

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 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  
(State or Other Jurisdiction of

46-3783818  
(I.R.S. Employer

Incorporation or Organization)

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)

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

Indicate by 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 Securities Exchange Act of 1934.

Large Accelerated Filer

Accelerated Filer

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  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

As of August 1, 2014, there were 12,254,649 shares of the Registrant’s common stock outstanding.

SIGNATURE GROUP HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Period Ended June 30, 2014

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## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements  
Signature Group Holdings, Inc.

## Condensed Consolidated Balance Sheets

	June 30, 2014	December 31, 2013
(Dollars in thousands, except per share amounts)		
<b>ASSETS</b>	<b>(Unaudited)</b>	
Current assets:		
Cash and cash equivalents	\$ 44,844	\$47,913
Restricted cash	784	2,805
Trade accounts receivable, net	4,869	3,737
Inventory	11,614	10,777
Other current assets	716	902
Current assets of discontinued operations	144	223
Total current assets	62,971	66,357
Intangible assets, net	2,282	2,904
Goodwill	17,780	18,180
Other noncurrent assets	2,712	2,682
<b>TOTAL ASSETS</b>	<b>\$ 85,745</b>	<b>\$90,123</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade payables	\$ 3,622	\$3,228
Line of credit	750	500
Long-term debt due within one year	3,800	3,600
Other current liabilities	1,070	1,094
Current liabilities of discontinued operations	230	2,264
Total current liabilities	9,472	10,686
Long-term debt	11,650	13,600
Common stock warrant liability	8,300	9,300
Other noncurrent liabilities	96	119
Noncurrent liabilities of discontinued operations	6,000	6,500
<b>TOTAL LIABILITIES</b>	<b>35,518</b>	<b>40,205</b>
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; 12,254,649		
issued and outstanding as of June 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 )

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June 30, 2014 and December 31, 2013		
Additional paid-in capital	452,421	451,853
Accumulated deficit	(402,206 )	(401,817)
Total stockholders' equity — Signature Group Holdings, Inc.	50,227	49,918
Noncontrolling interest	—	—
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>50,227</b>	<b>49,918</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 85,745</b>	<b>\$ 90,123</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(Dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Operating revenues:</b>				
Industrial Supply	\$ 10,152	\$ 9,452	\$ 18,378	\$ 17,823
Special Situations	42	5,414	84	6,617
Corporate and Other	—	14	—	32
<b>Total operating revenues</b>	<b>10,194</b>	<b>14,880</b>	<b>18,462</b>	<b>24,472</b>
<b>Operating costs:</b>				
Cost of goods sold	6,560	6,005	12,295	11,297
Selling, general and administrative	3,513	5,856	7,401	9,499
Interest expense	241	1,016	487	2,007
Amortization of intangibles	341	413	606	825
<b>Total operating costs</b>	<b>10,655</b>	<b>13,290</b>	<b>20,789</b>	<b>23,628</b>
Operating profit (loss)	(461 )	1,590	(2,327 )	844
<b>Other income (expense):</b>				
Change in fair value of common stock warrant liability	200	(3,700 )	1,000	(5,150 )
Goodwill impairment	(400 )	—	(400 )	—
Other, net	14	86	44	101
<b>Total other income (expense)</b>	<b>(186 )</b>	<b>(3,614 )</b>	<b>644</b>	<b>(5,049 )</b>
Loss from continuing operations before income taxes	(647 )	(2,024 )	(1,683 )	(4,205 )
Income tax expense	18	15	209	92
Loss from continuing operations	(665 )	(2,039 )	(1,892 )	(4,297 )
<b>Earnings (loss) from discontinued operations,</b>				
net of income taxes	163	115	1,503	(393 )
<b>Net loss</b>	<b>(502 )</b>	<b>(1,924 )</b>	<b>(389 )</b>	<b>(4,690 )</b>
Loss attributable to noncontrolling interest	—	—	—	—
<b>Net loss attributable to Signature Group Holdings, Inc.</b>	<b>\$(502 )</b>	<b>\$(1,924 )</b>	<b>\$(389 )</b>	<b>\$(4,690 )</b>
<b>LOSS PER SHARE</b>				
<b>Basic and diluted:</b>				
Continuing operations	\$(0.05 )	\$(0.17 )	\$(0.15 )	\$(0.37 )
Discontinued operations	0.01	0.01	0.12	(0.03 )
<b>Basic and diluted loss per share</b>	<b>\$(0.04 )</b>	<b>\$(0.16 )</b>	<b>\$(0.03 )</b>	<b>\$(0.40 )</b>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.





Signature Group Holdings, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(Dollars in thousands)	Three Months		Six Months	
	Ended June 30, 2014	2013	Ended June 30, 2014	2013
Net loss attributable to Signature Group Holdings, Inc.	\$(502)	\$(1,924)	\$(389)	\$(4,690)
Other comprehensive loss:				
Net change in unrealized gains during period:				
Investment securities, available for sale	—	—	—	156
Reclassification of realized amounts				
included in net loss	—	—	—	(380 )
Total other comprehensive loss	—	—	—	(224 )
Total comprehensive loss	\$(502)	\$(1,924)	\$(389)	\$(4,914)

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	Common Stock Number of Outstanding Shares	Treasury Stock Number of Treasury Shares	Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interest	Total
Balance, December 31, 2013	—	12,201,102	12,117	\$451,853	\$(401,817)	—	\$49,918
Net loss	—	—	—	—	(389)	—	(389)
Common stock acquired	—	(9,229)	9,229	(99)	—	—	(99)
Issuance of restricted common stock, net of forfeitures	—	62,776	(21,346)	(229)	—	—	—
Common stock warrant consideration	—	—	—	48	—	—	48
Amortization of share-based compensation	—	—	—	749	—	—	749
Balance, June 30, 2014	—	12,254,649	—	\$452,421	\$(402,206)	—	\$50,227

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

Signature Group Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net loss	\$(389 )	\$(4,690 )
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Loss (earnings) from discontinued operations, net of income taxes	(1,503 )	393
Depreciation and amortization	675	870
Change in fair value of common stock warrant liability	(1,000 )	5,150
Gain on sale of investment securities, available for sale	—	(380 )
Amortization of share-based compensation	749	946
Inventory impairment	432	—
Goodwill impairment	400	—
Proceeds from sale of loans held for sale, net	—	27,073
Gain on loans held for sale, net	—	(5,026 )
Other	15	(188 )
<b>Changes in assets and liabilities:</b>		
Restricted cash	2,021	—
Trade accounts receivable, net	(1,147 )	(1,304 )
Inventory	(1,269 )	(871 )
Other current assets	186	(2,854 )
Other noncurrent assets	128	1,687
Trade payables	394	205
Other current liabilities	(24 )	206
Other noncurrent liabilities	(7 )	256
Net cash used in operating activities of discontinued operations	(1,072 )	(944 )
Net cash provided by (used in) operating activities	(1,411 )	20,529
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investment securities, available for sale	—	3,228
Advances, net under revolving credit facilities in loans receivable, net	—	(1,643 )
Principal collections on loans receivable, net	—	2,433
Purchases of property and equipment	(227 )	(218 )
Net cash provided by investing activities of discontinued operations	114	582
Net cash provided by (used in) investing activities	(113 )	4,382
<b>Cash flows from financing activities:</b>		
Advances, net on line of credit	250	3,250
Principal payments on long-term debt	(1,750 )	(1,756 )
Common stock acquired	(99 )	(41 )
Payment of contingent consideration	—	(4,000 )
Proceeds from exercise of common stock options	—	21
Common stock warrant consideration	48	60

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Net cash used in financing activities	(1,551 )	(2,466 )
Increase (decrease) in cash and cash equivalents	(3,075 )	22,445
Cash and cash equivalents, beginning of period	48,018	51,056
Cash and cash equivalents, end of period	\$44,943	\$73,501
Cash and cash equivalents, end of period - continuing operations	\$44,844	\$73,397
Cash and cash equivalents, end of period - discontinued operations	99	104
Cash and cash equivalents, end of period	\$44,943	\$73,501
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$265	\$551
Cash paid for interest	454	1,971
Supplemental disclosure of noncash information:		
Transfer of loans receivable, net to loans held for sale, net	—	(21,846)
Transfers of loans held for sale, net to other noncurrent assets	—	(1,723 )

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.

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, and focuses on the replacement market, particularly for commercial and industrial circuit breakers where replacement time is extremely important, but 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.

**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 June 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 June 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 six months ended June 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. Cosmed owns product formulations for a line of skin care products.

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 six months ended June 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.

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 Company does not expect this new guidance to have a material impact on its consolidated financial statements.

#### NOTE 3 — CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

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

June	December
30,	31,

(Dollars in thousands) 2014 2013

Noninterest-bearing deposits