

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

For the Quarterly Period Ended March 31, 2011

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number 001-08007

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

Nevada
(State or Other Jurisdiction of Incorporation or
Organization)

95-2815260
(I.R.S. Employer Identification Number)

15303 Ventura Blvd., Ste. 1600
Sherman Oaks, California 91403
(Address of Principal Executive Offices)(Zip Code)

(805) 435-1255
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. £ Yes T 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). £ Yes £ No

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

£ Large Accelerated Filer

£ Accelerated Filer

£ Non-Accelerated Filer (Do not check if a smaller reporting company) T Smaller Reporting Company

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

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

SIGNATURE GROUP HOLDINGS, INC.
 QUARTERLY REPORT ON FORM 10-Q
 For the Quarterly Period Ended March 31, 2011

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EXPLANATORY NOTE

Signature Group Holdings, Inc. (“Signature,” formerly Fremont General Corporation (“Fremont”), or “Company”, “we,” “us” or “our”) is filing this Quarterly Report on Form 10-Q for the three months ended March 31, 2011 (the “Form 10-Q”) as part of its efforts to become current in its filing obligations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

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

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

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

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

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Signature Group Holdings, Inc.
Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	\$60,093	\$ 70,424
Investment securities, available for sale	2,236	2,184
Loans receivable, net	6,057	1,967
Trade and other receivables, net	811	198
Inventories	1,364	-
Income taxes receivable	839	797
Premises, held for sale	2,371	-
Intangible assets, net	1,199	-
Other assets	481	2,713
Assets of discontinued operations	55,355	57,261
TOTAL ASSETS	\$130,806	\$ 135,544
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Lines of credit	\$594	\$ -
Accrued expenses and other liabilities	2,981	2,033
Notes payable	39,000	39,000
Common stock warrant liability	4,899	5,700
Liabilities of discontinued operations	13,575	15,090
TOTAL LIABILITIES	61,049	61,823
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, \$0.01 par value; 10,000 shares authorized; none issued or outstanding	-	-
Common stock, \$0.01 par value; 190,000,000 shares authorized; 112,618,463 and 112,104,768 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	1,121	1,118
Additional paid-in capital	444,191	444,103
Accumulated deficit	(375,755)	(371,541)
Accumulated other comprehensive income	60	41
Total shareholders' equity - Signature Group Holdings, Inc.	69,617	73,721
Noncontrolling interest	140	-
TOTAL SHAREHOLDERS' EQUITY	69,757	73,721
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$130,806	\$ 135,544

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)	Three Months Ended March 31,	
	2011	2010
Revenues:		
Net sales	\$546	\$-
Interest income	156	95
Other, net	-	86
Total revenues	702	181
Expenses:		
Cost of goods sold	273	-
Selling, general and administrative expenses	610	1,193
Interest expense	888	1,166
Amortization of intangibles	26	-
Compensation	279	511
Professional fees	1,076	12
Total expenses	3,152	2,882
Other income (expense):		
Change in fair value of common stock warrant liability	801	-
Gain on acquisition	281	-
Total other income (expense)	1,082	-
Loss from continuing operations before reorganization items and income taxes	(1,368)	(2,701)
Reorganization items, net	499	2,920
Loss from continuing operations before income taxes	(1,867)	(5,621)
Income tax (benefit) expense	(99)	-
Loss from continuing operations	(1,768)	(5,621)
Loss from discontinued operations, net of income taxes	(2,406)	(4,735)
Net loss	(4,174)	(10,356)
Earnings attributable to noncontrolling interest	40	-
Net loss attributable to Signature Group Holdings, Inc.	\$(4,214)	\$(10,356)
LOSS PER SHARE:		
Basic and diluted:		
Loss from continuing operations	\$(0.02)	\$(0.07)
Loss from discontinued operations, net of income taxes	(0.02)	(0.06)
Net loss attributable to Signature Group Holdings, Inc.	\$(0.04)	\$(0.13)

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income		Noncontrolling Interest	Total
	Number of Outstanding Shares	Amount	Number of Outstanding Shares	Amount			Deficit	Income		
Balance, December 31, 2010	-	\$ -	112,104,768	\$ 1,118	\$ 444,103	\$ (371,541)	\$ 41	\$ -	\$ 73,721	
Net loss attributable to Signature Group Holdings, Inc.	-	-	-	-	-	(4,214)	-	-	(4,214)	
Noncontrolling interest from acquisition	-	-	-	-	-	-	-	100	100	
Earnings attributable to noncontrolling interest	-	-	-	-	-	-	-	40	40	
Issuance of restricted stock, net of forfeitures	-	-	513,695	-	-	-	-	-	-	
Restricted stock vested	-	-	-	3	(3)	-	-	-	-	
Amortization of restricted stock	-	-	-	-	91	-	-	-	91	
Change in accumulated other comprehensive income	-	-	-	-	-	-	19	-	19	
Balance, March 31, 2011	-	\$ -	112,618,463	\$ 1,121	\$ 444,191	\$ (375,755)	\$ 60	\$ 140	\$ 69,757	

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Three Months Ended	
	2011	March 31, 2010
Cash flows from operating activities:		
Net loss	\$ (4,174)	\$ (10,356)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations, net of income taxes	2,406	4,735
Depreciation and amortization	69	34
Change in fair value of common stock warrant liability	(801)	-
Provision for loan losses	-	38
Amortization of restricted stock	91	-
Gain on acquisition	(281)	-
Interest accretion	(36)	-
Changes in assets and liabilities:		
Trade and other receivables, net	(41)	-
Inventories	(90)	-
Income taxes receivable	(42)	529
Other assets	(246)	166
Accrued expenses and other liabilities	858	2,127
Net cash used in operating activities of discontinued operations	(3,353)	(3,511)
Net cash used in operating activities	(5,640)	(6,238)
Cash flows from investing activities:		
Acquisition of business	(1,000)	-
Purchases of loans receivable	(4,250)	-
Advances on loans receivable	(1,225)	-
Principal collected on loans receivable		