdictions where the Company does not have or cannot utilize its NOLs. The federal income tax expense for the three and nine months ended September 30, 2014 represents income tax payments to the Internal Revenue Service (“IRS” or “Service”) and accrued interest on tax adjustments proposed by the Service related to their examination of the Company’s 2003, 2004, 2005 and 2008 tax years, as discussed below.

In March 2014, the IRS completed its examination of the Company’s 2003, 2004, 2005 and 2008 tax years and delivered a special report on their examination to the congressional Joint Committee on Taxation (the “Joint Committee”). As required by Internal Revenue Code (the “Code”) Section 6405(a), the Joint Committee reviews all income tax refund requests in excess of $2.0 million, including the Company’s $24.8 million refund request related to its 2003, 2004, 2005 and 2008 tax years, which was received in October 2010. The special report, which the Joint Committee accepted without exception, indicated that net adjustments to the tax returns under examination resulted in a $0.5 million refund overpayment. The Company made estimated payments related to the refund overpayment in January 2013 and March 2014 aggregating $0.6 million, including estimated interest. The IRS has provided a final accounting of the examination adjustments, which included additional tax payments and interest adjustments and the Company accrued $0.3 million of interest on tax adjustments in the quarter ended September 30, 2014. As of September 30, 2014, the Company has no tax years under examination and tax years 2003 through 2008 are closed.

As of December 31, 2013, the Company had federal and California NOLs of approximately $932.8 million and $994.0 million, respectively. The Company’s federal NOLs have a 20-year life and begin to expire in 2027. The Company’s California NOLs have either a 10-year or 20-year life and begin to expire in 2017. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends on the ability to generate future taxable income during the periods in which temporary differences become deductible. As a result of generating losses since

2006, among other factors, the Company has determined that sufficient uncertainty exists as to the realizability of its deferred tax assets and, as such, has placed a full valuation allowance of $390.2 million and $375.0 million on its deferred tax assets as of September 30, 2014 and December 31, 2013, respectively. The increase in the valuation allowance in the nine months ended September 30, 2014 includes a $42.4 million increase in the Company’s federal NOL, primarily as a result of adjustments from the IRS examinations.

NOTE 9 — SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS

Incentive Plan

The Amended and Restated 2006 Signature Group Holdings, Inc. Performance Incentive Plan (the “Incentive Plan”) provides for the grant of restricted common stock, common stock options, stock appreciation rights, and restricted stock units to employees, nonexecutive directors and consultants. Under the Incentive Plan, the Board is authorized to issue up to 2.5 million shares of common stock, or its equivalent. As of September 30, 2014 and December 31, 2013, there were no stock appreciation rights or restricted stock units outstanding and 0.5 million shares and 0.6 million shares, respectively, were available for grant under the Incentive Plan.

Director Compensation Program

The Director Compensation Program provides for annual grants of restricted shares of the Company’s common stock on the first business day of each calendar year to each nonexecutive Board member. These grants have a grant date fair value of $75 thousand per nonexecutive director, and vest on January 1 of the following year, with certain acceleration provisions. Compensation to nonexecutive directors joining the Company after January 1 is prorated for the time of service and those awards also vest on January 1

of the following year, with certain acceleration provisions. Beginning in January 2012, awards under the Director Compensation Program have been granted under the Incentive Plan.

Restricted common stock

Restricted common stock awards are granted with various vesting schedules ranging from immediately to five years. Grants that vest immediately have restrictions on transfer of the common stock for approximately one year. The following table provides details of nonvested restricted common stock for the nine months ended September 30, 2014 and the year ended December 31, 2013:

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Beginning nonvested restricted shares	139,641	$ 4.94	357,522	$ 4.32
Restricted shares vested	(93,098)	5.46	(356,886)	4.61
Restricted shares granted	62,776	10.35	139,005	5.70
Ending nonvested restricted shares	109,319	$ 7.61	139,641	$ 4.94

Share-based compensation related to restricted common stock awards was $0.1 million and $0.3 million for the three months ended September 30, 2014 and 2013, respectively, and $0.4 million and $0.9 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, the aggregate unamortized value of share-based restricted common stock awards was $0.5 million and $0.3 million, respectively, and will be recognized over a weighted average period of 1.8 years from September 30, 2014.

In January 2014, the Company repurchased 9,229 shares of its common stock from employees for $0.1 million to satisfy statutory payroll tax withholding requirements on vesting restricted common stock awards. The 2014 Director Compensation Program awards included the reissuance of 21,346 treasury shares. There were no grants to executive officers or employees in the three months ended September 30, 2014. Executive officers and employees were granted 34,868 shares of restricted common stock in the nine months ended September 30, 2014.

Common stock options

The Company also issues common stock options to employees under the Incentive Plan, with various vesting schedules ranging from immediately to four years. The fair value of each common stock option award is estimated on the grant date using either a Black-Scholes option pricing model for service-based awards or a trinomial lattice option pricing model for performance-based awards using assumptions in the following table. Expected volatilities are based on historical volatility of the Company’s common stock, since emerging from Chapter 11 bankruptcy proceeding (the “Bankruptcy Proceedings”) on June 11, 2010, and volatilities of similar entities. The common stock option awards expire eight to ten years following the grant date and the expected lives are based on the simplified method, as the Company does not have sufficient common stock option exercise experience to support a reasonable estimate of

expected term. The risk-free rate is the yield available on U.S. Treasury zero-coupon issues with remaining terms approximating the expected term at the grant date. No common stock options were issued in the nine months ended September 30, 2014. The following table provides assumptions used in determining the fair value of common stock options granted for the year ended December 31, 2013:

(Weighted averages)	Year Ended December 31, 2013	
Expected volatility	55.00	%
Risk-free interest rate	1.15	%
Expected term (in years)	5.60	
Dividend yield	—	%
Grant date fair value per share	$2.75	

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The following table presents activity of nonvested common stock options during the nine months ended September 30, 2014 and the year ended December 31, 2013:

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Beginning nonvested common stock options	673,833	$ 6.59	872,373	$ 5.41
Common stock options granted	—	—	205,000	9.52
Common stock options vested	(542,433)	5.95	(383,208)	5.47
Common stock options forfeited	—	—	(20,332)	3.62
Ending nonvested common stock options	131,400	$ 8.53	673,833	$ 6.59

The following table presents activity of exercisable common stock options during the nine months ended September 30, 2014 and the year ended December 31, 2013:

	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Beginning exercisable common stock options	543,867	$ 5.76	181,327	$ 5.21
Common stock options exercised	(50,000)	5.72	(20,668)	3.00
Common stock options vested	542,433	5.95	383,208	5.47
Ending exercisable common stock options	1,036,300	$ 5.86	543,867	$ 5.76

The weighted average remaining contractual life of common stock options outstanding was 6.7 years and 7.4 years as of September 30, 2014 and December 31, 2013, respectively, and the weighted average remaining contractual life for common stock options exercisable as of September 30, 2014 was 6.5 years.

The following table provides information pertaining to the intrinsic value of common stock options outstanding and exercisable as of September 30, 2014 and December 31, 2013:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Intrinsic value of common stock options outstanding	$ 2,519	$ 5,520
Intrinsic value of common stock options exercisable	2,390	2,716

The following table presents the intrinsic value of common stock options exercised and the fair value of common stock options that vested during the nine months ended September 30, 2014 and the year ended December 31, 2013:

(Dollars in thousands)	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Intrinsic value of common stock options exercised (1)	$ 132	$ 137
Fair value of common stock options vested(2)	1,111	756

(1) The intrinsic value of common stock options exercised is the difference between the fair market value of the Company's common stock on the exercise date and the exercise price.

(2) The fair value of common stock options vested is based on the grant date fair value.

Share-based compensation related to common stock option awards was $0.1 million and $0.3 million for the three months ended September 30, 2014 and 2013, respectively, and $0.5 million and $0.6 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, the aggregate unamortized value of share-based common stock option awards was $0.1 million and $0.7 million, respectively, and will be recognized over a weighted average period of 0.5 years from September 30, 2014.

401(k) saving plan

The Company maintains a 401(k) savings plan (the "Savings Plan") under which all full-time employees are eligible to participate. The Company matches 100% of each employee contribution to the Savings Plan, up to a maximum match of 4% of each employee's total compensation, up to the maximum employer contribution allowed under the Code. Matching contributions under the Savings Plan during the three months ended September 30, 2014 and 2013 were $38 thousand and $41 thousand, respectively, and $0.1 million during each of the nine months ended September 30, 2014 and 2013.

NOTE 10 — 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 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 per share, the basic weighted average number of common shares outstanding is increased by the dilutive effect of unvested restricted common stock awards, common stock options, and the Warrants, determined using the treasury stock method.

Unvested restricted common stock, common stock options, and the Warrants are antidilutive and excluded from the computation of diluted earnings per share if the assumed proceeds upon vesting or exercise are greater than the cost to reacquire the same number of shares at the average market price during the period, or when a loss from continuing operations has been reported. For the three months ended September 30, 2013 and the nine months ended September 30, 2014 and 2013, the impact of dilutive unvested restricted common stock, common stock options and the Warrants were excluded from diluted earnings (loss) per share as their impact would have been antidilutive as a result of the reported losses from continuing operations.

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2014	2013	2014	2013
Earnings (loss) from continuing operations	$339	$(5,785)	$(1,553)	$(10,080)
Earnings (loss) from discontinued operations, net of income taxes	428	(74)	1,931	(468)
Net earnings (loss)	767	(5,859)	378	(10,548)
Earnings (loss) attributable to noncontrolling interest	—	—	—	—
Net earnings (loss) attributable to Signature Group Holdings, Inc.	$767	$(5,859)	$378	$(10,548)
Basic:				
Weighted average basic shares outstanding	12,157,287	11,883,605	12,146,271	11,843,526
Earnings (loss) per share:				
Continuing operations	$0.03	$(0.48)	$(0.13)	$(0.85)

Discontinued operations	0.03	(0.01)	0.16	(0.04)
Basic earnings (loss) per share	$0.06	$(0.49)	$0.03	$(0.89)
Diluted:				
Weighted average diluted shares outstanding	12,911,163	11,883,605	12,146,271	11,843,526
Earnings (loss) per share:				
Continuing operations	$0.03	$(0.48)	$(0.13)	$(0.85)
Discontinued operations	0.03	(0.01)	0.16	(0.04)
Diluted earnings (loss) per share	$0.06	$(0.49)	$0.03	$(0.89)

The following table provides details on the average market price of Signature common stock and the incremental shares that were dilutive or potentially dilutive for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Average market price of Signature common stock	$8.77	$11.89	$9.93	$7.76
Dilutive and potentially dilutive common stock equivalents:				
Unvested restricted common stock	47,909	275,151	43,213	233,483
Common stock options	377,260	514,924	449,050	215,406
Warrants	328,707	636,628	466,338	175,925
Total dilutive and potentially dilutive common stock equivalents	753,876	1,426,703	958,601	624,814

NOTE 11 — FAIR VALUE MEASUREMENTS

Fair Value Estimates of Financial Instruments

The following tables present the fair value hierarchy, carrying values and fair value estimates of financial instruments as of September 30, 2014 and December 31, 2013:

		September 30, 2014	
(Dollars in thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value
ASSETS			
Continuing operations:			
Cash and cash equivalents	Level 1	$44,754	$ 44,754
Restricted cash	Level 1	21	21
Loans receivable, net (other noncurrent assets)	Level 3	1,249	1,250
Nonmarketable preferred equity security (other noncurrent assets)	Level 3	800	3,000
Discontinued operations:			
Cash and cash equivalents	Level 1	99	99
LIABILITIES			
Continuing operations:			
Line of credit	Level 3	$1,180	$ 1,180

Long-term debt	Level 3	14,575	14,575
Common stock warrant liability	Level 3	5,900	5,900

(Dollars in thousands)	Fair Value Hierarchy	December 31, 2013 Carrying Amount	Estimated Fair Value
ASSETS			
Continuing operations:			
Cash and cash equivalents	Level 1	$47,913	$ 47,913
Restricted cash	Level 1	2,805	2,805
Loans receivable, net (other noncurrent assets)	Level 3	1,407	1,400
Nonmarketable preferred equity security (other noncurrent assets)	Level 3	800	4,000
Discontinued operations:			
Cash and cash equivalents	Level 1	105	105
LIABILITIES			
Continuing operations:			
Line of credit	Level 3	$500	$ 500
Long-term debt	Level 3	17,200	17,200
Common stock warrant liability	Level 3	9,300	9,300

The Company used the following methods and assumptions to estimate the fair value of each class of financial instrument as of September 30, 2014 and December 31, 2013:

Cash and cash equivalents and restricted cash

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

Loans receivable, net

Loans receivable, net is classified as held for investment, carried at amortized cost in other noncurrent assets, and consists of commercial real estate loans. The estimated fair value of commercial real estate loans considers the collateral coverage of assets securing the loans and estimated credit losses, as well as variable interest rates, which approximate market interest rates.

Nonmarketable preferred equity security

Nonmarketable preferred equity security consists of 4.00% cumulative convertible preferred stock of a private company, with which the Company previously had a commercial lending relationship through Special Situations, and is classified in other noncurrent assets and carried at amortized cost. The preferred stock has a stated value of $2.0 million and is convertible to 45% of the common stock of the private company, on a fully diluted basis. The estimated fair value of the 45% convertible preferred equity interest is based on estimates of EBITDA, a sales multiple and a control discount.

Line of credit

The line of credit is a short-term borrowing facility, used primarily to support ongoing operations. The carrying value is a reasonable estimate of fair value, as this instrument has a short-term maturity and a market interest rate.

Long-term debt

Long-term debt consists of term loans, the fair value of which are based on the market characteristics of the individual loan terms, including interest rates, scheduled principal amortization and maturity dates, generally consistent with market terms.

Common stock warrant liability

Common stock warrant liability is an embedded derivative liability related to the Warrants, which contain antidilution and pricing protection provisions. The fair value of the common stock warrant liability is based on a trinomial lattice option pricing model that utilizes various assumptions, including exercise multiple, volatility and expected term.

Recurring and Nonrecurring Fair Value Measurements

In accordance with GAAP, certain assets and liabilities are required to be carried at estimated fair value and are referred to as recurring fair value measurements. From time to time, the Company is required to measure other assets and liabilities at estimated fair value, typically from the application of specific accounting guidance under GAAP. These adjustments to fair value generally result from the application of lower of cost or market accounting or impairment charges of individual assets.

The following table presents the estimated fair value of the Company's assets and liabilities measured on a recurring and nonrecurring basis as of September 30, 2014 and December 31, 2013, based on the fair value hierarchy:

(Dollars in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Recurring fair value measurements:				
September 30, 2014				
Common stock warrant liability	$ —	$ —	$ 5,900	$5,900
December 31, 2013				
Common stock warrant liability	$ —	$ —	$ 9,300	$9,300
Nonrecurring fair value measurements:				
December 31, 2013				
Real estate owned, net	$ —	$ —	$ 75	$75

The following table presents a reconciliation of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2014 and 2013:

(Dollars in thousands)	Beginning Balance	Income (Expense) Realized in Earnings	Transfers In/Out of Level 3	Purchases	Issuances	Settlements	Ending Balance
Three Months Ended September 30, 2014							
Common stock warrant liability	$ 8,300	$ 2,400	$ —	$ —	$ —	$ —	$5,900
Three Months Ended September 30, 2013							
Common stock warrant liability	$ 7,500	$ (3,300)	$ —	$ —	$ —	$ —	$10,800
Nine Months Ended September 30, 2014							
Common stock warrant liability	$ 9,300	$ 3,400	$ —	$ —	$ —	$ —	$5,900
Nine Months Ended September 30, 2013							
Common stock warrant liability	$ 2,350	$ (8,450)	$ —	$ —	$ —	$ —	$10,800

The following table summarizes losses and impairments on assets and liabilities recorded on a nonrecurring basis for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Inventory	$ —	$ —	$ 432	$ —
Goodwill	—	—	400	—
Real estate owned, net	—	—	—	283
	$ —	$ —	$ 832	$ 283

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The estimated fair value of the Company’s Level 3 assets and liabilities are determined using valuation techniques that incorporate unobservable inputs requiring significant judgment or estimation. The following tables present quantitative information about the valuation techniques and unobservable inputs applied to Level 2 and Level 3 recurring and nonrecurring fair value measurements as of September 30, 2014 and December 31, 2013:

	September 30, 2014			
(Dollars in thousands)	Estimated Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Liabilities:				
Common stock warrant liability	$ 5,900	Lattice option pricing model	Exercise multiple	2.8x (2.8x)
			Volatility	50.0% (50.0%)
			Expected term	4.6 — 4.7 years (4.7 years)

	December 31, 2013			
(Dollars in thousands)	Estimated Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Real estate owned, net (discontinued operations)	$75	Market approach	Marketability discounts	20.0% (20.0%)
			Estimated selling costs	8.0% (8.0%)
Liabilities:				
Common stock warrant liability	$9,300	Lattice option pricing model	Exercise multiple	2.8x (2.8x)
			Volatility	55.0% (55.0%)
			Expected term	4.1 — 4.2 years (4.2 years)

Significant unobservable inputs used in the fair value measurement of the common stock warrant liability include an exercise multiple, volatility and expected term. The Company uses these unobservable inputs in a trinomial lattice option pricing model. Significant increases in the exercise multiple or significant decreases in volatility or the expected term would result in a decrease in the estimated fair value of the common stock warrant liability, while significant decreases in the exercise multiple or significant increases in volatility or the expected term would result in an increase in the estimated fair value of the common stock warrant liability. The most important factor in estimating

the fair value of the common stock warrant liability is the market value of Signature's common stock as of the measurement date. The estimated fair value of the common stock warrant liability increases as the market value of the common stock increases and decreases as the market value of the common stock decreases.

Significant unobservable inputs used in the fair value measurement of real estate owned ("REO") are marketability discounts and estimated selling costs. The Company utilized third party collateral valuation services and real estate Internet websites to estimate the fair value of REO and adjusted these values to account for various factors, such as historical loss experience, anticipated liquidation timing and estimated selling costs. Significant increases in these assumptions would result in a decrease in the estimated fair value of REO, while decreases in these assumptions would result in a higher estimated fair value.

NOTE 12 — OPERATIONS BY REPORTABLE SEGMENT

Within continuing operations, the Company has two reportable segments: Industrial Supply and Special Situations. The Company's third segment consists of discontinued operations, which includes assets, liabilities and results of operations of Fremont's former businesses. In April 2014, the sales effort to dispose of Cosmed was suspended and the assets, liabilities and results of operations have been reclassified to continuing operations for all periods presented. Results of operations and other financial measures that are not included in the Company's three segments are included in Corporate and Other, including the results of Cosmed. The following tables present the operating results for each of the Company's segments for the three and nine months ended September 30, 2014 and 2013:

	Continuing Operations						
			Corporate			Discontinued	
	Industrial	Special					
(Dollars in thousands)	Supply	Situations	and Other	Eliminations	Total	Operations	Total
Three Months Ended September 30, 2014							
Operating revenues from external customers	$10,947	$ 40	$ —	$ —	$10,987	$ —	$10,987
Intersegment operating revenues	—	89	52	(141)	—	—	—
Operating costs	8,878	1	4,001	(141)	12,739	196	12,935
Other income (expense)	(8)	—	2,416	—	2,408	624	3,032
Earnings (loss) before income taxes	2,061	128	(1,533)	—	656	428	1,084
Income tax expense (benefit)	961	61	(705)	—	317	—	317
Net earnings (loss)	$1,100	$ 67	$ (828)	$ —	$339	$ 428	$767

	Continuing Operations						
			Corporate			Discontinued	
	Industrial	Special					
(Dollars in thousands)	Supply	Situations	and Other	Eliminations	Total	Operations	Total
Three Months Ended September 30, 2013							
Operating revenues from external customers	$10,230	$ (453)	$ 4	$ —	$9,781	$ 27	$9,808
Intersegment operating revenues	—	174	—	(174)	—	—	—
Operating costs	8,492	4	3,956	(174)	12,278	373	12,651
Other income (expense)	—	(14)	(3,281)	—	(3,295)	272	(3,023)
Earnings (loss) before income taxes	1,738	(297)	(7,233)	—	(5,792)	(74)	(5,866)
Income tax expense (benefit)	828	(214)	(621)	—	(7)	—	(7)
Net earnings (loss)	$910	$ (83)	$ (6,612)	$ —	$(5,785)	$ (74)	$(5,859)

	Continuing Operations						
			Corporate			Discontinued	
	Industrial	Special					
(Dollars in thousands)	Supply	Situations	and Other	Eliminations	Total	Operations	Total
Nine Months Ended September 30, 2014							
Operating revenues from external customers	$29,325	$ 124	$ —	$ —	$29,449	$ 39	$29,488
Intersegment operating revenues	—	254	101	(355)	—	—	—
Operating costs	24,271	8	9,604	(355)	33,528	949	34,477
Other income (expense)	(8)	—	3,061	—	3,053	2,841	5,894
Earnings (loss) before income taxes	5,046	370	(6,442)	—	(1,026)	1,931	905
Income tax expense (benefit)	2,369	109	(1,951)	—	527	—	527
Net earnings (loss)	$2,677	$ 261	$ (4,491)	$ —	$(1,553)	$ 1,931	$378

	Continuing Operations						
			Corporate			Discontinued	
	Industrial	Special					
(Dollars in thousands)	Supply	Situations	and Other	Eliminations	Total	Operations	Total
Nine Months Ended September 30, 2013							
Operating revenues from external customers	$28,054	$ 6,165	$35	$ —	$34,254	$ (96)	$34,158
Intersegment operating revenues	—	501	316	(817)	—	—	—
Operating costs	23,371	411	12,940	(817)	35,905	1,311	37,216
Other income (expense)	—	(14)	(8,329)	—	(8,343)	939	(7,404)
Earnings (loss) before income taxes	4,683	6,241	(20,918)	—	(9,994)	(468)	(10,462)
Income tax expense (benefit)	1,978	2,284	(4,176)	—	86	—	86
Net earnings (loss)	$2,705	$ 3,957	$(16,742)	$ —	$(10,080)	$ (468)	$(10,548)

The following table presents summarized balance sheet information for each of the Company’s segments as of September 30, 2014 and December 31, 2013:

	Continuing Operations						
			Corporate			Discontinued	
	Industrial	Special					
(Dollars in thousands)	Supply	Situations	and Other	Eliminations	Total	Operations	Total

Segment assets:							
September 30, 2014							
Current assets	$17,252	$ 134	$45,702	$ —	$63,088	$ 116	$63,204
Total assets	37,697	5,718	56,523	(14,153)	85,785	116	85,901
December 31, 2013							
Current assets	$14,530	$ 1,904	$49,700	$ —	$66,134	$ 223	$66,357
Total assets	35,507	7,200	54,365	(7,172)	89,900	223	90,123
Segment liabilities:							
September 30, 2014							
Current liabilities	$7,746	$ —	$3,782	$ —	$11,528	$ 198	$11,726
Total liabilities	19,627	3,657	19,326	(14,153)	28,457	5,948	34,405
December 31, 2013							
Current liabilities	$6,381	$ 60	$1,981	$ —	$8,422	$ 2,264	$10,686
Total liabilities	20,110	3,955	14,548	(7,172)	31,441	8,764	40,205

NOTE 13 — DISCONTINUED OPERATIONS

The following table presents the assets and liabilities, as of September 30, 2014 and December 31, 2013, of the components of the Company designated as discontinued operations as of September 30, 2014:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 99	$ 105
Real estate owned, net	—	75
Other current assets	17	43
Total current assets of discontinued operations	116	223
Other noncurrent assets	—	—
Assets of discontinued operations	$ 116	$ 223
Current liabilities:		
Judgment and accrued interest	$ —	$ 1,877
Litigation reserve	145	135
Trade payables	53	233
Unclaimed property	—	19
Total current liabilities of discontinued operations	198	2,264
Repurchase reserve	5,750	6,500
Liabilities of discontinued operations	$ 5,948	$ 8,764

Significant assets and liabilities of discontinued operations include:

Judgment and accrued interest

Judgment and accrued interest related to litigation brought and won by a former executive of Fremont. The judgment was paid in conjunction with the settlement of our subsequent litigation against the former executive (the “Faigin Settlement Agreement,” as part of the “Faigin Settlement”), which was finalized on April 25, 2014. See the “Faigin Matter” in Note 14—Commitments and Contingencies for additional information about the judgment.

Repurchase reserve

The Company maintains a repurchase reserve that represents estimated losses the Company may experience from repurchase claims, both known and unknown, based on claimed breaches of certain representations and warranties provided by FIL to counterparties that purchased the residential real estate loans FIL originated, predominantly from 2002 through the first quarter of 2007. Management estimates the likely range of the loan repurchase liability based on a number of factors, including, but not limited to, the timing of such claims relative to the loan origination date, the quality of the documentation supporting such claims, the number and involvement of cross-defendants, if any, related to such claims, and a time and expense estimate if a claim were to result in litigation. The estimate is based on currently available information and is subject to known and unknown uncertainties using multiple assumptions requiring significant judgment. Accordingly, actual results may vary significantly from the current estimate. Total outstanding repurchase claims as of September 30, 2014 were $101.7 million. Of the outstanding repurchase claims, there has been no communication or other action from the claimants:

- for more than six years in the case of $63.1 million in claims, or 62.0% of total claims outstanding;
- for more than four years, but less than six years, in the case of $10.3 million in claims, or 10.2% of total claims outstanding; and
- for more than two years, but less than four years, in the case of $28.3 million in claims, or 27.8% of total claims outstanding.

There were no repurchase claims received or settled during the nine months ended September 30, 2014 or the year ended December 31, 2013. The repurchase reserve liability was $5.8 million and $6.5 million as of September 30, 2014 and December 31, 2013, respectively. Recoveries of allowance for repurchase reserves were $0.3 million for each of the three months ended September 30, 2014 and 2013, and $0.8 million for each of the nine months ended September 30, 2014 and 2013.

The following table presents the operating results, for the three and nine months ended September 30, 2014 and 2013, for the components of the Company designated as discontinued operations as of September 30, 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Operating revenues and other income (expense)	$624	$299	$2,880	$843
Operating costs	196	373	949	1,311
Earnings (loss) from discontinued operations, before income taxes	428	(74)	1,931	(468)
Income tax expense	—	—	—	—
Earnings (loss) from discontinued operations, net of income taxes	$428	$(74)	$1,931	$(468)

NOTE 14 — COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Signature and SGGH, LLC have been named as a defendant in or as a party to a number of legal actions or proceedings that arose in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, management generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, management establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. The estimated loss is based upon currently available information and is subject to significant judgment, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss may change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of loss represents what management believes to be an estimate of loss only for certain matters meeting these criteria. It does not represent the Company’s maximum loss exposure.

Based on management’s current understanding of these pending legal actions and proceedings, it does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company’s control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company’s results of operations or cash flows for any particular reporting period.

The legal proceedings summarized below include material matters that were resolved or concluded since December 31, 2013, as well as ongoing matters that may have an adverse effect on our business and future financial results.

Final Bankruptcy Decree. On April 15, 2013, the United States Bankruptcy Court for the Central District of California (the “California Federal Bankruptcy Court”) granted the Company’s motion for a final decree, and issued a final decree in the Company’s Bankruptcy Proceedings. The California Federal Bankruptcy Court retained jurisdiction to preside over claims described below in the Colburn and Walker matters. Upon the California Federal Bankruptcy Court entering the final orders in the Colburn and Walker claims, described below, the Bankruptcy Proceedings will be closed.

Faigin Matter. On January 15, 2009, Alan Faigin, a former General Counsel of Fremont, filed a complaint against Fremont Reorganizing Corporation (“FRC”) in the Superior Court of the State of California, County of Los Angeles (the “California Superior Court”). On February 3, 2010, Mr. Faigin filed an amended complaint alleging wrongful termination, breach of his employment agreement, breach of the implied covenant of good faith and fair dealing, fraud and misrepresentation, negligent misrepresentation and violation of various California labor codes, among other allegations under a “joint employer” theory. In February 2010, a jury found for Mr. Faigin and awarded him damages in the amount of approximately $1.4 million, which Fremont recorded as an accrued liability in the first quarter of 2010. The Company appealed the California Superior Court decision to the California Court of Appeal (the “Court of Appeal”), which affirmed the lower court decision, and then to the California Supreme Court. On February 21, 2013, the California Supreme Court notified counsel for the Company that it would not review the Faigin matter, affirming the California Superior Court decision and judgment. On April 4, 2013, Mr. Faigin filed a motion for an order releasing funds deposited with the California Superior Court to enforce the judgment. In response, the Company filed a Motion to Stay Execution of Judgment while the Company’s claims against Mr. Faigin, discussed below, were litigated. On May 17, 2013, the judge granted the Company’s Motion to

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Stay Execution of Judgment and denied Mr. Faigin's motion to enforce the judgment. The judgment and accrued interest were paid following the execution of the Faigin Settlement Agreement.

On April 27, 2009, FRC filed a cross-complaint against Mr. Faigin in the California Superior Court for breach of confidence, breach of fiduciary duty, representing conflicting interests and indemnification; and the Company was seeking $4.6 million in damages. On June 9, 2009, the California Superior Court dismissed the cross-complaint pursuant to California's anti-SLAPP statute. FRC appealed the dismissal of this cross-complaint and on August 30, 2011, the Court of Appeal reversed and remanded the dismissal of FRC's cross-complaint causes of action against Mr. Faigin for breach of fiduciary duty and breach of confidence. On December 9, 2013, the California Superior Court denied Mr. Faigin's motion for summary judgment. On April 25, 2014, the Company and Mr. Faigin executed the Faigin Settlement Agreement, under which the Company received $1.5 million.

Colburn Matter. On December 8, 2009, Gwyneth Colburn, the former Executive Vice President for Fremont's Commercial Real Estate group, filed a complaint in the California Superior Court against FIL and unnamed defendants for breach of contract related to a management continuity agreement ("MCA") executed in August 2003, and extended in August 2007, and, separately, filed a proof of claim in the Bankruptcy Proceedings. In the California Superior Court action, Ms. Colburn contends she is owed $3.2 million, while in the Bankruptcy Proceedings, Ms. Colburn filed a $2.6 million proof of claim.

On August 9, 2011, the California Superior Court entered a judgment granting the Company's Motion for Summary Judgment and dismissing the complaint. On September 22, 2011, Ms. Colburn filed a Notice of Appeal from this dismissal. Appellate briefs from both parties have been filed.

On March 14, 2014, the California Federal Bankruptcy Court orally announced its ruling, from a trial held in January 2014, to grant the Company's motion to disallow Ms. Colburn's claim. On March 26, 2014, the California Federal Bankruptcy Court entered a written order granting the Company's motion to disallow Ms. Colburn's claim.

On April 7, 2014, Ms. Colburn filed a motion for reconsideration of the California Federal Bankruptcy Court's March 26, 2014 order granting the Company's motion to disallow Ms. Colburn's claim. On June 23, 2014, the California Federal Bankruptcy Court issued an order denying Ms. Colburn's motion for reconsideration. On June 30, 2014, Ms. Colburn filed a notice of appeal of the California Federal Bankruptcy Court's order granting the Company's motion to disallow Ms. Colburn's claim and the denial of Ms. Colburn's motion for reconsideration. On July 2, 2014, the notice of appeal was referred to the United States District Court for the Central District of California (the "U.S. District Court"). The appeal to the U.S. District Court is fully briefed. No hearing date has been set.

Walker Matter. On June 10, 2011, Kyle Walker, the former Chief Executive Officer and President of FIL, filed a complaint in the California Superior Court against the Company and unnamed defendants for breach of contract, certain California Labor Code violations and breach of fiduciary duty related to his MCA executed in August 2003, and extended in August 2006, and, separately, a proof of claim in the Bankruptcy Proceedings. In the California Superior Court action, Mr. Walker contends he is owed $4.6 million, while in the Bankruptcy Proceedings, Mr. Walker filed a $2.5 million proof of claim.

On August 26, 2011, Mr. Walker dismissed his complaint, without prejudice, against the Company as successor in interest to Fremont, but not as a successor in interest to FIL. On September 19, 2012, the Company obtained the California Superior Court's final ruling granting the Company's Motion for Summary Judgment and on October 26, 2012, the judgment was entered. On November 29, 2012, Mr. Walker moved for a new trial, based on the Court of Appeal's ruling in the Faigin matter. On January 8, 2013, the California Superior Court granted Mr. Walker's motion for a new trial. On February 5, 2013, the Company filed an appeal of the California Superior Court's order granting Mr. Walker a new trial. The Court of Appeal subsequently reversed the ruling granting Mr. Walker's motion for a new

trial. Mr. Walker filed a petition for rehearing before the Court of Appeal, which was denied. Mr. Walker has filed a petition for review before the California Supreme Court. The Company filed its answer to the petition on October 14, 2014.

On March 14, 2014, the California Federal Bankruptcy Court orally announced its ruling, from a trial held in January 2014, to grant the Company's motion to disallow Mr. Walker's claim. On March 26, 2014, the California Federal Bankruptcy Court entered a written order granting the Company's motion to disallow Mr. Walker's claim.

On April 7, 2014, Mr. Walker filed a motion for reconsideration of the California Federal Bankruptcy Court's March 26, 2014 order granting the Company's motion to disallow Mr. Walker's claim. On June 23, 2014, the California Federal Bankruptcy Court issued an order denying Mr. Walker's motion for reconsideration. On June 30, 2014, Mr. Walker filed a notice of appeal of the California Federal Bankruptcy Court's order granting the Company's motion to disallow Mr. Walker's claim and the denial of Mr. Walker's motion for reconsideration. On July 2, 2014, the notice of appeal was referred to the U.S. District Court. The appeal to the U.S. District Court is fully briefed. No hearing date has been set.

RMBS Defense, Indemnity and Contribution Matters. In connection with residential mortgage-backed securities offerings ("RMBS Offerings") involving loans originated by FIL, either or both FIL and its subsidiary entered into loan purchase agreements, underwriting agreements and indemnification and contribution agreements, which contained various representations and warranties relating to the loans. Investment banks involved in these RMBS Offerings have been sued in a number of actions concerning their

activities related to subprime mortgages ("RMBS Actions"), where the Company or its former businesses is not a named defendant. The Company has received demands for defense, indemnity and contribution from defendants in various RMBS Actions. The Company has rejected each of these demands, as it is the Company's position that the demanding parties are being sued for conduct not chargeable to the Company or its former businesses. There is no assurance that the Company or its former businesses will not be named as defendants in additional RMBS Actions or receive additional demands for defense, indemnity and contribution. It is the Company's intention to vigorously defend any claims seeking defense, indemnity or contribution, but the Company cannot presently predict whether such claims will be pursued or what the outcome would be.

Subpoenas for Information and Documents. In addition to the above-described RMBS Actions, the Company has received and responded to a number of subpoenas for information from federal authorities and other third parties in civil litigation matters in which the Company is not a defendant, but which concern home mortgage transactions involving the Company's origination and sale of whole loans, and certain RMBS Offerings.

Unpaid Claims. As of September 30, 2014, there remained two open claims filed with the California Federal Bankruptcy Court, comprised of the disputed Colburn and Walker claims totaling $5.1 million.

NOTE 15 — SUBSEQUENT EVENTS

GRSA Acquisition

On October 17, 2014, Signature and its wholly owned subsidiaries, SGH Acquisition Holdco, Inc. ("Buyer") and Evergreen Holding Germany GmbH, entered into the Purchase Agreement with Aleris and certain of its affiliates to acquire all of the equity interests in the entities comprising the GRSA Business from Aleris, for a purchase price of $525.0 million. The purchase price is comprised of $495.0 million in cash and $30.0 million in a new series of non-participating preferred stock of Signature (the "Series B Preferred Stock") to be issued to Aleris.

The Purchase Agreement contains customary representations, warranties and covenants of the parties, non-competition and non-solicitation provisions, and indemnification provisions subject to specified thresholds and other limitations. Aleris and its selling subsidiaries may not solicit or discuss alternative transactions for the GRSA Business, and if the Purchase Agreement is terminated under certain circumstances, Signature will pay Aleris a $26.3 million termination fee. The closing of the proposed transaction is subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and certain Mexican competition laws, the transfer of certain discontinued real property locations by Aleris to its subsidiary, the release of certain liens, guarantees and liabilities related to certain Aleris debt, and other customary closing conditions. The transaction is presently anticipated to close prior to January 31, 2015. There can be no assurance that the transaction will close by such date, if at all.

The transaction is not subject to a financing contingency. In connection with and in the Purchase Agreement, Signature undertook certain covenants and entered into certain commitment letters with respect to various debt and equity financings (the "Financings"). Signature currently intends to finance the $495.0 million cash portion of the transaction purchase price and costs associated with the transaction using a combination of cash, equity and debt as follows: (i) $45.0 million in cash from Signature, (ii) the net proceeds of a registered offering of Signature's common stock (currently anticipated to be 3.7 million shares, with a customary greenshoe; the "Equity Offering"), (iii) the net proceeds of a rights offering of $125.0 million (the "Rights Offering"), less the net proceeds from the Equity Offering, (iv) $300.0 million in a committed bridge financing provided by Goldman Sachs Bank USA ("Goldman Sachs") and Deutsche Bank Securities Inc. and an affiliate thereof (collectively, "Deutsche Bank") of privately-placed senior secured

notes (the "Senior Secured Notes") issued by the Buyer or a subsidiary thereof (the "Notes Offering"), and (v) $70.0 million in opening draws on a committed revolving asset-based lending facility (the "Asset-Based Facility") provided by General Electric Capital Corporation and GE Capital Markets, Inc. (collectively, "GE Capital-U.S.") and a German factoring facility (the "Factoring Facility") provided by GE Capital Bank AG ("GE Capital-Germany" and together with GE Capital-U.S. "GE Capital"). To backstop the proceeds of the Equity Offering and Rights Offering, Signature has entered into (x) commitment letters (the "Backstop Commitment Letters") with Zell Credit Opportunities Master Fund L.P. ("ZCOF") and funds managed by another institutional investor for a secured bridge term loan of up to $50.0 million (the "Backstop Notes") and a purchase of common shares of up to $45.0 million and (y) a backstop agreement with Aleris (the "Backstop Agreement") to purchase an additional $30.0 million of preferred stock. There can be no assurance that Signature will undertake or complete any such financing transaction. The final structure and terms of the acquisition financing will be subject to market conditions, and may be materially different than current expectations.

This Report does not constitute an offer of any securities for sale. Certain debt and equity securities referenced herein will be offered only by private placement and will not be and have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Further, no offer to buy any of our common stock, including pursuant to any primary equity or rights offering, can be accepted, and no part of the purchase price can be received, until the registration statement applicable to such shares has become effective, and we may withdraw or revoke any such offer, without obligation or commitment of any kind, at any time prior to notice of our acceptance given after the effective date.

Private placement of common stock

On October 27, 2014, the Company entered into a Stock Purchase Agreement (the "Private Placement Agreement") with Kettle Hill Partners, LP and Kettle Hill Partners II, LP (collectively, the "Investors") relating to the issuance and sale of the Company's common stock in a private placement.

On October 28, 2014, the Company closed the private placement and sold 300,000 shares of common stock (the "Shares") to the Investors at $10.00 per share, raising $3.0 million. The Company plans to use the proceeds from the sale of the Shares for general corporate purposes, including to fund a portion of the consideration in the GRSA Acquisition.

The Shares were issued in reliance upon the exemptions from registration provided by Section 4(a)(2) under the Securities Act and Rule 506 of Regulation D promulgated thereunder. The Shares were issued directly by the Company and did not involve a public offering or general solicitation. The Investors in the private placement are "accredited investors" as that term is defined in Rule 501 of Regulation D and acquired the Shares for investment only and not with a present view toward, or for resale in connection with, the public sale or distribution thereof.

In connection with the Private Placement Agreement, the Company entered into a registration rights agreement with the Investors, pursuant to which the Company agreed to file a registration statement on Form S-3 (or on Form S-1, if the Company is not then eligible to use Form S-3) and use its best efforts to cause such registration statement to become effective within three months after the date of filing such registration statement. The Company is under no obligation to file a registration statement prior to the earlier of January 1, 2015 and such later date as agreed to by the parties.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item 2 contains certain non-GAAP financial information. See "Reconciliation of Non-GAAP Financial Measures" below for important information regarding the non-GAAP financial information included in this Item 2, together with a reconciliation of such non-GAAP financial information presented to the most comparable GAAP financial information.

Certain statements in this Quarterly Report on Form 10-Q for the period ended September 30, 2014 (the "Report"), including, without limitation, matters discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), should be read in conjunction with the unaudited condensed consolidated financial statements, related notes, and other detailed information included elsewhere in this Report and with our audited consolidated financial statements, related notes thereto, and other detailed information included elsewhere in our Annual Report. We are including this cautionary statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain statements that are not historical fact are forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "anticipates," "expects," "intends," "plans," "projects," "strategy," "estimates," "assumes," "may," "should," "will, other similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements to differ materially from the forward-looking statements. These forward-looking statements are based on our current beliefs, intentions and expectations. These statements are neither guarantees nor indicative of future performance. Important assumptions and other important factors that could cause changes in our financial condition or results of operations or could cause actual results to differ materially from those forward-looking statements include, but are not limited to:

the timing and completion of the proposed GRSA Acquisition, the satisfaction or waiver of the closing conditions for the GRSA Acquisition, or any other failure to close the GRSA Acquisition;
our ability to obtain all Financing for the GRSA Acquisition or the terms of any such financing;
as a result of the Financings in connection with the GRSA Acquisition that would constitute indebtedness, our high leverage, substantial debt, security interests in our assets and revenue and, in the case of such indebtedness and the terms of the proposed Series B Preferred Stock, restrictive covenants that restrict the operation of our business and the business of our subsidiaries;
changes to our business, operations and organizational structure as a result of the proposed GRSA Acquisition and our ability to successfully integrate the GRSA Business entities;
uncertainty regarding our expected financial performance following completion of the GRSA Acquisition;
disruption in relationships with customers, employees and suppliers relating to the GRSA Business and our non-GRSA Business as a result of the GRSA Acquisition;
in the event we consummate the GRSA Acquisition:

- changes in domestic and international demand for recycled aluminum, including in the automotive, aerospace, building and construction, consumer packaging and steel and durable goods manufacturing industries;
- in the event we consummate the GRSA Acquisition, the cyclical nature of the aluminum industry, material adverse changes in the aluminum industry or our end-use segments, such as global and regional supply and demand conditions for aluminum and aluminum products, and changes in our customers' industries;
- commodity price fluctuations in the aluminum market and our ability to enter into effective commodity derivatives or arrangements to manage effectively our exposure to such commodity price fluctuations;

our ability to successfully identify, acquire and integrate additional companies and businesses that perform and meet expectations after completion of such acquisitions;
our ability to achieve future profitability;
our ability to control operating costs and other expenses;
our ability service our outstanding debt and secure additional financing;
the difficulty of keeping expense growth at modest levels while increasing revenues;

changes in business or other market conditions;
our ability to access federal and state NOLs and realize value from future tax benefits, including in connection with the operation of the GRSA Business following the proposed GRSA Acquisition;
our ability to obtain the expected benefits of the Company's reincorporation in Delaware (the "Reincorporation");
our dependence, as a holding company, on funding from our operating subsidiaries;
general economic conditions may be worse than expected;
competition among other companies with whom we compete may increase significantly;

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the loss of key personnel or the ability to cost-effectively attract, retain and motivate key personnel;
our ability to maintain disclosure controls and procedures and internal control over financial reporting to ensure timely, effective and accurate financial reporting, and to integrate the GRSA business into our disclosure controls and procedures and internal control over financial reporting;
changes in accounting policies and practices, as may be adopted by regulatory agencies and other organizations, including without limitation the FASB, the SEC and the Public Company Accounting Oversight Board;
changes in laws or government regulations or policies affecting the legacy businesses related to residential mortgage lending and servicing, which are now a part of discontinued operations;
the impact of current or new litigation matters, or changes in litigation strategies brought against us in our current businesses, the GRSA Business or SGGH, LLC's former businesses;
our ability to successfully defend against demands by investment banks for defense, indemnity and contribution where the banks have been sued in actions concerning their activities relating to securitizations involving loans originated by SGGH, LLC's former businesses;
changes in the financial condition or future prospects of issuers of debt or equity securities that we own; and
other factors, risks and uncertainties described in this Report and in our Annual Report under Part I, Item 1A "Risk Factors," as may be supplemented in our other filings with the Commission from time to time.

All forward-looking statements set forth herein are qualified by these cautionary statements and are made only as of the date hereof. We undertake no obligation to update or revise the information contained herein including, without limitation, any forward-looking statements whether as a result of new information, subsequent events or circumstances, or otherwise, unless otherwise required by law.

OVERVIEW

Signature is a holding company that owns all of the outstanding interests of its operating company, SGGH, LLC. Our operations are largely concentrated in one operating segment, Industrial Supply. In 2013, we substantially wound down a second operating segment, Special Situations, which selectively acquired sub-performing and nonperforming commercial and industrial loans, leases and mortgages. The Board and management expect to grow our business through acquisitions, as well as through organic efforts within existing operations described below. Our current business strategy seeks to leverage our public company status, considerable federal and California NOLs and the experience of our Board and management to acquire operating businesses at prices and on terms that are aligned with our current growth plans.

The Company's unaudited condensed consolidated financial statements included in this Report and this MD&A present the Company's financial condition and results of operations by operating segment. We report our results of operations under both continuing and discontinued operations. All of the activities related to our operating subsidiaries and our growth strategies, as well as ongoing general corporate functions are included in continuing operations.

As of September 30, 2014, Signature's continuing operations had $85.8 million of assets, or 99.9% of our total assets, and $28.5 million of liabilities, or 82.7% of our total liabilities. Continuing operations includes Industrial Supply and Special Situations, plus Corporate and Other, which includes the assets, liabilities and operating results of operating subsidiaries that do not meet the reportable segment threshold and operating costs that relate to administrative, financial and human resource activities that are not allocated to specific operations and are excluded from segment results of operations.

Industrial Supply. Our Industrial Supply segment, which includes NABCO, one of the largest circuit breaker suppliers in the United States, is based in Burbank, California. We focus on the replacement circuit breaker market for commercial and industrial circuit breakers, where replacement time is extremely important, and we also supply residential circuit breakers. We sell from nine warehouse distribution centers across North America, which enables us to improve customer delivery times, a key attribute of our service-oriented model. Industrial Supply's assets are

primarily comprised of inventory, accounts receivable and intangible assets and its liabilities are primarily comprised of trade payables, a line of credit and long-term debt.

Special Situations. Special Situations selectively acquired sub-performing and nonperforming commercial and industrial loans, leases and mortgages, typically at a discount to unpaid principal balance. Special Situations also took positions in corporate bonds and other structured debt instruments, which were generally sub-performing or nonperforming. During the second quarter of 2013, a majority of Special Situations' assets were sold, specifically its portfolio of residential real estate loans. In the fourth quarter of 2013, its commercial loans were repaid in full. Special Situations currently holds a small portfolio of commercial real estate loans and a nonmarketable preferred equity security, and has no significant liabilities.

SGGH, LLC's operations also include a discontinued operations segment, where it holds and manages certain assets and liabilities related to the former businesses of Fremont. During the quarter ended June 30, 2014, Cosmed, which owns the product formulations

for a line of skin care products, was reclassified from discontinued operations to continuing operations when efforts to sell Cosmed were suspended. As of September 30, 2014, there are assets with nominal carrying values in discontinued operations and the remaining liabilities are being managed to limit costs and exposures.

Recent Developments

GRSA Acquisition

On October 17, 2014, we, and two newly formed, wholly owned subsidiaries, entered into the Purchase Agreement with Aleris and certain of its affiliates, to acquire Aleris' global recycling and specifications alloys business for a total of $525.0 million; $495.0 million in cash and $30.0 million in Series B Preferred Stock issued to Aleris.

The transaction is not subject to a financing contingency. We currently intend to finance the cash portion of the purchase price and associated transaction costs using a combination of cash, equity and debt as follows: (i) $45.0 million in cash from Signature, (ii) the net proceeds of the Equity Offering of 3.7 million shares of our common stock, (iii) the net proceeds of the $125.0 million Rights Offering for our common stock, less the net proceeds from the Equity Offering, (iv) $300.0 million in Senior Secured Notes issued by the Buyer, and (v) $70.0 million in opening draws on the Asset-Based Facility and the Factoring Facility. We have entered into commitment letters with Goldman Sachs and Deutsche Bank on the Senior Secured Notes, and with GE Capital on the Asset-Based Facility and Factoring Facility. We have also entered into backstop arrangements for the Equity Offering and Rights Offering with ZCOF and the funds of another institutional investor for up to $50.0 million in a secured bridge term loan and a purchase of up to $45.0 million in common shares, as well as with Aleris for a purchase of an additional $30.0 million of preferred stock. There can be no assurance that we will obtain this financing or close the transaction in a timely fashion or at all. The final structure and terms of the GRSA Acquisition financing will be subject to market conditions, and may be materially different than current expectations. Subject to the completion of all closing conditions, we presently anticipate closing the GRSA Acquisition prior to January 31, 2015. There can be no assurance that the transaction will close by such date, however, if at all. For more information regarding the GRSA Acquisition and Financings, see Note 15—Subsequent Events in Part I, Item 1 of this Report.Private placement of common stock

On October 28, 2014, we issued 300,000 shares of our common stock in a private placement at $10.00 per share, raising $3.0 million. We plan to use the proceeds for general corporate purposes, including to fund a portion of the consideration in the GRSA Acquisition.

Critical Accounting Policies

The accounting and reporting policies of the Company conform to GAAP and are fundamental to understanding our unaudited condensed consolidated financial statements and this MD&A. Several of our policies are critical as they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and affect the reported amount of assets, liabilities, and operating revenues and costs included in the unaudited condensed consolidated financial statements. Circumstances and events that differ significantly from those underlying the Company's estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates. These policies govern (i) the repurchase reserve, (ii) deferred tax asset valuation, and (iii) goodwill and intangible assets, each of which is described in Part II, Item 7 of the Annual Report. On an ongoing basis, we evaluate our estimates and assumptions based on historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable under the circumstances; however, actual results may differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities as of the balance sheet dates and our results of operations for the reporting periods presented.

There were no changes in our critical accounting policies from those disclosed in the Annual Report.

RESULTS OF OPERATIONS

The following table presents selected components of the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Operating revenues	$10,987	$9,781	$29,449	$34,254
Operating costs	12,739	12,278	33,528	35,905
Operating loss	(1,752)	(2,497)	(4,079)	(1,651)
Other income (expense)	2,408	(3,295)	3,053	(8,343)
Earnings (loss) from continuing operations before income taxes	656	(5,792)	(1,026)	(9,994)
Income tax expense (benefit)	317	(7)	527	86
Earnings (loss) from continuing operations	339	(5,785)	(1,553)	(10,080)
Earnings (loss) from discontinued operations, net of income taxes	428	(74)	1,931	(468)
Net earnings (loss)	$767	$(5,859)	$378	$(10,548)
EARNINGS (LOSS) PER SHARE				
Basic:				
Continuing operations	$0.03	$(0.48)	$(0.13)	$(0.85)
Discontinued operations	0.03	(0.01)	0.16	(0.04)
Basic earnings (loss) per share	$0.06	$(0.49)	$0.03	$(0.89)
Diluted:				
Continuing operations	$0.03	$(0.48)	$(0.13)	$(0.85)
Discontinued operations	0.03	(0.01)	0.16	(0.04)
Diluted earnings (loss) per share	$0.06	$(0.49)	$0.03	$(0.89)

Consolidated Results of Operations

As discussed in more detail below in "Segments' Results of Operations," net earnings for the three months ended September 30, 2014 increased $6.7 million to $0.8 million, from a $5.9 million net loss for the three months ended September 30, 2013, and net earnings for the nine months ended September 30, 2014 increased $10.9 million to $0.4 million, from a $10.5 million loss for the nine months ended September 30, 2013. Basic earnings per share and diluted earnings per share were each $0.06 per share for the three months ended September 30, 2014. Basic and diluted earnings per share were $0.03 per share in the nine months ended September 30, 2014, and basic and diluted loss per share was $0.49 per share and $0.89 per share in the three and nine months ended September 30, 2013, respectively.

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Segments' Results of Operations

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

The following tables present our segment results of operations for the three months ended September 30, 2014 and 2013:

	Continuing Operations						
			Corporate			Discontinued	
(Dollars in thousands)	Industrial Supply	Special Situations	and Other	Eliminations	Total	Operations	Total
Three Months Ended September 30, 2014							
Operating revenues:							
Net sales	$10,947	$ —	$ —	$ —	$10,947	$ —	$10,947
Interest	—	129	52	(141)	40	—	40
Total operating revenues	10,947	129	52	(141)	10,987	—	10,987
Operating costs:							
Cost of goods sold	6,888	—	—	—	6,888	—	6,888
Selling, general and administrative	532	1	538	—	1,071	27	1,098
Compensation	870	—	985	—	1,855	—	