COHEN & STEERS SELECT UTILITY FUND INC
Form N-Q
May 28, 2009

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

# FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-21485

Cohen & Steers Select Utility Fund, Inc.
(Exact name of registrant as specified in charter)

280 Park Avenue
New York, NY 10017
(Address of principal executive offices) (Zip code)

Francis C. Poli
280 Park Avenue
New York, NY 10017
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 832-3232

Date of fiscal year end: December 31

Date of reporting period: March 31, 2007

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**Item 1. Schedule of Investments**

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COHEN & STEERS SELECT UTILITY FUND, INC.

SCHEDULE OF INVESTMENTS
March 31, 2009 (Unaudited)

| | Number of Shares | | Value |
|---|---|---|---|
| COMMON STOCK 121.8% | | | |
| ENERGY 10.4% | | | |
| INTEGRATED OIL & GAS 0.1% | | | |
| Duncan Energy Partners LP | 18,148 | $ | 271,675 |
| OIL & GAS EQUIPMENT & SERVICES 0.0 % | | | |
| Exterran Partners LP | 17,673 | | 210,309 |
| OIL & GAS STORAGE & TRANSPORTATION 10.3 % | | | |
| DCP Midstream Partners LP | 65,733 | | 924,206 |
| Enbridge Energy Partners LP(a) | 56,337 | | 1,686,166 |
| Energy Transfer Equity LP | 95,000 | | 2,007,350 |
| Energy Transfer Partners LP | 150,667 | | 5,558,106 |
| Enterprise GP Holdings LP(a) | 87,000 | | 1,967,940 |
| Enterprise Products Partners LP(a) | 291,500 | | 6,485,875 |
| Kinder Morgan Energy Partners LP(a) | 199,400 | | 9,315,968 |
| Magellan Midstream Partners LP | 110,000 | | 3,230,700 |
| MarkWest Energy Partners LP | 135,600 | | 1,571,604 |
| Spectra Energy Corp. | 841,808 | | 11,903,165 |
| Williams Partners LP(a) | 319,700 | | 3,567,852 |
| | | | 48,218,932 |
| TOTAL ENERGY | | | 48,700,916 |
| INDUSTRIALS HIGHWAYS & RAILTRACKS 0.5% | | | |
| Anhui Expressway Co (China)(b) | 1,255,000 | | 563,015 |
| Cia de Concessoes Rodoviarias (Brazil) | 34,263 | | 307,957 |
| Shenzhen Expressway Co. (China)(b) | 2,296,000 | | 799,461 |
| Zhejiang Expressway Co., Ltd. (China)(b) | 1,055,000 | | 776,988 |
| | | | 2,447,421 |
| INTEGRATED TELECOMMUNICATIONS SERVICES 0.9% | | | |
| AT&T(a) | 153,846 | | 3,876,919 |
| UTILITIES 110.0% | | | |
| ELECTRIC UTILITIES 75.0% | | | |
| Allegheny Energy(a) | 271,000 | | 6,279,070 |
| American Electric Power Co.(a) | 290,116 | | 7,328,330 |

| | Number of Shares | | Value |
|---|---|---|---|
| Cia de Transmissao de Energia Eletrica Paulista (Brazil) | 35,158 | $ | 734,305 |
| Cleco Corp.(a) | 192,276 | | 4,170,466 |
| DPL(a) | 369,200 | | 8,321,768 |
| Duke Energy Corp.(a),(c) | 3,622,784 | | 51,878,267 |
| E.ON AG (ADR) (Germany)(a) | 185,116 | | 5,124,011 |
| Electricite de France (France)(b) | 294,700 | | 11,557,796 |
| Eletropaulo Metropolitana SA (Brazil) | 28,000 | | 394,094 |
| Enel S.p.A. (Italy)(b) | 847,000 | | 4,061,586 |
| Entergy Corp. | 413,830 | | 28,177,685 |
| Exelon Corp.(a),(c),(d) | 951,972 | | 43,210,009 |
| FirstEnergy Corp.(a) | 518,718 | | 20,022,515 |
| Fortum Oyj (Finland)(b) | 215,000 | | 4,095,226 |
| FPL Group(a) | 675,542 | | 34,270,246 |
| Great Plains Energy(a) | 129,697 | | 1,747,019 |
| ITC Holdings Corp. | 102,826 | | 4,485,270 |
| Northeast Utilities | 460,966 | | 9,952,256 |
| NV Energy | 1,006,506 | | 9,451,091 |
| Pepco Holdings(a) | 359,723 | | 4,489,343 |
| Pinnacle West Capital Corp.(a) | 89,238 | | 2,370,161 |
| PPL Corp.(a) | 630,300 | | 18,095,913 |
| Progress Energy(a) | 510,121 | | 18,496,988 |
| Scottish and Southern Energy PLC (United Kingdom)(b) | 232,930 | | 3,701,258 |
| Southern Co.(a) | 1,510,666 | | 46,256,593 |
| Westar Energy Inc | 188,000 | | 3,295,640 |
| | | | 351,966,906 |
| GAS UTILITIES 1.2% | | | |
| EQT Corp.(a) | 184,083 | | 5,767,320 |
| MULTI UTILITIES 33.8% | | | |
| CenterPoint Energy(a) | 395,402 | | 4,124,043 |
| CMS Energy Corp.(a) | 735,506 | | 8,708,391 |
| Consolidated Edison(a) | 160,198 | | 6,345,443 |
| Dominion Resources(a) | 450,200 | | 13,951,698 |
| GDF Suez (France)(b) | 197,000 | | 6,756,032 |

| | Number of Shares | | Value |
|---|---|---|---|
| NSTAR | 63,178 | $ | 2,014,115 |
| OGE Energy Corp. | 254,000 | | 6,050,280 |
| PG&E Corp. | 1,089,852 | | 41,654,143 |
| Public Service Enterprise Group | 1,000,800 | | 29,493,576 |
| RWE AG (Germany)(b) | 28,000 | | 1,960,853 |
| Sempra Energy | 117,000 | | 5,410,080 |
| United Utilities Group PLC (United Kingdom)(b) | 649,593 | | 4,502,648 |
| Wisconsin Energy Corp. | 325,931 | | 13,418,579 |
| Xcel Energy | 770,682 | | 14,357,806 |
| | | | 158,747,687 |
| TOTAL UTILITIES | | | 516,481,913 |
| TOTAL COMMON STOCK (Identified cost $579,040,349) | | | 571,507,169 |
| PREFERRED SECURITIES $25 PAR VALUE 22.4% | | | |
| BANK 1.7% | | | |
| Bank of America Corp., 4.00%, Series 5 (FRN) | 117,680 | | 730,793 |
| Bank of America Corp., 4.00%, Series E (FRN) | 114,136 | | 749,873 |
| Bank of America Corp., 8.625%, Series MER | 120,000 | | 1,254,000 |
| BB&T Capital Trust V, 8.95%, due 9/15/63(a) | 110,800 | | 2,443,140 |
| HSBC USA, 6.50%, Series H | 80,000 | | 1,043,200 |
| Sovereign Bancorp, 7.30%, Series C | 95,075 | | 1,248,335 |
| Wachovia Capital Trust X, 7.85%, due 12/1/67 | 47,100 | | 800,700 |
| | | | 8,270,041 |
| BANK FOREIGN 2.6% | | | |
| Barclays Bank PLC, 8.125%(a) | 249,800 | | 3,327,336 |
| Deutsche Bank Contingent Capital Trust II, 6.55% | 82,488 | | 919,741 |
| Deutsche Bank Contingent Capital Trust III, 7.60%(a) | 232,500 | | 3,020,175 |
| HSBC Holdings PLC, 8.125%(a) | 111,900 | | 2,239,119 |
| Royal Bank of Scotland Group PLC, 6.35%, Series N(a) | 1,680 | | 9,425 |
| Royal Bank of Scotland Group PLC, 7.25%, Series T | 5,385 | | 33,656 |
| Santander Finance Preferred, 6.50%(a) | 80,000 | | 1,119,200 |

| | Number of Shares | | Value |
|---|---|---|---|
| Santander Finance Preferred, 4.00%, Series 6 (FRN)(a) | 200,000 | $ | 1,650,000 |
| | | | 12,318,652 |
| FINANCE 0.4% | | | |
| INVESTMENT BANKER/BROKER 0.1% | | | |
| Morgan Stanley Capital Trust III, 6.25% | 39,902 | | 575,786 |
| INVESTMENT BANKER/BROKER FOREIGN 0.3% | | | |
| Credit Suisse Guernsey, 7.90%(a) | 80,000 | | 1,361,600 |
| TOTAL FINANCE | | | 1,937,386 |
| INSURANCE 3.2% | | | |
| MULTI-LINE 0.4% | | | |
| MetLife, 6.50%, Series B | 122,500 | | 1,797,075 |
| MULTI-LINE FOREIGN 1.4% | | | |
| Allianz SE, 8.375%(a) | 179,500 | | 3,024,575 |
| ING Groep N.V., 7.375%(a) | 375,000 | | 3,498,750 |
| | | | 6,523,325 |
| PROPERTY CASUALTY FOREIGN 0.3% | | | |
| Arch Capital Group Ltd., 8.00% | 64,000 | | 1,270,400 |
| REINSURANCE FOREIGN 1.1% | | | |
| Aspen Insurance Holdings Ltd., 7.401%, Series A | 100,000 | | 1,343,000 |
| Axis Capital Holdings Ltd., 7.25%, Series A | 97,785 | | 1,516,645 |
| Axis Capital Holdings Ltd., 7.50%, Series B ($100 par value) | 40,000 | | 2,472,500 |
| | | | 5,332,145 |
| TOTAL INSURANCE | | | 14,922,945 |
| INTEGRATED TELECOMMUNICATIONS SERVICES 0.9% | | | |
| Telephone & Data Systems, 7.60%, due 12/1/41, Series A(a) | 143,850 | | 2,518,813 |
| United States Cellular Corp., 7.50%, due 6/15/34(a) | 91,177 | | 1,622,951 |
| | | | 4,141,764 |
| MEDIA DIVERSIFIED SERVICES 1.4% | | | |
| Comcast Corp., 7.00%, due 9/15/55, Series B(a) | 325,856 | | 6,559,481 |

| | Number of Shares | | Value |
|---|---|---|---|
| REAL ESTATE 8.8% | | | |
| DIVERSIFIED 0.4% | | | |
| Duke Realty Corp., 8.375%, Series O | 54,605 | $ | 621,405 |
| Forest City Enterprises, 7.375%, Class A | 73,475 | | 521,673 |
| Lexington Corporate Properties Trust, 8.05%, Series B | 75,000 | | 682,500 |
| | | | 1,825,578 |
| HEALTH CARE 2.6% | | | |
| Health Care REIT, 7.625%, Series F | 218,800 | | 4,227,216 |
| LTC Properties, 8.00%, Series F | 393,499 | | 8,088,372 |
| | | | 12,315,588 |
| OFFICE 2.8% | | | |
| Alexandria Real Estate Equities, 8.375%, Series C(a) | 405,400 | | 7,905,300 |
| Brandywine Realty Trust, 7.50%, Series C | 70,819 | | 662,158 |
| SL Green Realty Corp., 7.625%, Series C | 242,000 | | 2,383,700 |
| SL Green Realty Corp., 7.875%, Series D | 197,333 | | 2,042,396 |
| | | | 12,993,554 |
| OFFICE/INDUSTRIAL 0.9% | | | |
| PS Business Parks, 7.95%, Series K(a) | 230,000 | | 4,098,600 |
| RESIDENTIAL- APARTMENT 0.4% | | | |
| Apartment Investment & Management Co., 8.00%, Series V | 87,000 | | 942,210 |
| Apartment Investment & Management Co., 7.875%, Series Y | 93,000 | | 960,690 |
| | | | 1,902,900 |
| SELF STORAGE 0.5% | | | |
| Public Storage, 6.45%, Series X(a) | 150,000 | | 2,472,000 |
| SHOPPING CENTER 1.0% | | | |
| COMMUNITY CENTER 0.8% | | | |
| Cedar Shopping Centers, 8.875%, Series A | 111,125 | | 966,787 |
| Developers Diversified Realty Corp., 7.50%, Series I(a) | 292,000 | | 1,506,720 |
| Kimco Realty Corp., 7.75%, Series G(a) | 100,000 | | 1,365,000 |
| | | | 3,838,507 |

| | Number of Shares | | Value |
|---|---|---|---|
| REGIONAL MALL 0.2% | | | |
| CBL & Associates Properties, 7.75%, Series C | 122,556 | $ | 778,231 |
| TOTAL SHOPPING CENTER | | | 4,616,738 |
| SPECIALTY 0.2% | | | |
| Digital Realty Trust, 8.50%, Series A | 56,000 | | 976,640 |
| TOTAL REAL ESTATE | | | 41,201,598 |
| UTILITIES 3.4% | | | |
| ELECTRIC UTILITIES 2.0% | | | |
| American Electric Power Co., 8.75%(a) | 73,383 | | 1,868,331 |
| Entergy Louisiana LLC, 7.60%, due 4/1/32(a) | 172,063 | | 4,298,134 |
| FPL Group Capital Inc, 8.75%, due 3/1/69 | 118,000 | | 3,007,820 |
| | | | 9,174,285 |
| INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 0.2% | | | |
| Constellation Energy Group, 8.625%, due 6/15/63, Series A | 51,225 | | 925,124 |
| MULTI UTILITIES 1.2% | | | |
| PPL Electric Utilities Corp., 6.25%(e) | 100,000 | | 1,990,630 |
| Xcel Energy, 7.60%(a) | 167,500 | | 3,887,675 |
| | | | 5,878,305 |
| TOTAL UTILITIES | | | 15,977,714 |
| TOTAL PREFERRED SECURITIES $25 PAR VALUE (Identified cost $169,784,163) | | | 105,329,581 |
| PREFERRED SECURITIES CAPITAL SECURITIES 12.3% | | | |
| BANK 2.9% | | | |
| Bank of America Corp., 8.00%, due 12/29/49 | 4,000,000 | | 1,603,720 |
| CoBank ACB, 11.00%, Series C, 144A(f) | 80,000 | | 3,656,440 |
| JPMorgan Chase, 7.90%, due 4/29/49 | 4,500,000 | | 2,897,779 |
| PNC Preferred Funding Trust I, 8.70%, due 12/31/49, 144A(f) | 5,400,000 | | 2,433,202 |
| Webster Capital Trust IV, 7.65%, due 6/15/37 | 2,000,000 | | 830,856 |
| Wells Fargo & Co, 7.98%, due 2/28/49 | 4,750,000 | | 2,235,184 |
| | | | 13,657,181 |

| | Number of Shares | | Value |
|---|---|---|---|
| BANK FOREIGN 0.4% | | | |
| Barclays Bank PLC, 7.434%, due 9/29/49, 144A(f) | 2,000,000 | $ | 831,840 |
| BNP Paribas, 7.195%, due 12/31/49, 144A(f) | 500,000 | | 256,175 |
| HSBC Capital Funding LP, 10.176%, due 12/29/49, 144A(f) | 1,250,000 | | 920,519 |
| | | | 2,008,534 |
| ELECTRIC 2.3% | | | |
| MULTI UTILITIES 1.6% | | | |
| Dominion Resources, 7.50%, due 6/30/66, Series A | 6,000,000 | | 3,724,524 |
| Dominion Resources Capital Trust I, 7.83%, due 12/1/27 | 2,000,000 | | 1,635,114 |
| PPL Capital Funding, 6.70%, due 3/30/67, Series A | 4,000,000 | | 2,282,984 |
| | | | 7,642,622 |
| UTILITIES 0.7% | | | |
| DPL Capital Trust II, 8.125%, due 9/1/31 | 3,000,000 | | 2,955,642 |
| TOTAL ELECTRIC | | | 10,598,264 |
| FINANCE CREDIT CARD 0.2% | | | |
| Capital One Capital III, 7.686%, due 8/15/36 | 2,500,000 | | 853,190 |
| FOOD 1.5% | | | |
| Dairy Farmers of America, 7.875%, 144A(e),(f) | 52,500 | | 3,005,625 |
| HJ Heinz Finance Co, 8.00%, due 7/15/13, 144A(f) | 47 | | 4,065,500 |
| | | | 7,071,125 |
| GAS UTILITIES 0.9% | | | |
| Southern Union Co., 7.20%, due 11/1/66 | 8,100,000 | | 4,090,500 |
| INSURANCE 2.6% | | | |
| MULTI-LINE 1.7% | | | |
| AFC Capital Trust I, 8.207%, due 2/3/27, Series B | 6,750,000 | | 4,488,750 |
| Catlin Insurance Co., 7.249%, due 12/1/49, 144A(f) | 7,000,000 | | 1,899,499 |
| Old Mutual Capital Funding, 8.00%, due 5/29/49, (Eurobond) | 4,500,000 | | 1,665,000 |
| | | | 8,053,249 |
| PROPERTY CASUALTY 0.9% | | | |
| Liberty Mutual Group, 7.80%, due 3/15/37, 144A(e),(f) | 5,000,000 | | 1,906,470 |

| | | Number of Shares | | Value |
|---|---|---|---|---|
| Liberty Mutual Insurance, 7.697%, due 10/15/97, 144A(f) | | 4,000,000 | $ | 2,340,116 |
| | | | | 4,246,586 |
| TOTAL INSURANCE | | | | 12,299,835 |
| OIL EXPLORATION AND PRODUCTION 0.3% | | | | |
| Pemex Project Funding Master Trust, 7.75%, due 9/28/49 | | 2,000,000 | | 1,532,500 |
| PIPELINES 1.2% | | | | |
| Enbridge Energy Partners LP, 8.05%, due 10/1/37(a) | | 3,000,000 | | 1,591,947 |
| Enterprise Products Operating LP, 8.375%, due 8/1/66(a) | | 6,180,000 | | 4,145,569 |
| | | | | 5,737,516 |
| TOTAL PREFERRED SECURITIES CAPITAL SECURITIES (Identified cost $99,361,955) | | | | 57,848,645 |
| | | Principal Amount | | |
| CORPORATE BONDS 11.0% | | | | |
| BANK FOREIGN 0.4% | | | | |
| Natixis, 10.00%, due 4/29/49, 144A(f) | $ | 3,000,000 | | 901,554 |
| Santander Perpetual SA Unipersonal, 6.671%, due 10/29/49, 144A(f) | | 1,950,000 | | 1,073,955 |
| | | | | 1,975,509 |
| ELECTRIC INTEGRATED 3.0% | | | | |
| Consolidated Edison Co of New York Inc, 6.65%, due 4/1/19 | | 3,000,000 | | 3,096,963 |
| Kansas City Power & Light Co, 7.15%, 4/1/19 | | 3,000,000 | | 3,018,894 |
| Metropolitan Edison Co, 7.70%, due 1/15/19 | | 2,500,000 | | 2,540,540 |
| Progress Energy Inc, 7.05%, due 3/15/19 | | 1,750,000 | | 1,786,111 |
| Puget Sound Energy Inc, 6.75%, due 1/15/16 | | 2,000,000 | | 2,016,034 |
| WPS Resources Corp, 6.11%, due 12/1/66 | | 2,780,000 | | 1,475,296 |
| | | | | 13,933,838 |
| INSURANCE PROPERTY CASUALTY 1.2% | | | | |
| ACE Capital Trust II, 9.70%, due 4/1/30(a) | | 4,470,000 | | 3,473,905 |

| | Principal Amount | Value |
|---|---|---|
| Liberty Mutual Group, 10.75%, due 6/15/58, 144A(f) | $ 4,000,000 | $ 1,962,260 |
| | | 5,436,165 |
| INTEGRATED TELECOMMUNICATIONS SERVICES 2.7% | | |
| Citizens Communications Co., 7.125%, due 3/15/19(a) | 3,000,000 | 2,370,000 |
| Citizens Communications Co., 9.00%, due 8/15/31(a) | 7,550,000 | 5,218,937 |
| Embarq Corp., 7.995%, due 6/1/36(a) | 4,000,000 | 3,006,780 |
| Verizon Communications Inc, 6.35%, due 4/1/19 | 2,000,000 | 1,979,488 |
| | | 12,575,205 |
| MEDIA 2.3% | | |
| Cablevision Systems Corp., 8.00%, due 4/15/12 | 2,000,000 | 1,955,000 |
| Rogers Cable, 8.75%, due 5/1/32 | 6,000,000 | 6,439,938 |
| Time Warner Cable Inc, 8.75%, 2/14/19 | 2,500,000 | 2,658,983 |
| | | 11,053,921 |
| OIL EXPLORATION AND PRODUCTION 0.4% | | |
| Noble Energy, 8.25%, due 3/1/19 | 2,000,000 | 2,052,036 |
| REAL ESTATE 1.0% | | |
| HEALTH CARE 0.3% | | |
| HCP, 5.625%, due 5/1/17 | 2,500,000 | 1,597,105 |
| SHOPPING CENTER REGIONAL MALL 0.7% | | |
| Simon Property Group LP, 10.35%, due 4/1/19 | 3,100,000 | 3,017,407 |
| TOTAL REAL ESTATE | | 4,614,512 |
| TOTAL CORPORATE BONDS (Identified cost $59,685,480) | | 51,641,186 |

| | Number of Shares | |
|---|---|---|
| SHORT-TERM INVESTMENTS 4.7% | | |
| MONEY MARKET FUNDS | | |
| Dreyfus Treasury Cash Management Fund, 0.09%(g) | 7,300,029 | 7,300,029 |
| Federated U.S. Treasury Cash Reserves Fund, 0.01%(g) | 14,600,128 | 14,600,128 |

| | | Number of Shares | Value |
|---|---|---|---|
| Fidelity Institutional Money Market Treasury Only Fund, 0.26%(g) | | 61,297 | $ 61,297 |
| TOTAL SHORT-TERM INVESTMENTS (Identified cost $21,961,454) | | | 21,961,454 |
| TOTAL INVESTMENTS (Identified cost $929,833,401) | 172.2% | | 808,288,035 |
| WRITTEN CALL OPTIONS | (0.2)% | | (730,000) |
| LIABILITIES IN EXCESS OF OTHER ASSETS | (10.9)% | | (51,109,673) |
| LIQUIDATION VALUE OF PREFERRED SHARES | (61.1)% | | (287,000,000) |
| NET ASSETS APPLICABLE TO COMMON SHARES (Equivalent to $10.84 per share based on 43,320,750 shares of common stock outstanding) | 100.0% | | $ 469,448,362 |

| | Number of Contracts | |
|---|---|---|
| WRITTEN CALL OPTION | | |
| Utilities Custom Basket, Strike Price 105, 4/18/09 (Premiums received $745,000) | 500,000 | $ (730,000) |

Glossary of Portfolio Abbreviations

| | |
|---|---|
| ADR | American Depositary Receipt |
| FRN | Floating Rate Note |
| REIT | Real Estate Investment Trust |

Note: Percentages indicated are based on the net assets applicable to common shares of the Fund.

| | |
|---|---|
| (a) | A portion or all of the security is pledged in connection with the revolving credit agreement: $197,286,287 has been pledged as collateral. |
| (b) | Fair valued security. This security has been valued at its fair value as determined in good faith under procedures established by and under the general supervision of the Fund s Board of Directors. Aggregate fair value securities represent 8.3% of net assets applicable to common shares all of which have been fair valued pursuant to foreign security fair value pricing procedures approved by the Board of Directors. |
| (c) | A portion of the security is segregated as collateral for interest rate swap transactions: $19,530,990 has been segregated as collateral. |
| (d) | A portion of the security has been segregated for written call option contracts: $20,515,009 has been segregated as collateral. |
| (e) | Illiquid security. Aggregate holdings equal 1.5% of net assets applicable to common shares of the Fund. |
| (f) | Resale is restricted to qualified institutional investors. Aggregate holdings equal 5.4% of net assets applicable to common shares of the Fund. |
| (g) | Rate quoted represents the seven day yield of the fund. |

Interest rate swaps outstanding at March 31, 2009 are as follows:

| Counterparty | | Notional Amount | Fixed Rate Payable | Floating Rate(a) (reset monthly) Receivable | Termination Date | | Unrealized Depreciation |
|---|---|---|---|---|---|---|---|
| Merrill Lynch Derivative Products AG(b) | $ | 35,000,000 | 3.510% | 0.523% | December 22, 2012 | $ | (2,391,423) |
| Royal Bank of Canada(b) | $ | 35,000,000 | 3.525% | 0.556% | October 17, 2012 | | (2,391,273) |
| Royal Bank of Canada(b) | $ | 72,000,000 | 3.615% | 0.523% | March 29, 2014 | | (5,551,960) |
| UBS AG(b) | $ | 35,000,000 | 2.905% | 0.522% | May 25, 2012 | | (1,576,852) |
| | | | | | | $ | (11,911,508) |

(a) Based on LIBOR (London Interbank Offered Rate). Represents rates in effect at March 31, 2009.

(b) Fair valued security. This security has been fair valued at its fair value as determined in good faith under procedures established by and under the general supervision of the Fund s board of directors. Aggregate holdings equal (2.5)% of net assets applicable to common shares of the Fund.

**Note 1.** *Portfolio Valuation:* Investments in securities that are listed on the New York Stock Exchange are valued, except as indicated below, at the last sale price reflected at the close of the New York Stock Exchange on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices for the day or, if no asked price is available, at the bid price. Exchange traded options are valued at their last sale price as of the close of options trading on applicable exchanges. In the absence of a last sale, options are valued at the average of the quoted bid and asked prices as of the close of business. Over-the-counter options quotations are provided by the respective counterparty.

Securities not listed on the New York Stock Exchange but listed on other domestic or foreign securities exchanges or admitted to trading on the National Association of Securities Dealers Automated Quotations, Inc. (Nasdaq) national market system are valued in a similar manner. Securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined as reflected on the tape at the close of the exchange representing the principal market for such securities.

Readily marketable securities traded in the over-the-counter market, including listed securities whose primary market is believed by Cohen & Steers Capital Management, Inc. (the investment manager) to be over-the-counter, but excluding securities admitted to trading on the Nasdaq National List, are valued at the official closing prices as reported by Nasdaq, the Pink Sheets, or such other comparable sources as the Board of Directors deem appropriate to reflect their fair market value. If there has been no sale on such day, the securities are valued at the mean of the closing bid and asked prices for the day, or if no asked price is available, at the bid price. However, certain fixed-income securities may be valued on the basis of prices provided by a pricing service when such prices are believed by the Board of Directors to reflect the fair market value of such securities. Where securities are traded on more than one exchange and also over-the-counter, the securities will generally be valued using the quotations the Board of Directors believes most closely reflect the value of such securities. Interest rate swaps are valued utilizing quotes received from an outside pricing service.

Portfolio securities primarily traded on foreign markets are generally valued at the closing values of such securities on their respective exchanges or if after the close of the foreign markets, but prior to the close of business on the day the securities are being valued, market conditions change significantly, certain foreign securities may be fair valued pursuant to procedures established by the Board of Directors.

Securities for which market prices are unavailable, or securities for which the investment manager determines that bid and/or asked price does not reflect market value, will be valued at fair value pursuant to procedures approved by the Fund s Board of Directors. Circumstances in which market prices may be unavailable include, but are not limited to, when trading in a security is suspended, the exchange on which the security is traded is subject to an unscheduled close or disruption or material events occur after the close of the exchange on which the security is principally traded. In these circumstances, the Fund determines fair value in a manner that fairly reflects the market value of the security on the valuation date based on consideration of any information or factors it deems appropriate. These may include recent transactions in comparable securities, information relating to the specific security and developments in the markets.

$5,146

| Liabilities: | | | | |
| --- | --- | --- | --- | --- |
| Contingent consideration | $ | $ | $3,746 | $3,746 |
| Common stock warrant liability | | | 2,000 | 2,000 |

Total

$ $ $5,746 $5,746

*As of December 31, 2011:*

Assets:

Investment securities, available for sale

$4,991 $ $ $4,991

| | | | | |
|---|---|---|---|---|
| Liabilities: | | | | |
| Contingent consideration | $ | $ | $3,597 | $3,597 |
| Common stock warrant liability | | | 1,403 | 1,403 |
| Total | $ | $ | $5,000 | $5,000 |

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

| (Dollars in thousands) | Beginning Balance | Income (Expense) Realized in Earnings | Transfers In/Out of Level 3 | Purchases | Issuances | Settlements | Ending Balance |
|---|---|---|---|---|---|---|---|
| *Three months ended June 30, 2012:* | | | | | | | |
| Contingent consideration | $ 3,671 | $ (75) | $ | $ | $ | $ | $ 3,746 |
| Common stock warrant liability | 1,400 | (600) | | | | | 2,000 |
| Total | $ 5,071 | $ (675) | $ | $ | $ | $ | $ 5,746 |
| *Three months ended June 30, 2011:* | | | | | | | |
| Common stock warrant liability | $ 4,899 | $ (128) | $ | $ | $ | $ | $ 5,027 |
| *Six months ended June 30, 2012:* | | | | | | | |
| Contingent consideration | $ 3,597 | $ (149) | $ | $ | $ | $ | $ 3,746 |
| Common stock warrant liability | 1,403 | (597) | | | | | 2,000 |
| Total | $ 5,000 | $ (746) | $ | $ | $ | $ | $ 5,746 |
| *Six months ended June 30, 2011:* | | | | | | | |
| Common stock warrant liability | $ 5,700 | $ 673 | $ | $ | $ | $ | $ 5,027 |

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Nonrecurring Fair Value Measurements

From time to time, the Company is required to measure certain assets and liabilities at estimated fair value. These fair value measurements typically result from the application of specific accounting guidance under GAAP and are considered nonrecurring fair value measurements under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 820-10, *Fair Value Measurement*. The following table presents financial and nonfinancial assets and liabilities measured using nonrecurring fair value measurements:

| (Dollars in thousands) | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| *As of June 30, 2012:* | | | | |
| Assets: | | | | |
| Real estate owned, net [1] | $ | $ | $ 761 | $ 761 |
| Loans held for sale, net (discontinued operations) | | | 560 | 560 |
| Total | $ | $ | $ 1,321 | $ 1,321 |
| *As of December 31, 2011:* | | | | |
| Assets: | | | | |
| Loans held for sale, net (continuing operations) | $ | $ | $ 20,317 | $ 20,317 |
| Real estate owned, net [1] | | | 2,377 | 2,377 |
| Commercial real estate investments, net | | | 33 | 33 |
| Loans held for sale, net (discontinued operations) | | | 12,383 | 12,383 |
| Total | $ | $ | $ 35,110 | $ 35,110 |

[1] Amounts represent the carrying value of the Company s real estate owned that resulted in gains (losses) recorded on a nonrecurring basis during the period.

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

| (Dollars in thousands) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Loans held for sale, net: | | | | |
| Continuing operations | $ | $ 438 | $ 2,776 | $ 625 |
| Discontinued operations | 14 | (356) | (1,062) | 20 |
| Real estate owned, net | (275) | (26) | (689) | (275) |
| Commercial real estate investments, net | | (445) | (121) | (445) |
| | $ (261) | $ (389) | $ 904 | $ (75) |

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The Company s Level 3 assets and liabilities include financial instruments whose values are determined using valuation techniques that incorporate unobservable inputs that require significant judgment or estimation. The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements as of June 30, 2012:

| (Dollars in thousands) | Fair Value June 30, 2012 | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Preferred stock | $ 800 | Discounted cash flow | Discount rate | 20% - 30% (25%) |
| | | | Holding period | 4 years - 6 years (5 years) |
| Common stock | 1,940 | Third party analyst report | Pro forma capital structure | $ 404.7 million ($404.7 million) |
| | | | Common stock pro forma price per share | $ 7.1377 ($7.1377) |
| Real estate owned, net | 1,250 | Property valuation services | Marketability discounts | 20.0% (20.0%) |
| (discontinued operations) | | | Estimated selling costs | 8.0% (8.0%) |
| Loans held for sale, net | 560 | Discounted cash flow | Delinquency rate | 100% (100%) |
| (discontinued operations) | | | Prepayment rate | 5.50% (5.50%) |
| | | | Default rate | 47.1% (47.1%) |
| | | | Loss severity rate | 65% (65%) |
| | | | Discount rate | 15% - 25% (20%) |
| Total | $ 4,550 | | | |
| **Liabilities:** | | | | |
| Contingent consideration | $ 3,746 | Discounted cash flow | Discount rate | 8.1% (8.1%) |
| | | | Probability of achieving EBITDA targets | 90% - 100% (97.5%) |
| Common stock warrant liability | 2,000 | Lattice option pricing model | Exercise multiple | 2.8x (2.8x) |
| | | | Expected term | 7.6 years (7.6 years) |
| Total | $ 5,746 | | | |

Significant unobservable inputs used in the fair value measurement of preferred stock include the discount rate and holding period. The Company estimates future cash flows related to dividends on the preferred stock, as well as an estimated redemption value at a range of future dates, which are discounted at a range of rates. Significant increases in discount rates or reductions in estimated future cash flows or delays in the timing of those cash flows would result in a decrease in the estimated fair value of preferred stock, while decreases in discount rates or increases in estimated future cash flows or accelerations in the timing of those cash flows would result in an increase in the estimated fair value of preferred stock.

Significant unobservable inputs used in the fair value measurement of common stock are the pro forma capital structure of the issuer and pro forma common stock price per share included in a third party analyst report. A significant decrease in the value of the issuer would result in a decrease in the estimated fair value of common stock, while an increase in the value of the issuer would result in a higher estimated fair value of common stock.

Significant unobservable inputs used in the fair value measurement of REO are marketability discounts and estimated selling costs. The Company utilizes third party collateral valuation services and real estate internet web sites to estimate the fair value of REO and adjusts 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.

Significant unobservable inputs used in the fair value measurement of loans held for sale include delinquency, prepayment, default and loss severity rates and discount rate. The Company estimates future cash flows of its loans held for sale using these unobservable inputs, which are then discounted at a range of rates. Significant increases in the discount rate or reductions in estimated future cash flows or delays in the timing of those cash flows would result in a decrease in the estimated fair value of loans held for sale, while decreases in the discount rate or increases in estimated future cash flows or accelerations in the timing of those cash flows would result in an increase in the estimated fair value of loans held for sale.

Significant unobservable inputs used in the fair value measurement of contingent consideration include the probability that EBITDA targets are met and the associated discount rate applied to the forecasted contingent consideration payments. The Company assigns various probabilities

that EBITDA targets will be achieved in determining the forecasted contingent consideration payments, which are then discounted. Significant increases in the discount rate or reductions in probabilities of achieving EBITDA targets would result in a decrease in the estimated fair value of contingent consideration, while decreases in the discount rate or increases in probabilities of achieving EBITDA targets would result in an increase in the estimated fair value of contingent consideration.

Significant unobservable inputs used in the fair value measurement of common stock warrant liability include the exercise multiple and expected term, using a trinomial lattice option pricing model. Significant increases in the exercise multiple or a significant decrease in the expected term would result in a decrease in the estimated fair value of common stock warrant liability, while significant decreases in the exercise multiple or a significant increase in the expected term would result in an increase in the estimated fair value of common stock warrant liability.

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

| | | June 30, 2012 | |
|---|---|---|---|
| **(Dollars in thousands)** | **Fair Value Hierarchy** | **Carrying Amount** | **Estimated Fair Value** |
| **ASSETS** | | | |
| Continuing operations: | | | |
| Cash and cash equivalents | Level 1 | $ 53,366 | $ 53,366 |
| Investment securities, available for sale | Level 1 | 5,146 | 5,146 |
| Loans receivable, net | Level 3 | 27,625 | 27,625 |
| Preferred stock | Level 3 | 800 | 800 |
| Common stock | Level 3 | 1,940 | 1,940 |
| Discontinued operations: | | | |
| Cash and cash equivalents | Level 1 | 111 | 111 |
| FHLB stock | Level 1 | 2,051 | 2,051 |
| Loans held for sale, net | Level 3 | 560 | 560 |
| Commercial real estate investments, net | Level 3 | 74 | 74 |
| **LIABILITIES** | | | |
| Continuing operations: | | | |
| Lines of credit | Level 3 | $ 1,700 | $ 1,700 |
| Contingent consideration | Level 3 | 3,746 | 3,746 |
| Long-term debt | Level 1/3 | 48,982 | 41,384 |
| Common stock warrant liability | Level 3 | 2,000 | 2,000 |

| | | December 31, 2011 | |
|---|---|---|---|
| **(Dollars in thousands)** | **Fair Value Hierarchy** | **Carrying Amount** | **Estimated Fair Value** |
| **ASSETS** | | | |
| Continuing operations: | | | |
| Cash and cash equivalents | Level 1 | $ 52,439 | $ 52,439 |
| Investment securities, available for sale | Level 1 | 4,991 | 4,991 |
| Loans held for sale, net | Level 3 | 20,317 | 20,317 |
| Loans receivable, net | Level 3 | 3,750 | 3,750 |
| Discontinued operations: | | | |
| Cash and cash equivalents | Level 1 | 117 | 117 |
| FHLB stock | Level 1 | 2,051 | 2,051 |
| Loans held for sale, net | Level 3 | 12,383 | 12,383 |
| Commercial real estate investments, net | Level 3 | 231 | 231 |
| Note receivable | Level 3 | 1,861 | 1,861 |
| **LIABILITIES** | | | |
| Continuing operations: | | | |
| Lines of credit | Level 3 | $ 5,116 | $ 5,116 |
| Contingent consideration | Level 3 | 3,597 | 3,597 |
| Long-term debt | Level 1/3 | 51,613 | 42,036 |
| Common stock warrant liability | Level 3 | 1,403 | 1,403 |

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The Company used the following methods and assumptions to estimate the fair value of each class of financial instrument at June 30, 2012 and December 31, 2011:

*Cash and cash equivalents*

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

*Investment securities, available for sale*

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

*Loans held for sale, net*

Loans held for sale, net is comprised of the performing residential real estate loans that were reclassified to held for investment in April 2012, and non-performing loans classified in discontinued operations. The fair value of loans held for sale, net is based on several factors, including current bids and market indications for similar assets, recent sales, discounted cash flow analyses, estimated values of underlying collateral and actual loss severity experience in portfolios backed by similar assets.

*Loans receivable, net*

Loans receivable, net, consists of residential real estate loans, commercial real estate loans, commercial lines of credit, commercial term notes and purchased credit-impaired commercial term loans. The fair value of commercial real estate loans and commercial lines of credit consider estimated credit losses and variable interest rates, which approximate market interest rates.

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

The fair value of the commercial term note is based on a discounted cash flow analysis, which includes assumptions about the amount and timing of expected future cash flows, discounted at rates that reflect the inherent credit, liquidity and uncertainty risks associated with the underlying borrower.

The fair value of purchased credit-impaired commercial term loans is based on a discounted cash flow analysis utilizing assumptions, including interest rates that approximate market rates and the amount and timing of expected cash flows and other recoveries.

*Preferred stock*

Preferred stock consists of 4% cumulative convertible preferred stock of a privately-held company that is a borrower under Signature Special Situations commercial loans. The preferred stock has a stated value of $2.0 million and is convertible to 45% of the common stock of the company, on a fully diluted basis. The fair value of preferred stock is based on a discounted cash flow analysis, which includes assumptions about the amount and timing of expected future cash flows for dividends and the estimated redemption value, discounted at rates that reflect the inherent noncontrol, liquidity and uncertainty risks associated with the security and the underlying issuer.

*Common stock*

Common stock consists of securities of a privately-held company that the Company received in exchange for its position in such company s defaulted corporate bonds pursuant to the issuer s plan of reorganization in bankruptcy. As of June 30, 2012, there was no active market for the common stock. The fair value of common stock is based on a third party analyst report, available to the public, which includes assumptions about the pro forma capital structure of the reorganized debtor and the pro forma common stock price.

*FHLB stock*

FHLB stock is recorded at cost. Sales of these securities are at par value with the issuer and can be redeemed five years following the surrender of FIL s charter, which occurred in July 2008. The fair value of investments in FHLB stock is equal to the carrying amount.

*Commercial real estate investments*

Commercial real estate investments include participations in community development projects and similar types of loans and investments that FIL previously maintained for compliance under the Community Reinvestment Act. The fair value of commercial real estate investments is based on various factors including current bids and market indications of similar assets, recent sales and discounted cash flow analyses.

*Note receivable*

The note receivable is a short-term note received in connection with the sale of commercial real estate investments. The fair value of the note receivable considers the short-term nature of the instrument, as well as the estimated credit worthiness of the counterparty. The note receivable matured and was repaid during the first quarter of 2012.

*Lines of credit*

Lines of credit are short-term borrowing facilities, used primarily to support ongoing operations. The carrying amount is a reasonable estimate of fair value as these instruments have short-term maturities and market interest rates.

*Contingent consideration*

Contingent consideration consists of payments due as a result of business combinations. The fair value of contingent consideration is based on the Company s expectation of future operating results and includes assumptions related to discount rates and probabilities of various projected operating result scenarios.

*Long-term debt*

Long-term debt includes Notes Payable, term loan and seller notes. The fair value of Notes Payable is based on quoted market prices. The fair value of the term loan is based on the market characteristics of the loan terms, including a variable interest rate, principal amortization and maturity date, generally consistent with market terms. The fair value of the seller notes is based on the market characteristics of the loan terms, scheduled and accelerated principal amortization and maturity date, generally consistent with market terms.

*Common stock warrant liability*

Common stock warrant liability is a derivative liability related to the Warrants, which include ratchet anti-dilution 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 expected term and exercise multiple.

**NOTE 14 OPERATIONS BY REPORTABLE SEGMENT**

Within continuing operations, the Company has three operating segments: Signature Special Situations, NABCO and Cosmed. The fourth operating segment consists of discontinued operations. Results of operations and other financial measures that are not included in the Company s four operating segments are included in corporate and other. The following tables present the operating results and other key financial measures for the Company s operating segments as of and for the periods indicated:

| | Continuing Operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Signature Special Situations** | **NABCO** | **Cosmed** | **Corporate and Other** | **Eliminations** | **Total** | **Discontinued Operations** | **Total** |
| *Three months ended June 30, 2012:* | | | | | | | | |
| Revenues from external customers | $ 649 | $ 9,062 | $ 57 | $ 18 | $ | $ 9,786 | $ 1,165 | $ 10,951 |
| Intersegment revenues | 159 | | | 265 | (424) | | | |
| Expenses | 303 | 7,760 | 287 | 4,516 | (424) | 12,442 | 1,739 | 14,181 |
| Other income (expense) | (371) | (75) | | (202) | | (648) | 105 | (543) |
| Earnings (loss) before reorganization items, net and income taxes | 134 | 1,227 | (230) | (4,435) | | (3,304) | (469) | (3,773) |
| Reorganization items, net | | | | (14) | | (14) | 95 | 81 |
| | 134 | 1,227 | (230) | (4,421) | | (3,290) | (564) | (3,854) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | | | | | | | | |
| Income tax expense (benefit) | 13 | 489 | | (466) | | 36 | | 36 |
| Net earnings (loss) | 121 | 738 | (230) | (3,955) | | (3,326) | (564) | (3,890) |
| Loss attributable to noncontrolling interest | | | | | | | | |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 121 | $ 738 | $ (230) | $ (3,955) | $ | $ (3,326) | $ (564) | $ (3,890) |

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| (Dollars in thousands) | Continuing Operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
| *Three months ended June 30, 2011:* | | | | | | | | |
| Revenues from external customers | $ 1,012 | $ | $ 295 | $ 21 | $ | $ 1,328 | $ 288 | $ 1,616 |
| Intersegment revenues | | | | 45 | (45) | | | |
| Expenses | (35) | | 1,182 | 4,326 | (45) | 5,428 | 2,217 | 7,645 |
| Other income (expense) | 187 | | | (128) | | 59 | 367 | 426 |
| Earnings (loss) before reorganization items, net and income taxes | 1,234 | | (887) | (4,388) | | (4,041) | (1,562) | (5,603) |
| Reorganization items, net | | | | 826 | | 826 | | 826 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 1,234 | | (887) | (5,214) | | (4,867) | (1,562) | (6,429) |
| Income tax expense (benefit) | 4 | | 100 | (118) | | (14) | (159) | (173) |
| Net earnings (loss) | 1,230 | | (987) | (5,096) | | (4,853) | (1,403) | (6,256) |
| Loss attributable to noncontrolling interest | | | (101) | | | (101) | | (101) |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 1,230 | $ | $ (886) | $ (5,096) | $ | $ (4,752) | $ (1,403) | $ (6,155) |

| (Dollars in thousands) | Continuing Operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
| *Six months ended June 30, 2012:* | | | | | | | | |
| Revenues from external customers | $ 2,105 | $ 16,905 | $ 255 | $ 36 | $ | $ 19,301 | $ 1,657 | $ 20,958 |
| Intersegment revenues | 317 | | | 410 | (727) | | | |
| Expenses | 481 | 14,435 | 575 | 9,152 | (727) | 23,916 | 3,584 | 27,500 |
| Other income (expense) | 2,405 | (148) | (1) | (201) | | 2,055 | (376) | 1,679 |
| Earnings (loss) before reorganization items, net and income taxes | 4,346 | 2,322 | (321) | (8,907) | | (2,560) | (2,303) | (4,863) |
| Reorganization items, net | | | | 80 | | 80 | 108 | 188 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 4,346 | 2,322 | (321) | (8,987) | | (2,640) | (2,411) | (5,051) |
| Income tax expense (benefit) | 32 | 927 | 4 | (878) | | 85 | | 85 |
| Net earnings (loss) | 4,314 | 1,395 | (325) | (8,109) | | (2,725) | (2,411) | (5,136) |
| Loss attributable to noncontrolling interest | | | | | | | | |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 4,314 | $ 1,395 | $ (325) | $ (8,109) | $ | $ (2,725) | $ (2,411) | $ (5,136) |

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| (Dollars in thousands) | Continuing Operations<br>Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
|---|---|---|---|---|---|---|---|---|
| *Six months ended June 30, 2011:* | | | | | | | | |
| Revenues from external customers | $ 1,911 | $ | $ 840 | $ 24 | $ | $ 2,775 | $ 806 | $ 3,581 |
| Intersegment revenues | | | | 45 | (45) | | | |
| Expenses | (31) | | 1,606 | 7,065 | (45) | 8,595 | 5,616 | 14,211 |
| Other income (expense) | 625 | | 281 | 673 | | 1,579 | 262 | 1,841 |
| Earnings (loss) before reorganization items, net and income taxes | 2,567 | | (485) | (6,323) | | (4,241) | (4,548) | (8,789) |
| Reorganization items, net | | | | 1,325 | | 1,325 | | 1,325 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 2,567 | | (485) | (7,648) | | (5,566) | (4,548) | (10,114) |
| Income tax expense (benefit) | 6 | | | (118) | | (112) | 427 | 315 |
| Net earnings (loss) | 2,561 | | (485) | (7,530) | | (5,454) | (4,975) | (10,429) |
| Loss attributable to noncontrolling interest | | | (61) | | | (61) | | (61) |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 2,561 | $ | $ (424) | $ (7,530) | $ | $ (5,393) | $ (4,975) | $ (10,368) |

| (Dollars in thousands) | Continuing Operations<br>Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
|---|---|---|---|---|---|---|---|---|
| **Segment assets:** | | | | | | | | |
| At June 30, 2012 | $ 43,429 | $ 37,960 | $ 1,496 | $ 78,612 | $ (32,697) | $ 128,800 | $ 4,170 | $ 132,970 |
| At December 31, 2011 | 37,214 | 39,428 | 1,735 | 62,608 | (18,783) | 122,202 | 20,816 | 143,018 |
| **Segment liabilities:** | | | | | | | | |
| At June 30, 2012 | $ 21,565 | $ 27,720 | $ 2,453 | $ 43,576 | $ (32,697) | $ 62,617 | $ 10,834 | $ 73,451 |
| At December 31, 2011 | 9,411 | 30,582 | 2,367 | 44,068 | (18,783) | 67,645 | 11,536 | 79,181 |

**NOTE 15 COMMITMENTS AND CONTINGENCIES**

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company 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, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and 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 and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company s maximum loss exposure.

Based on the Company s current understanding of these pending legal actions and proceedings, management 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.

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The legal proceedings summarized below are ongoing matters and may have an effect on our business and future financial results.

*Faigin Matter.* On January 15, 2009, Alan Faigin, a former General Counsel of Fremont, filed a Complaint against Fremont Reorganizing Corporation ( FRC ) in the California Superior Court, County of Los Angeles. 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. Signature is appealing the judgment. Fremont recorded a liability of approximately $1.4 million in the first quarter of 2010 related to this matter. As a requirement of the appeal process, a cash bond was posted by Signature in the amount of approximately $2.0 million with the court. On May 8, 2012 the California Court of Appeal held a hearing on this matter. On June 7, 2012, the California Court of Appeal issued its opinion affirming the judgment. On June 22, 2012, the Company filed a Petition for Rehearing. On July 9, 2012, the California Court of Appeal granted the Company s Petition for Rehearing with additional briefing to be completed by August 20, 2012. No date for a hearing has been set. Unless a new court order provides otherwise, the matter will be resubmitted for determination upon completion of the additional briefing.

On April 27, 2009, FRC filed a Cross-Complaint against Mr. Faigin for breach of confidence, breach of fiduciary duty, representing conflicting interests and indemnification. On June 9, 2009, the trial court dismissed the Cross-Complaint pursuant to California s anti-SLAPP statute. FRC appealed the dismissal of this Cross-Complaint. On August 30, 2011, the Court of Appeals of the State of California reversed and remanded the dismissal of FRC s Cross-Complaint causes of action against Mr. Faigin for breach of fiduciary and breach of confidence. The Company intends to pursue these actions to recover damages it suffered as a result of these breaches.

*Colburn Matter.* On December 8, 2009, Gwyneth Colburn, the former Executive Vice President for Fremont s Commercial Real Estate group filed a complaint 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. Plaintiff claims she is owed approximately $2.0 million, 87,183 shares of restricted stock valued at $4.01 per share at the time of Plaintiff s termination effective August 28, 2007, and the value of thirty-six months of welfare benefits. Ms. Colburn filed a proof of claim in the Bankruptcy Proceeding for salary, bonus, and benefits and restricted stock in the amount of $2.6 million. 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 are due later this year. A hearing date has not yet been scheduled.

Ms. Colburn s proof of claim for $2.6 million in the Bankruptcy Proceeding for severance, bonus, welfare benefits and restricted stock remains outstanding and the Company intends to vigorously defend against this claim. A hearing on this matter has been set by the United States Bankruptcy Court for the Central District of California, Santa Ana Division (the California Federal Bankruptcy Court ) for September 6, 2012.

*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, County of Los Angeles, 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. Mr. Walker claims he is owed at least $3.5 million for severance, the value of 131,185 shares of restricted stock at the time of his termination and the value of 36 months of welfare benefits. On August 26, 2011, Mr. Walker dismissed this complaint, without prejudice, against the Company as successor in interest to Fremont, but not a successor in interest to FIL. Trial has been set to commence on October 16, 2012. The Company intends to vigorously defend itself against this lawsuit.

Mr. Walker s proof of claim for $2.5 million in the Bankruptcy Proceeding for severance, bonus, welfare benefits and restricted stock remains outstanding. The Company intends to vigorously defend itself against this claim. A hearing on this matter has been set by the California Federal Bankruptcy Court for September 6, 2012.

*Cambridge Place Investment Management, Inc. v. Morgan Stanley & Co., Inc. et al. (Cambridge Matter #1).* On July 22, 2010, Cambridge Place Investment Management, Inc. ( Cambridge ), as assignee of its investor clients, filed a lawsuit in the Superior Court in the Commonwealth of Massachusetts against over fifty defendants, including the broker/dealers, underwriters, issuers and depositors of approximately 200 residential mortgage-backed securities ( RMBS ) offerings purchased by clients of Cambridge. Cambridge alleges the defendants violated Massachusetts securities laws through untrue statements and material omissions in the RMBS offering documents. The lawsuit alleges that Cambridge clients invested over $2 billion in these RMBS offerings resulting in losses in excess of $1.2 billion. The complaint names Fremont Mortgage Securities Corporation ( FMSC ), a wholly owned special purpose subsidiary of Signature, as a depositor of $8 million in one RMBS offering in 2005. The matter was removed to the U.S. District Court in Massachusetts (the U.S. District Court ), but the plaintiff filed a motion to remand the case back to Superior Court in Massachusetts (the Superior Court ), which was approved on August 19, 2011. On November 22, 2011, the defendants filed a joint Motion to Dismiss for lack of standing. On March 14, 2012 the Superior Court denied the Motion to Dismiss. On July 16, 2012, the Superior Court held a hearing on the defendants Motion to Dismiss for failure to state an actionable claim. The Superior Court took the matter under submission and did not indicate a date for a ruling. FMSC intends to defend itself vigorously in this matter.

*Cambridge Place Investment Management, Inc. v. Morgan Stanley & Co., Inc., et al. (Cambridge Matter #2).* On February 11, 2011, Cambridge, as assignee of its investor clients, filed a lawsuit in the Superior Court against over thirty defendants, including the broker/dealers, underwriters, issuers and depositors of approximately seventy RMBS offerings purchased by clients of Cambridge. Cambridge alleges the defendants violated Massachusetts securities laws through untrue statements and material omissions in the RMBS offering documents. The lawsuit alleges that Cambridge clients invested approximately $825 million in these RMBS offerings resulting in losses exceeding $260 million. The complaint names FMSC, as a depositor of $101.3 million in four RMBS offerings in 2004, 2005 and 2006. The defendants removed the matter to the U.S. District Court and the plaintiff filed a motion to remand the case back to Superior Court. In August 2011, in light of the ruling on remand in Cambridge Matter #1, the matter was remanded back to the Superior Court by stipulation. On November 22, 2011, the defendants filed a joint Motion to Dismiss for lack of standing. On March 14, 2012 the Superior Court denied the Motion to Dismiss. On July 16, 2012, the Superior Court held a hearing on the defendants Motion to Dismiss for failure to state an actionable claim. The Superior Court took the matter under submission and did not indicate a date for a ruling. FMSC intends to defend itself vigorously in this matter.

*National Credit Union Administration v. RBS Securities, et al.* On June 20, 2011, The National Credit Union Administration ( NCUA ), the regulator of federal credit unions, acting as liquidator of U.S. Central Federal Credit Union ( U.S. Central ), filed a lawsuit in the U.S. District Court in Kansas for unspecified damages to be proven at trial against the underwriter, issuers and depositors of twenty-nine RMBS offerings purchased by U.S. Central. NCUA alleges that the defendants violated federal and state securities laws through untrue statements and material omissions in the RMBS offering documents. The lawsuit alleges that U.S. Central invested a total of $1.7 billion in these RMBS offerings. The complaint names FMSC, as a depositor of $50 million in two RMBS offerings in 2006. On December 20, 2011, the Company filed a Motion to Dismiss. On July 25, 2012, the U.S. District Court issued an order dismissing FMSC from the action with leave to amend. The NCUA has thirty days from the date of the dismissal order to amend its complaint.

*Cambridge and NCUA Defense, Indemnity and Contribution Matters.* In addition to the Cambridge and NCUA lawsuits, the Company, as successor to FIL, and FMSC have received several demands for defense, indemnity and contribution in the Cambridge and NCUA actions as well as other RMBS actions in which the Company or its subsidiaries are not named defendants. 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 subsidiaries.

*Kingstown/McIntyre Matters.* On July 15, 2011 and July 18, 2011, James McIntyre, Kingstown Partners Master Ltd. and other entities affiliated therewith, Michael Blitzer, J. Hunter Brown, Robert A. Peiser, Laurie M. Shahon, Joyce White, Robert Willens and Guy Shanon (collectively, the Shareholder Group ) filed Schedule 13D s indicating that such persons and entities had formed a group (as defined by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) in connection with the Shareholder Group s intention to nominate a slate of directors for election to the Company s Board of Directors (the Board ) at its next annual meeting of shareholders.

As a result of the formation of the Shareholder Group, the Board continues to evaluate whether the Shareholder Group should be determined to be an Acquiring Person (as defined in the Rights Agreement) and if such determination is made, whether a Distribution Date (as defined in the Rights Agreement) for the distribution of rights under and pursuant to the Rights Agreement will occur. The Company previously announced that the Board had extended the date by which such determinations needed to be made until September 30, 2012.

On August 12, 2011, James McIntyre, Kingstown Partners Master Ltd. and other entities affiliated therewith (collectively, the Plaintiffs ) filed a complaint, as amended (the Complaint ), with the Second Judicial District Court of the State of Nevada in and for the County of Washoe (the State Court ) against the Company seeking (i) a declaration that the Rights Agreement has no force and effect; (ii) a declaration that the Plaintiffs are not an Acquiring Person; and (iii) an injunction against the Board from implementing the Rights Agreement (the Proceeding ). In the Complaint, the Plaintiffs claimed that the Rights Agreement was rejected in connection with the Company s Bankruptcy Proceeding, which concluded in June 2010, or if the Rights Agreement is determined to not to have been rejected, that the Shareholder Group is not an Acquiring Person and, therefore, the condition for implementing the Rights Agreement cannot be satisfied.

On August 31, 2011, the Company filed a Notice of Removal of Pending State Court Action to remove the Proceeding to the U.S. Bankruptcy Court for the District of Nevada (the Nevada Federal Bankruptcy Court ). As a result, the Proceeding was removed to the Nevada Federal Bankruptcy Court. The Company removed the Proceeding because, among other reasons, a central issue in the Proceeding is whether the Rights Agreement was assumed, and otherwise remained in full force and effect, under the Company s reorganization plan (the Plan ), as confirmed by the California federal Bankruptcy Court (the Confirmation Order ).

Because the Proceeding involves issues central to the Confirmation Order, the Company also separately filed a motion (the Motion ) with the California Federal Bankruptcy Court on September 19, 2011 seeking an order confirming that the Rights Agreement was assumed under the Plan and granting related relief.

On November 29, 2011, the California Federal Bankruptcy Court ruled at a hearing on the Motion that the Rights Agreement was assumed under the Plan and remains in full force and effect following the Confirmation Order and the Company s emergence from Bankruptcy Proceedings. On December 9, 2011, the California Federal Bankruptcy Court entered its order on the aforementioned ruling (the Rights Agreement Order ).

On December 7, 2011, Mr. McIntyre filed an amendment to his Schedule 13D to report the termination of his agreement with the Shareholder Group to (i) solicit proxies or written consents for the election of persons nominated by the Shareholder Group to the Board at the next annual meeting of shareholders and (ii) serve as a nominee on the Shareholder Group s proposed slate of directors for election to the Board. On the same day, the Plaintiffs filed a Notice of Dismissal with the California Federal Bankruptcy Court dismissing the Proceeding.

On December 21, 2011, (i) Kingstown Partners Master Ltd., Kingstown Partners II L.P. and KTown LP, and (ii) Mr. McIntyre separately filed notices of appeal with the California Federal Bankruptcy Court from the Rights Agreement Order.

On January 6, 2012, James A. McIntyre filed a complaint (the McIntyre Complaint ) with the Second Judicial District Court of the State of Nevada in and for the County of Washoe against the Company seeking (1) a declaration that: (i) he never took any action that may have triggered the dilution provisions of the Rights Agreement; (ii) the right to vote his shares is not impaired or diminished in any respect by the Rights Agreement; (iii) his right to demand that the Company convene a shareholder meeting or work cooperatively with other shareholders to request a shareholder meeting is not impaired in any way by the Rights Agreement; (iv) his right to nominate director candidates to be elected by the shareholders for service on the Board is not impaired or diminished in any way by the Rights Agreement; (v) his right to submit shareholder proposals for vote at the Company s next shareholder meeting is not compromised or impaired in any way by the Rights Agreement; and (vi) his right to join other shareholders to effect the election of directors or other shareholders to effect the election of directors or other corporate business is not impaired or diminished by the Rights Agreement; and (2) preliminary injunctions to enjoin the Company from implementing the Rights Agreement against Mr. McIntyre.

On May 17, 2012, the Company filed a Motion to Stay under Nevada Rules of Civil Procedure 41(d) seeking reimbursement of costs and fees arising out of the Company s defense of these same matters in the California Federal Bankruptcy Court. On July 19, 2012, the Nevada Federal Bankruptcy Court issued an order setting a briefing schedule to consider the Company s fees and costs request. A hearing date has not yet been set. Should McIntyre continue to pursue this matter, the Company intends to vigorously defend itself.

The Company is involved in additional disputes as summarized below:

*Bankruptcy Professional Fee Disputes.* As of June 30, 2012, there remained one outstanding bankruptcy professional fee dispute from one firm which amounted to $1.2 million. On May 6, 2011, the California Federal Bankruptcy Court took this dispute under submission. On October 19, 2011, pursuant to a Bankruptcy Court Order, Signature transferred $1.5 million to a trust account for the sole and exclusive purpose of securing payment of any allowed fees and costs awarded to the firm, pursuant to the pending contested fee application. At a July 24, 2012 hearing, the California Federal Bankruptcy Court ruled that the Company was obligated to pay $1.1 million.

*Unpaid Claims.* As of June 30, 2012, there remained $5.1 million in open claims filed with the California Federal Bankruptcy Court (the Unpaid Claims ), comprised of two claims by former employees for breach of their respective employment contracts. The Company has objected to these remaining Unpaid Claims and intends to vigorously contest them in the California Federal Bankruptcy Court.

**NOTE 16 SUBSEQUENT EVENTS**

*Annual meeting of shareholders*

On July 24, 2012, the Company held its 2012 annual meeting of shareholders (the Annual Meeting ). On August 6, 2012, the independent inspector of election for the Annual Meeting, IVS Associates, Inc., delivered its final vote tabulation that certified the voting results for each of the matters submitted to a vote at the Annual Meeting. As confirmed by these final results, the shareholders have (i) elected all five of the Company s director nominees G. Christopher Colville, John Koral, Patrick E. Lamb, Craig F. Noell and Philip G. Tinkler to the Company s board of directors; (ii) approved an amendment to the Incentive Plan that increased the authorized number of shares of Company common stock that may be issued under the Incentive Plan; (iii) ratified the appointment of Squar, Milner, Peterson, Miranda & Williamson, LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2012; and (iv) approved the adjournment of the Annual Meeting to a later date or dates, if necessary, to permit further solicitation of proxies to approve an amendment to the Company s Amended and Restated Articles of Incorporation to increase the authorized number of shares of Company common stock. The tabulation of shareholder votes for the proposal to approve an amendment to the Amended and Restated Articles of Incorporation to increase in the authorized shares of Company common stock has not been finalized, as the Annual Meeting was adjourned to a later date with respect to this proposal.

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

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Certain statements in this report, including, without limitation, matters discussed in this Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with the financial statements, related notes, and other detailed information included in Signature Group Holdings, Inc. s ( Signature, formerly Fremont General Corporation ( Fremont ), or Company, we, us our ) Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the 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. Statements that are not historical fact are forward-looking statements. Certain of these forward-looking statements can be identified by the use of words such as believes, anticipates, expects, intends, plans, projects, estimates, assumes, may, should, will, likely, could or other si forward-looking statements involve known and unknown risks, uncertainties and other important factors, which could cause actual results, performance or achievements to differ materially from future results, performance or achievements. These forward-looking statements are based on our current beliefs, intentions and expectations. These statements are not guarantees or indicative of future performance. Important assumptions and other important factors that could cause actual results to differ materially from those forward-looking statements include, but are not limited to, those factors, risks and uncertainties described in the Annual Report and in the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, under the caption Risk Factors and in our other filings with the Securities and Exchange Commission ( SEC ).

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 diversified business and financial services enterprise with principal holdings in cash, financial assets, and controlling ownership interests in two operating subsidiaries, North American Breaker Co., LLC ( NABCO ) and Cosmed, Inc. ( Cosmed ). We anticipate that we will continue to use our cash and other financial assets to grow the Company into a profitable enterprise by completing additional acquisitions of operating businesses, as well as expanding the Signature Special Situations financial services business unit, which is described herein.

We seek to engage in acquisitions to acquire controlling interests in middle market businesses that we expect will generate between $7.0 million and $25.0 million in annual earnings before interest, taxes, depreciation and amortization ( EBITDA ), but will also selectively review potential acquisition opportunities of larger businesses. We look to acquire businesses that have talented and experienced management teams, strong margins, defensible market positions and, in most instances, long-term growth potential. We regularly consider acquisitions of businesses that operate in unique industries as well as businesses that we believe to be in transition or are otherwise misunderstood by the marketplace. Post-acquisition, we have and expect to continue to operate the businesses we acquire as autonomous subsidiaries. In addition to the connections that our management team has in the financial industry, we also have strong relationships with significant numbers of potential deal referral sources, including accountants, attorneys, business brokers, commercial and investment bankers, and other professionals, which generate substantial opportunities to assess middle market businesses that may be available for acquisition. Our strategy tends to emphasize non-auction, or proprietary deal flow sourced directly through our management team s established referral networks.

Our Signature Special Situations business unit primarily acquires sub-performing and non-performing commercial and industrial loans, leases, and mortgages typically at a discount to unpaid principal balance ( UPB ). We may also originate secured debt financings to middle market companies for a variety of situations, including supporting another transaction such as an acquisition, recapitalization or restructuring. We also take positions in corporate bonds, trade claims, and other structured debt instruments, which may be performing, sub-performing or non-performing. We may also acquire specialized assets, such as product or brand licenses, royalty streams, or subscriber bases. The largest asset in this segment is a portfolio of residential real estate loans.

Our operations include a discontinued operations segment, where we hold and are managing certain assets and liabilities related to the former businesses of the Company, then known as Fremont, including Federal Home Loan Bank ( FHLB ) stock, subprime residential real estate loans, residential real estate, commercial real estate investments, litigation claims under fidelity insurance bonds, and contingent liabilities for litigation and repurchase claims. Assets and liabilities are being managed to maximize cash recoveries and limit costs and exposures to the Company.

*Operating segments*

The presentation set forth below in this Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Company s unaudited consolidated financial statements 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 segment classifications. All of our activities related to our operating subsidiaries and our growth strategies, as well as ongoing and general corporate functions are

included in the continuing operations segment. Discontinued operations presents the financial condition and results of operations of the assets, liabilities, businesses and operations that were sold or discontinued by Fremont prior to the date of emergence from Chapter 11 bankruptcy proceedings, excluding the loans reclassified to continuing operation in the second quarter of 2012, as discussed below in *Signature Special Situations*.

Continuing Operations: At June 30, 2012, Signature s continuing operations had approximately $128.8 million in assets, or 97% of our total assets. Our continuing operations consist of three operating units, NABCO, Cosmed and Signature Special Situations, as discussed below.

*NABCO*

The largest operating unit by revenue, NABCO is a wholly owned subsidiary whose results of operations have been consolidated into Signature s since July 29, 2011, the date of acquisition. Headquartered in Burbank, California, NABCO is one of the largest independent suppliers of circuit breakers in the country. Circuit breakers are critical safety devices used in virtually all residential, commercial and industrial structures and many large electrical power systems. Circuit breakers automatically shut off an electrical circuit when the flow of electricity increases above a safe level so that potentially serious damage, such as that caused by fire, can be averted. Accordingly, when a circuit breaker is damaged, as a critical component for the overall electrical system, it must be replaced immediately. NABCO s niche is focused on this replacement market, particularly for commercial and industrial circuit breakers where replacement time is extremely important, but it also supplies residential circuit breakers in order to provide its customers with a single source solution for their circuit breaker needs. In furtherance of its strategy to be a single source supplier for its customers, NABCO began carrying a new product line, fusible panel switches, during the first quarter of 2012.

NABCO operates from five warehouse locations across the country. This national presence allows NABCO to service a broad section of its customer base with next day ground shipping, providing a competitive advantage for the mission critical components it supplies. NABCO sells primarily to wholesale electrical distributors as opposed to end users, like electricians and do-it-yourself business owners and homeowners. In 2011, NABCO served approximately 600 customers and shipped approximately 5,000 SKUs to over 3,000 customer locations nationwide. Its customer base includes many of the largest wholesale electrical distribution companies in the nation, who tend to carry a limited amount of circuit breaker inventory and use NABCO, and other circuit breaker distribution specialists like NABCO, as a just-in-time supplier. By providing industry-leading customer service, maintaining an extensive inventory and offering same day shipping, NABCO has become a preferred supplier for most of its large wholesale electrical distributor customers.

The electrical power system in the United States is characterized by an aging infrastructure and largely reflects technology developed in the 1950 s or earlier. According to the United States Department of Energy, it is estimated that 60% of circuit breakers in operation are more than thirty years old. Circuit breakers are manufacturer specific and not interchangeable, so product availability in the replacement niche is very important. Accordingly, NABCO maintains a significant depth of certified, new product inventory from all the major manufacturers and also carries a number of products that have been discontinued by the manufacturer and are no longer widely available. As a result, NABCO does not manage its operations in terms of inventory turns or other traditional operating metrics based on inventory levels. NABCO s inventory levels have the potential to increase in a declining sales environment if valuable purchase opportunities present themselves as there is minimal risk of obsolescence for these products.

Other business factors pertaining to NABCO include:

- the business is seasonal with higher sales volume occurring during the summer months due to weather conditions driving increased electrical usage;
- the business operates in a highly fragmented market with hundreds of competitors, although few have NABCO s depth of inventory or national presence; and
- the business does not sell used circuit breakers, nor does it refurbish circuit breakers or provide any other type of service operations.

*Cosmed*

As measured by revenue, Cosmed is the smallest operating unit in our continuing operations segment. Cosmed is a subsidiary we formed to consummate the acquisition of certain assets and the assumption of certain liabilities of Costru Company, LLC ( Costru ) in February 2011.

Cosmed does business under the trade name Cosmedicine™ and owns the intellectual property and proprietary product formulations for a line of anti-aging skin care products. The Cosmedicine™ formulations are proven effective at reducing dryness, fine lines and wrinkles, skin discolorations, and multiple forms of acne. Cosmed s products are manufactured in an outsourced U.S. Federal Drug Administration and over-the-counter approved laboratory.

Historically, the Cosmedicine product line was only available through high-end retailers and specialty beauty boutiques. Beginning in 2009, Costru management attempted to reposition the business and grow sales by marketing its product line through the major mass market retailers of health and beauty products. Although Cosmed s management continued having success in rolling-out its products into the mass merchandising channel, the products did not achieve sufficient sales volume to generate re-orders. Accordingly, Cosmed is no longer selling its products through mass merchants. Cosmedicine continues to be sold through a number of specialty health and beauty outlets, as well as through certain specialty

internet channels. Cosmed is in the process of re-focusing the Cosmedicine brand, and is considering private label and custom original equipment manufacturer arrangements to leverage its significant intellectual property and unique formulations. Additionally, Cosmed is seeking strategic partnerships in alternative sales platforms including, but not limited to, leading direct response and network marketing conglomerates. Signature owns 92% of the outstanding common stock of Cosmed, with the remaining 8% noncontrolling interest held by the former owners of Costru.

*Signature Special Situations*

Our Signature Special Situations business unit primarily acquires sub-performing and non-performing commercial and industrial loans, leases, and mortgages typically at a discount to UPB. We may also originate secured debt financings to middle market companies for a variety of situations including to support another transaction such as an acquisition, recapitalization or restructuring and take positions in corporate bonds, trade claims, and other structured debt instruments, which may be performing, sub-performing or non-performing. We also seek to acquire specialized assets, such as product or brand licenses, royalty streams, or subscriber bases.

The objective of this operation is to generate high risk-adjusted returns in the form of interest income, fees, recovery of discounted principal balances, or market value appreciation, while maintaining an intense focus on managing downside risks and exposure. In some instances, we may also receive equity securities in the form of convertible debt, preferred or convertible preferred stock, and options or warrants, where our returns will come in the form of appreciation gains associated with such equity securities.

After actively marketing and closing the sale of $27.6 million of our non-performing residential real estate loans in the first quarter, we determined that the economics of a hold and retain strategy were advantageous as compared to the secondary market bids received for the performing (less than sixty days past due) residential real estate loan portfolio. As a result of management s analysis and the Company s current liquidity position, management intends to hold these loans for investment for the foreseeable future. With the change of intention, management reclassified $23.0 million of loans, with an aggregate UPB of $46.9 million, from discontinued operations to Signature Special Situations in continuing operations, effective April 1, 2012.

*Corporate and other*

Corporate and other costs primarily represent expenses related to those administrative, financial and human resource activities that are not allocated to operations and are excluded from segment results of operations. These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments.

<u>Discontinued Operations:</u> At June 30, 2012, our discontinued operations had approximately $4.2 million in assets, or 3% of our total assets, and $10.8 million of liabilities, or 15% of our total liabilities.

Under our business strategy, we seek to maximize the value of the assets of our discontinued operations and expect to redeploy the proceeds in our continuing operations. During the six months ended June 30, 2012, we generated approximately $13.5 million of cash from discontinued operations primarily through the sale of $37.1 million of UPB of our sub-performing and non-performing subprime residential real estate loans, with a carrying value of $10.7 million, sales of $1.6 million of REO and the collection of a $1.9 million note receivable.

The largest liability in our discontinued operations is our residential loan repurchase reserve. At June 30, 2012, the repurchase reserve liability was $8.0 million. This liability represents estimated losses we may experience from repurchase claims, both known and unknown, based on the representations and warranties provided by Fremont Investment & Loan ( FIL ), Fremont s former California industrial bank subsidiary, to counterparties that purchased the residential real estate loans FIL originated, predominantly from 2002 through 2007. Management estimates the likely range of potential loan repurchase liability based on an number of factors, including, but not limited to, the timing of such claims given when the loan was originated; the quality of the counterparties 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. There were no repurchase claims received or settled during the six months ended June 30, 2012. The estimated reserve is based upon currently available information, is subject to known and unknown uncertainties using multiple assumptions requiring significant judgment. Actual results may vary significantly from the current estimate. Total outstanding repurchase claims at June 30, 2012 were approximately $101.7 million. Of the outstanding repurchase claims, there has been no communication or other action from the claimants:

for more than thirty-six months in the case of approximately $70.3 million in claims, or 69.2% of total claims outstanding;

for more than twenty-four months, but less than thirty-six months, in the case of approximately $3.1 million in claims, or 3.0% of total claims outstanding; and

for more than twelve months, but less than twenty-four months, in the case of approximately $28.3 million in claims, or 27.8% of total claims outstanding.

Discontinued operations also include expenses and liabilities associated with various litigation matters that pertain to Fremont s prior business activities. As of June 30, 2012, the Company was involved in seventy defensive cases involving individual home borrowers, the majority of whom are fighting to hold off foreclosure against the loan servicer and current mortgage owner, and where Fremont has been named in the matter because it was the originator of the mortgage. We are also involved in five defensive cases involving Fremont s securitization transactions and three defensive cases involving former Fremont executives seeking severance claims.

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Signature is also a plaintiff in eight cases related to mortgage fraud, whose activities account for a significant portion of our professional expenses included in the statements of operations of discontinued operations for the three and six months ended June 30, 2012.

*Material weakness in internal control over financial reporting*

As of June 30, 2012, the Company s internal control over financial reporting was not effective and it was determined that the material weakness identified as of December 31, 2011 had not been remediated. The Company is currently working to remediate the material weakness in its internal control over financial reporting. See Item 4, Controls and Procedures of this Form 10-Q for more information about the Company s assessment of its internal control over financial reporting and the related material weakness, as well as the Company s continuing efforts to remediate such weakness. Notwithstanding the assessment that the Company s internal control over financial reporting was not effective and that there was a material weakness as discussed in Part I, Item 4 of this Form 10-Q, the Company believes that the financial statements contained in this Form 10-Q and discussed in this Management s Discussion and Analysis of Financial Condition and Results of Operations, fairly and accurately present the financial position, results of operations and cash flows for each of the periods presented, in all material respects.

**CRITICAL ACCOUNTING POLICIES**

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America ( GAAP ). The Company s accounting policies are fundamental to understanding Management s Discussion and Analysis of Financial Condition and Results of Operations. 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, revenues and expenses included in the 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) fair value measurements, (ii) revenue recognition, (iii) purchased credit-impaired loans, (iv) business combinations, (v) inventories, (vi) goodwill and intangible assets, (vii) common stock warrant liability, (viii) income taxes, (ix) accounting for reorganizations, (x) discontinued operations, (xi) loans held for sale, net, (xii) real estate owned, net, and (xiii) guarantees (repurchase reserves). On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that 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 at future balance sheet dates and our results of operations for future reporting periods.

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

**CONSOLIDATED FINANCIAL PERFORMANCE REVIEW**

*Q2 2012 Highlights*

NABCO continued to perform very well with Adjusted EBITDA of $2.2 million for the three months ended June 30, 2012. Net sales increased to $9.1 million and gross margin remained steady at 37.8% during the period. The strong financial performance allowed NABCO to reduce its outstanding debt by $2.0 million in the second quarter.

After actively marketing and closing the sale of $27.6 million of our non-performing residential real estate loans in the first quarter, we determined that the economics of a hold and retain strategy were advantageous as compared to the secondary market bids received for the performing (less than sixty days past due) residential real estate loan portfolio. As a result of management s analysis and the Company s current liquidity position, management intends to hold these loans for investment for the foreseeable future. With the change of intention, management reclassified $23.0 million of loans, with an aggregate UPB of $46.9 million, from discontinued operations to Signature Special Situations in continuing operations, effective April 1, 2012.

We further reduced the assets within our discontinued operations to $4.2 million through the sale of nearly all of our remaining residential real estate loans held for sale in discontinued operations, with an aggregate UPB of $9.5 million. Additionally, we sold eight REO properties reducing the carrying value of REO to $1.3 million at June 30, 2012.

**Three Months Ended June 30, 2012**

The following is a summary of significant operating results for the three months ended June 30, 2012.

Net loss attributable to Signature Group Holdings, Inc. decreased $2.3 million to $3.9 million, as compared to $6.2 million for the three months ended June 30, 2011.

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Loss from continuing operations decreased $1.6 million to $3.3 million for the three months ended June 30, 2012, as compared to $4.9 million for the comparable 2011 period.

Loss from discontinued operations, net of income taxes decreased $0.8 million to $0.6 million for the three months ended June 30, 2012, as compared to $1.4 million for the comparable 2011 period.

Revenues from continuing operations increased to $9.8 million for the three months ended June 30, 2012, as compared to $1.3 million for the comparable 2011 period.

Expenses from continuing operations increased to $12.4 million for the three months ended June 30, 2012, as compared to $5.4 million for the comparable 2011 period.

**Six Months Ended June 30, 2012**

The following is a summary of significant operating results for the six months ended June 30, 2012.

Net loss attributable to Signature Group Holdings, Inc. decreased $5.3 million to $5.1 million, as compared to $10.4 million for the six months ended June 30, 2011.

Loss from continuing operations decreased $2.7 million to $2.7 million for the six months ended June 30, 2012, as compared to $5.4 million for the comparable 2011 period.

Loss from discontinued operations, net of income taxes decreased $2.6 million to $2.4 million for the six months ended June 30, 2012, as compared to $5.0 million for the comparable 2011 period.

Revenues from continuing operations increased to $19.3 million for the six months ended June 30, 2012, as compared to $2.8 million for the comparable 2011 period.

Expenses from continuing operations increased to $24.0 million for the six months ended June 30, 2012, as compared to $8.6 million for the comparable 2011 period.

**CONSOLIDATED RESULTS OF OPERATIONS**

The following table presents selected components of the Company s unaudited consolidated statements of operations for the three and six months ended June 30, 2012 and 2011.

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| **(Dollars in thousands)** | **2012** | **2011** | **2012** | **2011** |
| Revenues | $ 9,786 | $ 1,341 | $ 19,301 | $ 2,775 |
| Expenses | 12,442 | 5,441 | 23,916 | 8,595 |
| Other income (expense) | (648) | 59 | 2,055 | 1,579 |

| | | | | |
|---|---|---|---|---|
| Loss from continuing operations before reorganization items and income taxes | (3,304) | (4,041) | (2,560) | (4,241) |
| Reorganization items, net | (14) | 826 | 80 | 1,325 |
| Loss from continuing operations before income taxes | (3,290) | (4,867) | (2,640) | (5,566) |
| Income tax expense (benefit) | 36 | (14) | 85 | (112) |
| Loss from continuing operations | (3,326) | (4,853) | (2,725) | (5,454) |
| Loss from discontinued operations, net of income taxes | (564) | (1,403) | (2,411) | (4,975) |
| Net loss | (3,890) | (6,256) | (5,136) | (10,429) |
| Loss attributable to noncontrolling interest | | (101) | | (61) |
| Net loss attributable to Signature Group Holdings, Inc. | $ (3,890) | $ (6,155) | $ (5,136) | $ (10,368) |

**Three months ended June 30, 2012 compared to three months ended June 30, 2011**

*General*

Net loss attributable to Signature Group Holdings, Inc. decreased $2.3 million to $3.9 million for the three months ended June 30, 2012, as compared to $6.2 million for the three months ended June 30, 2011. The decrease in our net loss is primarily related to a $1.6 million decrease in loss from continuing operations and a $0.8 million decrease in loss from discontinued operations, net of income taxes, partially offset by a $0.1 million decrease in loss attributable to noncontrolling interest.

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*Loss from continuing operations*

Loss from continuing operations decreased $1.6 million to $3.3 million for the three months ended June 30, 2012, as compared to $4.9 million for the three months ended June 30, 2011. The decrease in the loss is primarily related to an increase in revenues of $8.4 million and a $0.8 million decrease in reorganization items, net, partially offset by an increase in expenses of $7.0 million and a decrease in other income (expense) of $0.7 million. The increase in revenues and operating expenses are primarily related to the inclusion of the operating results of NABCO, which we acquired in July 2011. The decrease in other income (expense) is primarily related to a $0.6 million change in fair value of common stock warrant liability. See Review of Operating Segments Results of Operations below for additional detail.

*Loss from discontinued operations, net of income taxes*

Loss from discontinued operations, net of income taxes decreased $0.8 million to $0.6 million for the three months ended June 30, 2012, as compared to $1.4 million for the three months ended June 30, 2011. The decrease is primarily related to a $0.6 million increase in revenues and a $0.5 million decrease in expenses, offset by a $0.2 million decrease in income tax benefit. See Review of Operating Segments Results of Operations Discontinued Operations below for additional detail.

**Six months ended June 30, 2012 compared to six months ended June 30, 2011**

*General*

Net loss attributable to Signature Group Holdings, Inc. decreased $5.3 million to $5.1 million for the six months ended June 30, 2012, as compared to $10.4 million for the six months ended June 30, 2011. The decrease is primarily related to a $2.7 million decrease in loss from continuing operations and a $2.6 million decrease in loss from discontinued operations, net of income taxes.

*Loss from continuing operations*

Loss from continuing operations decreased $2.7 million to $2.7 million for the six months ended June 30, 2012, as compared to $5.4 million for the six months ended June 30, 2011. The decrease in the loss is primarily related to a $16.5 million increase in revenues, a $0.5 million increase in other income (expense) and a $1.2 million decrease in reorganization items, net, partially offset by a $15.4 million increase in expenses and a $0.1 million decrease in loss attributable to noncontrolling interest. The increase in revenues and operating expenses are primarily related to the inclusion of the operating results of NABCO, which we acquired in July 2011. See Review of Operating Segments Results of Operations below for additional detail.

*Loss from discontinued operations, net of income taxes*

Loss from discontinued operations, net of income taxes decreased $2.6 million to $2.4 million for the six months ended June 30, 2012, as compared to $5.0 million for the six months ended June 30, 2011. The decrease is primarily related to a $0.2 million increase in revenues, a $2.0 million decrease in expenses and a $0.4 million decrease in income tax expense. See Review of Operating Segments Results of Operations Discontinued Operations below for additional detail.

**CONSOLIDATED FINANCIAL CONDITION**

The following table presents selected components of the Company s consolidated balance sheets as of June 30, 2012 and December 31, 2011.

| (Dollars in the thousands) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Cash and cash equivalents | $ 53,366 | $ 52,439 |
| Investment securities, available for sale | 5,146 | 4,991 |
| Loans held for sale, net | | 20,317 |
| Loans receivable, net | 27,625 | 3,750 |
| Trade and other receivables, net | 4,715 | 4,112 |
| Inventories | 9,385 | 8,681 |
| Intangible assets, net | 5,752 | 6,978 |
| Goodwill | 18,180 | 18,180 |
| Other assets | 4,631 | 2,754 |
| Assets of discontinued operations | 4,170 | 20,816 |
| TOTAL ASSETS | $ 132,970 | $ 143,018 |
| Lines of credit | $ 1,700 | $ 5,116 |
| Accrued expenses and other liabilities | 6,189 | 5,916 |
| Contingent consideration | 3,746 | 3,597 |
| Long-term debt | 48,982 | 51,613 |
| Common stock warrant liability | 2,000 | 1,403 |
| Liabilities of discontinued operations | 10,834 | 11,536 |
| TOTAL LIABILITIES | 73,451 | 79,181 |
| TOTAL SHAREHOLDERS EQUITY | 59,519 | 63,837 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 132,970 | $ 143,018 |

**June 30, 2012 compared to December 31, 2011**

*General*

Total assets decreased by $10.0 million, or 7.0%, to $133.0 million at June 30, 2012 from $143.0 million at December 31, 2011. Total liabilities decreased by $5.7 million, or 7.2%, to $73.5 million at June 30, 2012, from $79.2 million at December 31, 2011. Total shareholders equity decreased to $59.5 million at June 30, 2012, from $63.8 million at December 31, 2011.

*Cash and cash equivalents*

Cash and cash equivalents increased $1.0 million to $53.4 million at June 30, 2012, from $52.4 million at December 31, 2011. The $1.0 million increase was primarily due to $12.6 million in cash proceeds received from the sale of sub-performing and non-performing residential real estate loans held for sale, $1.9 million in proceeds from the collection of a note receivable and $2.0 million in net proceeds received from the sale of REO, all within discontinued operations. The increase in cash was partially offset by a $2.6 million purchase of corporate bonds with a par value of $6.2 million, an increase of $1.7 million in loans receivable, net related to additional advances, net of repayments, on a secured revolving line of credit, repayments of $3.4 million in debt associated with outstanding lines of credit, repayments of $0.9 million on long-term debt, the repurchase of $1.8 million of the Company s 9% notes payable ( Notes Payable ) for $1.4 million and the payment of expenses associated with the $5.1 million net loss for the six months ended June 30, 2012.

*Investment securities, available for sale*

Investment securities, available for sale increased $0.1 million to $5.1 million at June 30, 2012, from $5.0 million at December 31, 2011. The increase was primarily due to the accretion of purchase discounts.

During the six months ended June 30, 2012, we purchased $6.2 million in corporate bonds for $2.6 million, which were converted to common stock when the company was reorganized exiting from bankruptcy. At June 30, 2012, there was no active market for the issuer s common stock and, accordingly, the securities have been classified in other assets.

*Loans held for sale, net and loans receivable, net*

Loans held for sale, net and loans receivable, net together increased $3.5 million to $27.6 million at June 30, 2012, from $24.1 million at December 31, 2011. The increase was primarily due to advances, net of repayments, of $1.6 million under revolving lines of credit, an increase of $2.8 million related to the change in fair value of residential real estate loans held for sale prior to their reclassification to held for investment, partially offset by $0.9 million of principal collections on residential and commercial real estate loans.

*Trade and other receivables, net*

Trade and other receivables, net increased $0.6 million to $4.7 million at June 30, 2012, from $4.1 million at December 31, 2011. The increase is primarily related to increased sales activity.

*Inventories*

Inventories increased $0.7 million to $9.4 million at June 30, 2012, from $8.7 million at December 31, 2011, primarily due to a $0.9 million increase in electrical component inventory at NABCO to support projected increased sales in the traditionally more active summer sales season, partially offset by a $0.1 million decrease in skin care product inventory at Cosmed. At June 30, 2012, inventories included $0.1 million of reserves for obsolete, damaged and slow-moving inventory, as compared to $0.3 million at December 31, 2011.

*Intangible assets, net*

Intangible assets, net decreased $1.2 million to $5.8 million at June 30, 2012, from $7.0 million at December 31, 2011. The decrease was due to the amortization of identifiable intangible assets during the six months ended June 30, 2012. The identifiable intangible assets include product formulations, trademarks and trade names, customer relationships and domain names of Cosmed and NABCO.

*Other assets*

Other assets increased $1.9 million to $4.6 million at June 30, 2012, from $2.7 million at December 31, 2011. The increase is primarily related to $0.8 million of preferred stock of a privately-held company received as partial consideration from the sale of foreclosed assets and the receipt of $1.9 million of common stock of a reorganized company in exchange for defaulted corporate bonds, partially offset by the collection of a $0.8 million income tax refund.

*Lines of credit*

Lines of credit decreased $3.4 million to $1.7 million at June 30, 2012, from $5.1 million at December 31, 2011. The decrease was the result of voluntary repayments on NABCO s line of credit as a result of their strong operating performance in the six months ended June 30, 2012.

*Accrued expenses and other liabilities*

Accrued expenses and other liabilities increased $0.3 million to $6.2 million at June 30, 2012, from $5.9 million at December 31, 2011. The increase is primarily attributable to a $0.3 million increase in accrued payroll and benefits and a $0.1 million increase in income taxes payable, partially offset by a $0.1 million decrease in accrued operating expenses and trade payables.

*Contingent consideration*

Contingent consideration increased $0.1 million to $3.7 million at June 30, 2012, from $3.6 million at December 31, 2011. An estimated liability for contingent consideration was recorded as a result of the NABCO acquisition. The former NABCO shareholders may earn contingent consideration of up to $4.0 million subject to the achievement of certain EBITDA milestones for the fiscal year ended December 31, 2012.

The estimated fair value of contingent consideration is based on the Company s expectation about future operating results and includes assumptions related to discount rates and probabilities assigned to various profitability scenarios. Changes in the estimated fair value of contingent consideration are recorded in other income (expense) in the consolidated statements of operations.

*Long-term debt*

Long-term debt decreased $2.6 million to $49.0 million at June 30, 2012, from $51.6 million at December 31, 2011. The decrease was related to $0.4 million of principal repayments on NABCO s term loan, $0.5 million of contractual principal repayments on NABCO s seller notes and the purchase and the retirement of $1.8 million of Notes Payable.

*Common stock warrant liability*

Common stock warrant liability increased $0.6 million to $2.0 million at June 30, 2012, as compared to $1.4 million at December 31, 2011. The increase is primarily attributable to an increase in the underlying market price of our common stock. The Warrants are classified as a derivative liability and re-measured at fair value each reporting period using a lattice option pricing model.

*Assets and liabilities of discontinued operations*

Assets of discontinued operations decreased to $4.2 million at June 30, 2012, from $20.8 million at December 31, 2011. The $16.6 million decrease in assets is primarily due to the sale of $11.8 million of residential real estate loans, the disposition of $2.7 million of residential real estate acquired through foreclosure and the collection of a $1.9 million receivable from the sale of assets. Liabilities of discontinued operations decreased to $10.8 million at June 30, 2012, from $11.5 million at December 31, 2011. The $0.7 million decrease in liabilities is primarily related to a $0.5 million decrease in our repurchase reserve liability.

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**REVIEW OF OPERATING SEGMENTS RESULTS OF OPERATIONS**

The following table presents the financial results of our operating segments for the three months ended June 30, 2012 and 2011. Within continuing operations, we have three operating segments: Signature Special Situations, NABCO and Cosmed. Our fourth operating segment consists of our discontinued operations. Results of operations and other financial measures that are not included in our four primary operating segments are included in corporate and other in the tables below.

**Three months ended June 30, 2012 as compared to the three months ended June 30, 2011**

| | Continuing Operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
| *Three months ended June 30, 2012:* | | | | | | | | |
| Net sales | $ | $ 9,062 | $ 57 | $ | $ | $ 9,119 | $ | $ 9,119 |
| Interest | 808 | | | 283 | (424) | 667 | 22 | 689 |
| Gain on loans held for sale | | | | | | | 1,143 | 1,143 |
| Other, net | | | | | | | 105 | 105 |
| Total revenues | 808 | 9,062 | 57 | 283 | (424) | 9,786 | 1,270 | 11,056 |
| Cost of goods sold | | 5,637 | 90 | | | 5,727 | | 5,727 |
| Selling, general and administrative | 24 | 350 | 49 | 478 | | 901 | 121 | 1,022 |
| Compensation | | 575 | 61 | 1,375 | | 2,011 | | 2,011 |
| Professional fees | 14 | 308 | 10 | 1,807 | | 2,139 | 1,618 | 3,757 |
| Amortization of intangibles | | 586 | 19 | | | 605 | | 605 |
| Interest | 265 | 304 | 58 | 856 | (424) | 1,059 | | 1,059 |
| Total expenses | 303 | 7,760 | 287 | 4,516 | (424) | 12,442 | 1,739 | 14,181 |
| Other income (expense) | (371) | (75) | | (202) | | (648) | | (648) |
| Earnings (loss) before reorganization items, net and income taxes | 134 | 1,227 | (230) | (4,435) | | (3,304) | (469) | (3,773) |
| Reorganization items, net | | | | (14) | | (14) | 95 | 81 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 134 | 1,227 | (230) | (4,421) | | (3,290) | (564) | (3,854) |
| Income tax expense (benefit) | 13 | 489 | | (466) | | 36 | | 36 |
| Net earnings (loss) | 121 | 738 | (230) | (3,955) | | (3,326) | (564) | (3,890) |
| Loss attributable to noncontrolling interest | | | | | | | | |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 121 | $ 738 | $ (230) | $ (3,955) | $ | $ (3,326) | $ (564) | $ (3,890) |

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| | Continuing Operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
| *Three months ended June 30, 2011:* | | | | | | | | |
| Net sales | $ | $ | $ 295 | $ | $ | $ 295 | $ | $ 295 |
| Interest | 1,012 | | | 66 | (32) | 1,046 | 393 | 1,439 |
| Loss on loans held for sale | | | | | | | (105) | (105) |
| Other, net | | | | | | | 367 | 367 |
| Total revenues | 1,012 | | 295 | 66 | (32) | 1,341 | 655 | 1,996 |
| Cost of goods sold | | | 247 | | | 247 | | 247 |
| Selling, general and administrative | (35) | | 582 | 1,440 | | 1,987 | 462 | 2,449 |
| Compensation | | | 167 | 597 | | 764 | 254 | 1,018 |
| Professional fees | | | 48 | 1,412 | | 1,460 | 1,501 | 2,961 |
| Amortization of intangibles | | | 78 | | | 78 | | 78 |
| Interest | | | 60 | 877 | (32) | 905 | | 905 |
| Total expenses | (35) | | 1,182 | 4,326 | (32) | 5,441 | 2,217 | 7,658 |
| Other income (expense) | 187 | | | (128) | | 59 | | 59 |
| Earnings (loss) before reorganization items, net and income taxes | 1,234 | | (887) | (4,388) | | (4,041) | (1,562) | (5,603) |
| Reorganization items, net | | | | 826 | | 826 | | 826 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 1,234 | | (887) | (5,214) | | (4,867) | (1,562) | (6,429) |
| Income tax expense (benefit) | 4 | | 100 | (118) | | (14) | (159) | (173) |
| Net earnings (loss) | 1,230 | | (987) | (5,096) | | (4,853) | (1,403) | (6,256) |
| Loss attributable to noncontrolling interest | | | (101) | | | (101) | | (101) |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 1,230 | $ | $ (886) | $ (5,096) | $ | $ (4,752) | $ (1,403) | $ (6,155) |

**Signature Special Situations**

*General*

Signature Special Situations generated net earnings of $0.1 million for the three months ended June 30, 2012, as compared to $1.2 million for the three months ended June 30, 2011. The $1.1 million decrease is primarily related to a $0.8 million decrease in revenues and other income (expense) and a $0.3 million increase in expenses.

Our intention to sell the performing subprime residential real estate portfolio, classified in discontinued operations as reported in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, formally changed to held for investment effective April 1, 2012, as management has the ability to hold, and does not expect to sell these loans for the foreseeable future. As a result, the reclassified loans and the interest income, change in market valuation allowance and loan servicing expenses directly associated with the loans have been reclassified from discontinued operations to Signature Special Situations for all periods presented.

*Revenues and other income (expense)*

Revenues and other income (expense) decreased $0.8 million to $0.4 million for the three months ended June 30, 2012, as compared to $1.2 million for the three months ended June 30, 2011. The decrease is primarily related to a $0.6 million loss on investment securities, available for sale, a $0.2 million decrease in change in market valuation allowance on loans held for sale and a $0.2 million decrease in interest income, partially offset by a $0.2 million increase in discount recognized on payoff of loans receivable, net.

The decrease in interest income is the result of a $0.5 million reversal of accrued interest on defaulted corporate bonds included in investment securities, available for sale, partially offset by increased average interest-earning assets of $40.3 million for the three months ended June 30, 2012, as compared to $29.3 million for the three months ended June 30, 2011.

The discount, or difference between the UPB and carrying value on the reclassification date, is recognized in interest income as a yield adjustment. When a loan with a discount pays off, the unamortized discount is recognized in other income (expense). In the three months ended June 30, 2012, two such loans paid off and we recognized $0.2 million in other income (expense).

*Expenses*

Expenses increased $0.3 million to $0.3 million for the three months ended June 30, 2012, as compared to zero for the three months ended June 30, 2011. The increase is primarily related to a $0.3 million increase in interest expense on intercompany borrowings, which were not assessed in the prior period.

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**NABCO**

*General*

NABCO s results of operations have been consolidated into the Company s consolidated results of operations from the July 29, 2011 acquisition date. For the three months ended June 30, 2012, NABCO generated net earnings of $0.7 million on $9.0 million in revenues and other income (expense) and $7.8 million of operating expenses, including $0.6 million of amortization of identifiable intangible assets.

*Revenues, other income (expense) and gross margin*

Revenues and other income (expense) from NABCO was $9.0 million, comprised primarily of $9.1 million of net sales, offset by $0.1 million of change in fair value of contingent consideration for the three months ended June 30, 2012.

NABCO demonstrated solid organic growth in the seasonally stronger second quarter, generating quarterly net sales of $9.1 million. Although not a part of Signature s operation in the second quarter of 2011, the Company estimates that NABCO s second quarter sales increased by approximately 13.1% compared to the same quarter last year when NABCO operated as a privately-held standalone business. Historically, the second and third fiscal quarters are NABCO s strongest due to increased circuit breaker sales activity during the summer season and associated weather conditions.

Gross margin was 37.8% during the second quarter, which was in line with NABCO s gross margin in the first quarter of 2012, along with the Company s estimate of NABCO s gross margin in the second quarter of 2011.

*Expenses*

Total expenses from NABCO were $7.8 million for the three months ended June 30, 2012, comprised primarily of $5.6 million of costs of goods sold; $0.6 million of compensation expense; $0.6 million of amortization of intangibles; $0.3 million of interest expense; and $0.4 million in selling, general and administrative expenses.

**Cosmed**

*General*

Cosmed s results of operations have been consolidated into the Company s consolidated results of operations from the February 18, 2011 acquisition date. For the three months ended June 30, 2012, Cosmed generated a net loss of $0.2 million, as compared to a net loss of $0.9 million for the three months ended June 30, 2011. The $0.7 million decrease in loss is primarily related to a $0.9 million decrease in expenses, partially offset by a $0.2 million decrease in net sales.

*Revenues, other income (expense) and gross margin*

Revenues decreased $0.2 million to $57 thousand for the three months ended June 30, 2012, as compared to $0.3 million for the three months ended June 30, 2011. The decrease is primarily related to a decrease in net sales as a result of Cosmed no longer selling through mass merchants. Gross margin during the quarter was negative as a result of $49 thousand of inventory write-offs associated with expired inventory.

*Expenses*

Total expenses decreased $0.9 million to $0.3 million for the three months ended June 30, 2012, as compared to $1.2 million for the three months ended June 30, 2011. The decrease is primarily related to a $0.2 million reduction in cost of goods sold associated with reduced net sales, a $0.5 million decrease in selling, general and administrative expenses related from reduced marketing expenditures to support its mass retail customers and a $0.1 million decrease in amortization of intangibles.

**Corporate and Other**

*General*

The net loss reported in corporate and other decreased by $1.1 million to $4.0 million for the three months ended June 30, 2012, as compared to a $5.1 million net loss for the three months ended June 30, 2011. The $1.1 million decrease is primarily related to a $0.1 million increase in revenues and other income (expense), a $1.0 million decrease in selling, general and administrative expenses, an $0.8 million decrease in reorganization items, net, and a $0.3 million increase in income tax benefit, partially offset by a $0.8 million increase in compensation and a $0.4 million increase in professional fees.

Amounts included in corporate and other include interest income, corporate overhead costs, interest expense and other income (expense) not allocated to our operating segments.

*Revenues and other income (expense)*

Revenues and other income (expense) from corporate and other increased $0.1 million to $81 thousand net revenue for the three months ended June 30, 2012, as compared to a $62 thousand net expense for the three months ended June 30, 2011. The increase is primarily related to a $0.2 million increase in interest income related to intercompany receivables and a $0.4 million gain on extinguishment of debt, partially offset by a $0.6 million decrease in other income from a change in fair value of common stock warrant liability.

*Expenses*

Total expenses increased $0.2 million to $4.5 million for the three months ended June 30, 2012, as compared to $4.3 million for the three months ended June 30, 2011. The increase is primarily related to a $0.8 million increase in compensation and a $0.4 million increase in professional fees, partially offset by a $0.9 million decrease in selling, general and administrative expenses.

*Selling, general and administrative*

Selling, general and administrative expenses decreased $0.9 million to $0.5 million for the three months ended June 30, 2012, as compared to $1.4 million for the three months ended June 30, 2011. The $0.9 million decrease is primarily attributable to a $0.7 million decrease in external management fees and a $0.1 million decrease in information technology expenses.

*Compensation*

Compensation expense increased $0.8 million to $1.4 million for the three months ended June 30, 2012, as compared to $0.6 million for the three months ended June 30, 2011. The increase is primarily related to an increase in headcount and the associated salaries and benefits of $0.5 million, due to the direct hiring of executives and employees in connection with the termination of the previous external management agreement during the third quarter of 2011. For the three months ended June 30, 2011, the Company had limited personnel as the Company was managed by an external management company. Additionally, there was an increase in share-based compensation expense of $0.3 million, associated with awards of our common stock to independent directors, executive officers and employees.

*Professional fees*

Professional fees increased $0.4 million to $1.8 million for the three months ended June 30, 2012, as compared to $1.4 million for the three months ended June 30, 2011. The increase is primarily related to $1.0 million of costs related to the Company s 2012 annual meeting of shareholders (the Annual Meeting ) and the related proxy contest, partially offset by a $0.5 million decrease in general corporate legal expense and compliance expenses associated with SEC periodic filing reports. See Note 16 *Subsequent Events* included in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for additional information regarding the Company s Annual Meeting and the related proxy contest.

**Discontinued Operations**

Discontinued operations presents the financial condition and results of operations of the assets, liabilities, businesses and operations that were sold or discontinued by Fremont prior to the date of emergence from Chapter 11 bankruptcy proceedings. In accordance with FASB ASC 205-20, *Presentation of Financial Statements Discontinued Operations*, earnings (loss) after income taxes from discontinued operations and the net loss on disposal of discontinued operations are reported in the consolidated statements of operations after earnings (loss) from continuing operations for all periods presented.

*General*

Loss from discontinued operations, net of income taxes decreased $0.8 million to $0.6 million for the three months ended June 30, 2012, as compared to $1.4 million for the three months ended June 30, 2011. The decrease is primarily related to a $0.6 million increase in revenues and a $0.4 million decrease in expenses, partially offset by a $0.2 million decrease in income tax benefit.

*Revenues*

Revenues from discontinued operations increased $0.7 million to $1.3 million for the three months ended June 30, 2012, as compared to $0.6 million for the three months ended June 30, 2011. The increase in revenues is primarily related to a $1.3 million increase in gain on loans held

for sale, partially offset by a $0.3 million decrease in other, net and a $0.4 million decrease in interest income due to lower average interest-earning assets during the period.

*Gain (loss) on loans held for sale*

Gain (loss) on loans held for sale increased $1.3 million to a $1.1 million gain for the three months ended June 30, 2012, as compared to a $0.2 million loss for the three months ended June 30, 2011. The increase in gain is primarily related to $0.5 million of gain on the sale of $9.5 million in UPB of non-performing residential real estate loans related to a whole loan sale that closed in June 2012, a $0.3 million gain on the sale of approximately $142 million in UPB of charged off second lien residential real estate loans related to a whole loan sale that closed in May 2012

and a $0.3 million reversal of provision for the repurchase reserve. The loss on loans held for sale for the three months ended June 30, 2011 was primarily related to a provision for market valuation allowance for loans held for sale primarily related to the degradation of the portfolio as a result of delinquency migration.

*Other, net*

Other, net decreased $0.3 million to $0.1 million for the three months ended June 30, 2012 as compared to $0.4 million for the three months ended June 30, 2011. The decrease in other, net is primarily due to a $0.2 million decrease in gain on sale of commercial real estate investments and a $0.1 million decrease in recoveries on impaired securitization interests.

*Expenses*

Expenses decreased $0.4 million to $1.8 million for the three months ended June 30, 2012, as compared to $2.2 million for the three months ended June 30, 2011. The decrease in expenses is primarily related to a $0.3 million decrease in selling, general and administrative expenses and a $0.2 million decrease in compensation expense, partially offset by a $0.1 million increase in professional fees.

*Selling, general and administrative*

Selling, general and administrative expenses decreased $0.3 million to $0.1 million for the three months ended June 30, 2012, as compared to $0.4 million for the three months ended June 30, 2011. The decrease is primarily related to a reduction of overall activities in discontinued operations, particularly information technology expenses.

*Compensation*

Compensation expense decreased $0.2 million to zero for the three months ended June 30, 2012, as compared to $0.2 million for the three months ended June 30, 2011. The decrease in compensation is primarily related to reductions in personnel associated with previously disposed businesses and reduced operations related to other discontinued business activities.

**Six months ended June 30, 2012 as compared to the six months ended June 30, 2011**

| | **Continuing Operations** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Signature Special Situations** | **NABCO** | **Cosmed** | **Corporate and Other** | **Eliminations** | **Total** | **Discontinued Operations** | **Total** |
| *Six months ended June 30, 2012:* | | | | | | | | |
| Net sales | $ | $ 16,905 | $ 255 | $ | $ | $ 17,160 | $ | $ 17,160 |
| Interest | 2,422 | | | 446 | (727) | 2,141 | 169 | 2,310 |
| Gain on loans held for sale | | | | | | | 1,488 | 1,488 |
| Other, net | | | | | | | (376) | (376) |
| Total revenues | 2,422 | 16,905 | 255 | 446 | (727) | 19,301 | 1,281 | 20,582 |
| Cost of goods sold | | 10,454 | 218 | | | 10,672 | | 10,672 |
| Selling, general and administrative | 46 | 600 | 101 | 994 | | 1,741 | 441 | 2,182 |
| Compensation | | 1,092 | 59 | 3,084 | | 4,235 | 21 | 4,256 |
| Professional fees | 25 | 494 | 27 | 3,340 | | 3,886 | 3,122 | 7,008 |
| Amortization of intangibles | | 1,173 | 37 | | | 1,210 | | 1,210 |
| Interest | 410 | 622 | 133 | 1,734 | (727) | 2,172 | | 2,172 |
| Total expenses | 481 | 14,435 | 575 | 9,152 | (727) | 23,916 | 3,584 | 27,500 |
| Other income (expense) | 2,405 | (148) | (1) | (201) | | 2,055 | | 2,055 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Earnings (loss) before reorganization items, net and income taxes | 4,346 | 2,322 | (321) | (8,907) | | (2,560) | (2,303) | (4,863) |
| Reorganization items, net | | | | 80 | | 80 | 108 | 188 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 4,346 | 2,322 | (321) | (8,987) | | (2,640) | (2,411) | (5,051) |
| Income tax expense (benefit) | 32 | 927 | 4 | (878) | | 85 | | 85 |
| Net earnings (loss) | 4,314 | 1,395 | (325) | (8,109) | | (2,725) | (2,411) | (5,136) |
| Loss attributable to noncontrolling interest | | | | | | | | |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 4,314 | $ 1,395 | $ (325) | $ (8,109) | $ | $ (2,725) | $ (2,411) | $ (5,136) |

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| | Continuing Operations | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Signature Special Situations | NABCO | Cosmed | Corporate and Other | Eliminations | Total | Discontinued Operations | Total |
| *Six months ended June 30, 2011:* | | | | | | | | |
| Net sales | $ | $ | $ 840 | $ | $ | $ 840 | $ | $ 840 |
| Interest | 1,911 | | | 69 | (45) | 1,935 | 777 | 2,712 |
| Gain on loans held for sale | | | | | | | 29 | 29 |
| Other, net | | | | | | | 262 | 262 |
| Total revenues | 1,911 | | 840 | 69 | (45) | 2,775 | 1,068 | 3,843 |
| Cost of goods sold | | | 521 | | | 521 | | 521 |
| Selling, general and administrative | (31) | | 614 | 2,014 | | 2,597 | 1,597 | 4,194 |
| Compensation | | | 221 | 822 | | 1,043 | 956 | 1,999 |
| Professional fees | | | 62 | 2,474 | | 2,536 | 3,063 | 5,599 |
| Amortization of intangibles | | | 104 | | | 104 | | 104 |
| Interest | | | 84 | 1,755 | (45) | 1,794 | | 1,794 |
| Total expenses | (31) | | 1,606 | 7,065 | (45) | 8,595 | 5,616 | 14,211 |
| Other income (expense) | 625 | | 281 | 673 | | 1,579 | | 1,579 |
| Earnings (loss) before reorganization items, net and income taxes | 2,567 | | (485) | (6,323) | | (4,241) | (4,548) | (8,789) |
| Reorganization items, net | | | | 1,325 | | 1,325 | | 1,325 |
| Earnings (loss) before income taxes and loss attributable to noncontrolling interest | 2,567 | | (485) | (7,648) | | (5,566) | (4,548) | (10,114) |
| Income tax expense (benefit) | 6 | | | (118) | | (112) | 427 | 315 |
| Net earnings (loss) | 2,561 | | (485) | (7,530) | | (5,454) | (4,975) | (10,429) |
| Loss attributable to noncontrolling interest | | | (61) | | | (61) | | (61) |
| Net earnings (loss) attributable to Signature Group Holdings, Inc. | $ 2,561 | $ | $ (424) | $ (7,530) | $ | $ (5,393) | $ (4,975) | $ (10,368) |

**Signature Special Situations**

*General*

Signature Special Situations generated net earnings of $4.3 million for the six months ended June 30, 2012, as compared to $2.6 million for the six months ended June 30, 2011. The $1.7 million increase is primarily related to a $2.3 million increase in revenues and other income (expense) and partially offset by a $0.5 million increase in expenses.

Our intention to sell the performing subprime residential real estate portfolio, classified in discontinued operations as reported in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, formally changed to held for investment effective April 1, 2012, as management has the ability to hold, and does not expect to sell these loans for the foreseeable future. As a result, the reclassified loans and the interest income, change in market valuation allowance and loan servicing expenses directly associated with the loans have been reclassified from discontinued operations to Signature Special Situations for all periods presented.

*Revenues and other income (expense)*

Revenues and other income (expense) increased $2.3 million to $4.8 million for the six months ended June 30, 2012, as compared to $2.5 million for the six months ended June 30, 2011. The increase is primarily related to a $2.1 million increase in change in market valuation allowance on loans held for sale, a $0.5 million increase in interest income and a $0.2 million increase in discount recognized on payoff of loans receivable, net, partially offset by a loss of $0.6 million on a defaulted investment security, available for sale.

The change in the market valuation allowance on loans held for sale relates to fair value adjustments made to the loans when they were classified as held for sale and carried at fair value. The increase in interest income is the result of an increase in average interest-earning assets to $39.6 million for the six months ended June 30, 2012, as compared to $28.9 million for the six months ended June 30, 2011. The discount, or difference between the unpaid principal balance and carrying value on the reclassification date, is

recognized in interest income as a yield adjustment. When a loan with a discount pays off, the unamortized discount is recognized in other income (expense) in the consolidated statements of operations.

*Expenses*

Expenses increased $0.5 million to $0.5 million for the six months ended June 30, 2012, as compared to zero for the six months ended June 30, 2011. The increase is primarily related to a $0.4 million increase in interest expense on intercompany borrowings, which were not assessed in the prior period.

**NABCO**

*General*

NABCO s results of operations have been consolidated into the Company s consolidated results of operations from the July 29, 2011 acquisition date. For the six months ended June 30, 2012, NABCO generated net earnings of $1.4 million, on $16.8 million in revenues and other income (expense) and $14.4 million of operating expenses, including $1.2 million of amortization of identifiable intangible assets.

*Revenues, other income (expense) and gross margin*

Revenues and other income (expense) from NABCO was $16.8 million, comprised primarily of $16.9 million of net sales, offset by $0.1 million of change in fair value of contingent consideration for the six months ended June 30, 2012.

Although not a part of Signature s operation in the six months ended June 30, 2011, the Company estimates that NABCO s net sales increased by approximately $2.1 million, or 13.9% compared to the same period in the prior year when NABCO operated as a privately-held standalone business.

Gross margin was 38.2% for the six months ended June 30, 2012, which was in line with management s expectations.

*Expenses*

Total expenses from NABCO were $14.4 million for the six months ended June 30, 2012, comprised primarily of $10.5 million of costs of goods sold, $1.1 million of compensation expense, $1.2 million of amortization of intangibles, $0.6 million of interest expense and $0.6 million in selling, general and administrative expenses.

**Cosmed**

*General*

Cosmed s results of operations have been consolidated into the Company s consolidated results of operations from the February 18, 2011 acquisition date. For the six months ended June 30, 2012, Cosmed generated a net loss of $0.3 million, as compared to $0.4 million for the period from acquisition date to June 30, 2011. The $0.1 million decrease is primarily related to a $1.0 million reduction in expenses and offset by a $0.6 million decrease in revenues and a $0.3 million decrease in other income (expense).

*Revenues and other income (expense)*

Revenues and other income (expense) decreased $0.9 million to $0.2 million for the six months ended June 30, 2012, as compared to $1.1 million for the period from the acquisition date to June 30, 2011. The decrease is primarily related to a $0.6 million decrease in net sales, as a result of Cosmed no longer focusing on sales through mass merchants and a $0.3 million decrease in other income (expense).

*Expenses*

Total expenses decreased $1.0 million to $0.6 million for the six months ended June 30, 2012, as compared to $1.6 million for the period from the acquisition date to June 30, 2011. The decrease is primarily related to a $0.3 million decrease in cost of goods sold associated with reduced net sales, a $0.2 million decrease in compensation expense associated with the restructuring of compensation arrangements with senior

management for the six months ended June 30, 2012, and a $0.5 million decrease in selling, general and administrative expenses.

**Corporate and Other**

*General*

The net loss reported in corporate and other increased by $0.6 million to $8.1 million for the six months ended June 30, 2012, as compared to $7.5 million for the six months ended June 30, 2011. The $0.6 million increase is primarily related to a $2.1 million

increase in expenses and a $0.9 million decrease in other income (expense), partially offset by a $0.3 million increase in revenues, a $1.2 million decrease in reorganization items, net and a $0.8 million increase in income tax benefit.

Amounts included in corporate and other include interest income, corporate overhead costs, interest expense and other income (expense) not allocated to our operating segments.

*Revenues and other income (expense)*

Revenues and other income (expense) from corporate and other decreased $0.5 million to $0.2 million for the six months ended June 30, 2012, as compared to $0.7 million for the six months ended June 30, 2011. The decrease is primarily related to a $0.8 million change in fair value of common stock warrant liability, partially offset by a $0.3 million increase in interest income primarily related to intercompany receivables.

*Expenses*

Total expenses increased $2.1 million to $9.2 million for the six months ended June 30, 2012, as compared to $7.1 million for the six months ended June 30, 2011. The increase is primarily related to a $2.3 million increase in compensation expense and a $0.8 million increase in professional fees, partially offset by a $1.0 million decrease in selling, general and administrative expenses.

*Compensation*

Compensation expense increased $2.3 million to $3.1 million for the six months ended June 30, 2012, as compared to $0.8 million for the six months ended June 30, 2011. The increase is primarily related to an increase in headcount, and associated salaries and benefits of $1.7 million, due to the direct hiring of executives and employees in connection with the termination of the previous external management agreement during the third quarter of 2011. For the six months ended June 30, 2011, the Company had limited personnel as the Company was managed by an external management company. Additionally, there was an increase in share-based compensation expense of $0.6 million, associated with awards of our common stock to independent directors, executive officers and employees.

*Professional fees*

Professional fees increased $0.8 million to $3.3 million for the six months ended June 30, 2012, as compared to $2.5 million for the six months ended June 30, 2011. The increase is primarily related to $1.4 million of costs related to the Company s Annual Meeting and the related proxy contest, partially offset by a $0.6 million decrease in general corporate legal expense and compliance expenses associated with SEC periodic filing reports. See Note 16 *Subsequent Events* included in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for additional information regarding the Company s Annual Meeting and the related proxy contest.

**Discontinued Operations**

Discontinued operations presents the financial condition and results of operations of the assets, liabilities, businesses and operations that were sold or discontinued by Fremont prior to the date of emergence from Chapter 11 bankruptcy proceedings. In accordance with FASB ASC 205-20, *Presentation of Financial Statements Discontinued Operations*, earnings (loss) after income taxes from discontinued operations and the net loss on disposal of discontinued operations are reported in the consolidated statements of operations after earnings (loss) from continuing operations for all periods presented.

*General*

Loss from discontinued operations, net of income taxes decreased $2.6 million to $2.4 million for the six months ended June 30, 2012, as compared to $5.0 million for the six months ended June 30, 2011. The decrease is primarily related to a $0.2 million increase in revenues, a $2.0 million decrease in expenses and a $0.4 million decrease in income tax expense.

*Revenues*

Revenues from discontinued operations increased $0.2 million to $1.3 million for the six months ended June 30, 2012, as compared to $1.1 million for the six months ended June 30, 2011. The increase in revenues is primarily related to a $1.5 million increase in gain on loans held for sale, partially offset by a $0.6 million decrease in other, net and a $0.6 million decrease in interest income.

*Gain on loans held for sale*

Gain on loans held for sale increased $1.5 million to $1.5 million for the six months ended June 30, 2012, as compared to $29 thousand for the six months ended June 30, 2011. The increase in gain is primarily related to $2.0 million in gain on sales of loans and a $0.5 million reversal of provision for the repurchase reserve, partially offset by a $1.0 million lower of cost or market adjustment on loans held for sale.

*Other, net*

Other, net decreased $0.7 million to a $0.4 million loss for the six months ended June 30, 2012, as compared to a $0.3 million gain for the six months ended June 30, 2011. The decrease is primarily due to a $0.3 million decrease in gain (loss) on commercial real estate investments, a $0.4 million increase in REO valuation allowances, a $0.3 million decrease in other miscellaneous income and a $0.1 million decrease in cash flows received on investment securities previously impaired, partially offset by a $0.3 million increase in gain on sale of REO and a $0.1 million decrease in REO servicing costs. During the six months ended June 30, 2012, we sold seventeen REO properties and generated net cash recoveries, after fees and expenses, of approximately $2.0 million, resulting in net gains of $0.5 million.

*Expenses*

Expenses decreased $2.0 million to $3.6 million for the six months ended June 30, 2012, as compared to $5.6 million for the six months ended June 30, 2011. The decrease in expenses is primarily related to a $1.2 million reduction in selling, general and administrative expenses and a $0.9 million decrease in compensation expense.

*Selling, general and administrative*

Selling, general and administrative expenses decreased $1.2 million to $0.4 million for the six months ended June 30, 2012, as compared to $1.6 million for the six months ended June 30, 2011. The decrease is primarily related to a $1.0 million decrease in information technology expenses due to reductions in personnel, office space and operating activities associated with discontinued operations and a $0.1 million decrease in other loan related expenses.

*Compensation*

Compensation expense decreased $0.9 million to $21 thousand for the six months ended June 30, 2012, as compared to $1.0 million for the six months ended June 30, 2011. The decrease in compensation is primarily related to reductions in personnel associated with previously disposed businesses and reduced operations related to other discontinued business activities.

**REVIEW OF OPERATING SEGMENTS FINANCIAL CONDITION**

The following tables present the assets and liabilities of our operating segments as of June 30, 2012 and December 31, 2011. The corporate and other segment does not meet the definition of a segment as it contains parent company assets and liabilities that are not allocated to operating segments.

| | Continuing Operations | | | | | | |
|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Signature Special Situations** | **NABCO** | **Cosmed** | **Corporate and Other** | **Eliminations** | **Total** | **Discontinued Operations** |
| *June 30, 2012* | | | | | | | |
| Cash and cash equivalents | $ 478 | $ 535 | $ 85 | $ 52,268 | $ | $ 53,366 | $ 111 |
| Investment securities, available for sale | 5,146 | | | | | 5,146 | |
| Loans receivable, net | 27,625 | | | | | 27,625 | |
| Trade and other receivables, net | 26 | 4,644 | 10 | 35 | | 4,715 | 38 |
| Inventories | | 8,629 | 756 | | | 9,385 | |
| Intangible assets, net | | 5,519 | 233 | | | 5,752 | |
| Goodwill | | 17,780 | 400 | | | 18,180 | |
| Deferred tax assets | | | | 1,560 | (1,560) | | |
| Loans held for sale, net | | | | | | | 560 |
| Real estate owned, net | | | | | | | 1,250 |
| Intercompany receivable | 6,712 | 14 | | 22,255 | (28,981) | | |
| Other assets | 3,442 | 839 | 12 | 2,494 | (2,156) | 4,631 | 2,211 |
| Total assets | $ 43,429 | $ 37,960 | $ 1,496 | $ 78,612 | $ (32,697) | $ 128,800 | $ 4,170 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Lines of credit | $ | $ 1,700 | $ | $ | $ | $ 1,700 | $ |
| Accrued expenses and other liabilities | 66 | 4,610 | 45 | 3,560 | (2,156) | 6,125 | 2,834 |
| Contingent consideration | | 3,746 | | | | 3,746 | |
| Long-term debt | | 11,736 | | 37,246 | | 48,982 | |
| Common stock warrant liability | | | | 2,000 | | 2,000 | |
| Repurchase reserve | | | | | | | 8,000 |
| Deferred tax liabilities | | 1,624 | | | (1,560) | 64 | |
| Intercompany payable | 21,499 | 4,304 | 2,408 | 770 | (28,981) | | |
| Total liabilities | $ 21,565 | $ 27,720 | $ 2,453 | $ 43,576 | $ (32,697) | $ 62,617 | $ 10,834 |

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| | Continuing Operations | | | | | | |
|---|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Signature Special Situations** | **NABCO** | **Cosmed** | **Corporate and Other** | **Eliminations** | **Total** | **Discontinued Operations** |
| *December 31, 2011* | | | | | | | |
| Cash and cash equivalents | $ 2,316 | $ 2,168 | $ 83 | $ 47,872 | $ | $ 52,439 | $ 117 |
| Investment securities, available for sale | 4,991 | | | | | 4,991 | |
| Loans held for sale, net | 20,317 | | | | | 20,317 | 12,383 |
| Loans receivable, net | 3,750 | | | | | 3,750 | |
| Trade and other receivables, net | | 4,073 | 13 | 26 | | 4,112 | |
| Inventories | | 7,752 | 929 | | | 8,681 | |
| Intangible assets, net | | 6,708 | 270 | | | 6,978 | |
| Goodwill | | 17,780 | 400 | | | 18,180 | |
| Deferred tax assets | | | | 1,996 | (1,996) | | |
| Real estate owned, net | | | | | | | 3,966 |
| Intercompany receivable | 5,165 | 14 | | 10,688 | (15,867) | | |
| Other assets | 675 | 933 | 40 | 2,026 | (920) | 2,754 | 4,350 |
| Total assets | $ 37,214 | $ 39,428 | $ 1,735 | $ 62,608 | $ (18,783) | $ 122,202 | $ 20,816 |
| Lines of credit | $ | $ 5,116 | $ | $ | $ | $ 5,116 | $ |
| Accrued expenses and other liabilities | 109 | 3,077 | 174 | 3,395 | (920) | 5,835 | 3,036 |
| Contingent consideration | | 3,597 | | | | 3,597 | |
| Long-term debt | | 12,613 | | 39,000 | | 51,613 | |
| Common stock warrant liability | | | | 1,403 | | 1,403 | |
| Repurchase reserve | | | | | | | 8,500 |
| Deferred tax liabilities | | 2,077 | | | (1,996) | 81 | |
| Intercompany payable | 9,302 | 4,102 | 2,193 | 270 | (15,867) | | |
| Total liabilities | $ 9,411 | $ 30,582 | $ 2,367 | $ 44,068 | $ (18,783) | $ 67,645 | $ 11,536 |

**Signature Special Situations**

At June 30, 2012, Signature Special Situations had $43.4 million in total assets and $21.6 million in total liabilities compared to $37.2 million in total assets and $9.4 million in total liabilities at December 31, 2011.

*Cash and cash equivalents*

Cash and cash equivalents decreased $1.8 million to $0.5 million at June 30, 2012, from $2.3 million at December 31, 2011. The decrease primarily relates to the purchase of $2.6 million of investment securities, partially offset by $0.8 million in net repayments from loans receivable, net and investment securities, available for sale.

*Investment securities, available for sale*

Investment securities, available for sale increased $0.1 million to $5.1 million at June 30, 2012, from $5.0 million at December 31, 2011. The increase was due to discount accretion of $0.1 million.

At June 30, 2012 and December 31, 2011, investment securities included (i) one corporate bond securities with a $3.0 million par value, a coupon of 11.25% per annum and a maturity of March 2015, purchased for $2.7 million and (ii) two corporate bond securities, from the same obligor, with an aggregate par value of $2.7 million, a coupon of 13% per annum and a maturity of October 2014, purchased for $2.0 million.

*Loans held for sale, net and loans receivable, net*

Loans held for sale, net and loans receivable, net together increased $3.5 million to $27.6 million at June 30, 2012, from $24.1 million at December 31, 2011. The increase was primarily due to advances, net of repayments, of $1.6 million in loans receivable associated with a secured line of credit and $2.8 million of change in market valuation allowance for loans held for sale, partially offset by a $0.8 million of principal collections.

The average yield on the loans held for sale and loans receivable net, computed as annualized interest income divided by average carrying value of the loans, was 12.8% for the six months ended June 30, 2012, as compared to 13.1% for the six months ended June 30, 2011.

On March 30, 2012, the debtor under our purchased credit-impaired commercial term loan surrendered all of its assets serving as collateral securing the obligations owed to Signature, including trade receivables, equipment, inventories, and other operating assets to Signature in full satisfaction of the obligations owed. Simultaneous with the asset surrender, the Company sold all of the assets to a new company majority-owned and controlled by the original founder of the business and certain members of management. In connection with the sale of assets, the Company provided a secured revolving line of credit and secured term note, and received preferred stock in the new borrower and $0.5 million of contingent consideration.

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*Other assets*

Other assets increased $2.7 million to $3.4 million at June 30, 2012, from $0.7 million at December 31, 2011. The increase is primarily related to $0.8 million of preferred stock of a privately-held company received as partial consideration from the sale of foreclosed assets and the receipt of $1.9 million of common stock of a reorganized company in exchange for defaulted corporate bonds.

*Intercompany receivables and payables*

Intercompany receivables totaled $6.7 million at June 30, 2012, from $5.2 million at December 31, 2011. The balance primarily relates to $4.0 million due from NABCO bearing interest at 10.00% per annum and $2.2 million due from Cosmed bearing interest at rates ranging from 10.00% to 12.00% per annum. Intercompany payables totaled $21.5 million at June 30, 2012, as compared to $9.3 million at December 31, 2011. The balance relates to $21.5 million due to corporate and other, at a 5.00% interest rate per annum, to fund its operations. The intercompany receivables and payables are eliminated in consolidation in the Company s consolidated balance sheets.

**NABCO**

NABCO s assets and liabilities have been consolidated into the Company s consolidated balance sheets from the July 29, 2011 acquisition date. At the acquisition date, the total purchase consideration was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values, resulting in goodwill of $17.8 million.

*Cash and cash equivalents*

Cash and cash equivalents decreased $1.7 million to $0.5 million at June 30, 2012, from $2.2 million at December 31, 2011. The decrease primarily relates to a $3.4 million of net repayments under their line of credit facility and $0.9 million of principal payments on long-term debt, partially offset by an increase in cash related to NABCO s $1.4 million of net earnings.

*Trade and other receivables*

Trade and other receivables increased $0.5 million to $4.6 million at June 30, 2012, from $4.1 million at December 31, 2011. The increase primarily relates to higher sales activity.

*Inventories*

Inventories increased $0.8 million to $8.6 million at June 30, 2012, from $7.8 million at December 31, 2011. The increase primarily relates to seasonal build-up and a new product introduction.

*Intangible assets, net*

Intangible assets, net decreased $1.2 million to $5.5 million at June 30, 2012, from $6.7 million at December 31, 2011. The decrease relates to amortization of customer relationships and trade names.

*Lines of credit*

Lines of credit decreased $3.4 million to $1.7 million at June 30, 2012, from $5.1 million at December 31, 2011. The decrease is related to voluntary repayments made with cash from operating activities.

*Accrued expenses and other liabilities*

Accrued expenses and other liabilities increased $1.5 million to $4.6 million at June 30, 2012, from $3.1 million at December 31, 2011. The increase primarily related to a $1.4 million increase in income taxes payable which is offset by a corresponding receivable in corporate and other.

*Long-term debt*

Long-term debt decreased $0.9 million to $11.7 million at June 30, 2012, from $12.6 million at December 31, 2011. The decrease is related to principal amortization payments on the term loan and seller notes.

**Cosmed**

Cosmed s assets and liabilities have been consolidated into the Company s consolidated balance sheets from the February 18, 2011 acquisition date. At the acquisition date, the total purchase consideration was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values, resulting in goodwill of $0.4 million.

At June 30, 2012, Cosmed had $1.5 million of total assets and $2.5 million in total liabilities, compared to $1.7 million in assets and $2.4 million in total liabilities at December 31, 2011. The decrease in assets is primarily related to reductions in inventory levels, while the increase in liabilities is primarily related to an increase in intercompany payable.

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**Corporate and Other**

At June 30, 2012, corporate and other had $78.6 million in total assets and $43.6 million in total liabilities compared to $62.6 million in total assets and $44.1 million in total liabilities at December 31, 2011.

*Cash and cash equivalents*

Cash and cash equivalents increased $4.4 million to $52.3 million at June 30, 2012, from $47.9 million at December 31, 2011. The increase was primarily due to $12.3 million in cash proceeds received from the sale of the majority of our sub-performing and non-performing residential real estate loans held for sale, $1.9 million in proceeds from the collection of a note receivable and $2.0 million in net proceeds received from the sale of REO all within discontinued operations. Excess cash generated from discontinued operations is transferred to continuing operations each period. The increase in cash was partially offset by the payment of expenses associated with the $8.1 million net loss for the six months ended June 30, 2012.

*Intercompany receivables and payable*

Intercompany receivables totaled $22.2 million at June 30, 2012, as compared to $10.7 million at December 31, 2011. The balance primarily relates to a $21.5 million intercompany note due from Signature Special Situations bearing interest at 5.00% per annum. Intercompany payables totaled $0.8 million at June 30, 2012, as compared to $0.3 million at December 31, 2011. The intercompany receivables and payables are eliminated in consolidation in the Company s consolidated balance sheets.

*Other assets*

Other assets increased $0.5 million to $2.5 million at June 30, 2012, from $2.0 million at December 31, 2011. The increase is primarily related to an increase in income taxes receivable related to NABCO s income tax payable.

*Accrued expenses and other liabilities*

Accrued expenses and other liabilities increased $0.2 million to $3.6 million at June 30, 2012, from $3.4 million at December 31, 2011. The change is primarily related to a $0.4 million increase in accrued compensation, partially offset by a $0.2 million decrease in accrued operating expenses.

*Long-term debt*

Long-term debt decreased $1.8 million to $37.2 million at June 30, 2012, from $39.0 million at December 31, 2011. The decrease is attributable to the purchase and retirement of Notes Payable in an open market trade.

*Common stock warrant liability*

Common stock warrant liability increased $0.6 million to $2.0 million at June 30, 2012, from $1.4 million at December 31, 2011. The increase is primarily related to an increase in the share price of our common stock.

**Discontinued Operations**

At June 30, 2012, our discontinued operations had $4.2 million in total assets and $10.8 million in total liabilities, as compared to $20.8 million in total assets and $11.5 million in total liabilities at December 31, 2011.

*Loans held for sale, net*

In April 2012, the Company reclassified $23.0 million of performing loans held for sale to loans receivable, net in continuing operations. Loans held for sale, net decreased $11.8 million to $0.6 million at June 30, 2012, from $12.4 million at December 31, 2011. The decrease is primarily related to the sale of virtually all of the non-performing loans. At June 30, 2012, loans held for sale, net is comprised of five non-performing loans.

*Real estate owned, net*

REO totaled $1.3 million at June 30, 2012, as compared to $4.0 million at December 31, 2011. The $2.7 million decrease is primarily related to REO sales totaling approximately $1.6 million, additional valuation write downs of $0.7 million and $0.5 million in REO rescissions during the six months ended June 30, 2012. The decrease was partially offset by loans held for sale transferred to REO, at net realizable value, of $0.1 million during the six months ended June 30, 2012. REO includes residential property acquired through foreclosure, or deed in lieu of foreclosure, and is recorded at net realizable value at acquisition date. REO decreased to thirteen properties at June 30, 2012, as compared to twenty-nine properties at December 31, 2011.

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*Other assets*

Other assets decreased $2.2 million to $2.2 million at June 30, 2012, as compared to $4.4 million at December 31, 2011. The decrease primarily related to the collection of a $1.9 million note receivable related to the previous sale of commercial real estate investments.

*Repurchase reserve*

The repurchase reserve liability decreased $0.5 million to $8.0 million at June 30, 2012, from $8.5 million at December 31, 2011. This liability represents estimated losses we may experience from repurchase claims, both known and unknown, based on the representations and warranties Fremont provided to counterparties that purchased the residential real estate loans Fremont originated, predominantly from 2002 through 2007. In preparing its estimate for the repurchase reserve, management considers the loan products, vintage, aging of repurchase claims, prior investor settlements and actual loss experience. The decrease is based on a decrease in management s estimate of potential losses associated with no new repurchase claims being received over the prior twelve months and the aging of existing claims.

Outstanding claims totaled approximately $101.7 million at June 30, 2012 and December 31, 2011. There were no new claims and no settlements during the six months ended June 30, 2012.

**NON-GAAP FINANCIAL MEASURES**

A non-GAAP financial measure is a numerical measure of historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the balance sheets, statements of operations, or statements of cash flows (or equivalent statements); or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measures so calculated and presented. EBITDA and Adjusted EBITDA are not measures computed in accordance with GAAP. EBITDA and Adjusted EBITDA are presented and discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations because management believes they enhance understanding by investors and lenders of the financial performance of certain of the Company s operating segments. As a complement to financial measures provided in accordance with GAAP, management believes that EBITDA and Adjusted EBITDA assist investors who follow the practice of some investment analysts who adjust GAAP financial measures to exclude items that may obscure underlying performance and distort comparability. Because EBITDA and Adjusted EBITDA are not measures computed in accordance with GAAP, they are not intended to be presented herein as a substitute for net earnings (loss) as indicators of operating performance. EBITDA and Adjusted EBITDA are primary performance measurements used by our senior management and the Company s Board of Directors ( Board ) to evaluate certain operating results.

We calculate EBITDA and Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, or EBITDA, which is then adjusted to remove or add back certain items. These items are identified below in the reconciliation of EBITDA and Adjusted EBITDA to net earnings (loss). Net earnings (loss) is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA.

Our calculation of EBITDA and Adjusted EBITDA may be different from the calculation used by other companies; therefore, they may not be comparable to other companies.

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The following table presents our reconciliation of net earnings (loss) to EBITDA and Adjusted EBITDA for NABCO and Cosmed for the three and six months ended June 30, 2012:

| | NABCO | | Cosmed | |
|---|---|---|---|---|
| **(Dollars in thousands)** | **Three Months Ended June 30, 2012** | **Six Months Ended June 30, 2012** | **Three Months Ended June 30, 2012** | **Six Months Ended June 30, 2012** |
| Net earnings (loss) | $ 738 | $ 1,395 | $ (230) | $ (325) |
| Plus: | | | | |
| Interest | 304 | 622 | 58 | 133 |
| Taxes | 489 | 927 | | 4 |
| Depreciation | 15 | 29 | | 3 |
| Amortization of intangibles | 586 | 1,173 | 19 | 37 |
| EBITDA | 2,132 | 4,146 | (153) | (148) |
| Adjustments: | | | | |
| Change in fair value of contingent consideration | 75 | 148 | | |
| Reversal of accrued compensation | | | | (95) |
| Adjusted EBITDA | $ 2,207 | $ 4,294 | $ (153) | $ (243) |

**LIQUIDITY AND CAPITAL RESOURCES**

**Sources and Uses of Liquidity**

Signature s preliminary sources of liquidity are cash and cash equivalents. Additionally, Signature has alternative sources of liquidity available to fund its business and operations, including, but not limited to funds generated from implementing its business strategy described below, borrowings from third party lenders and debt and equity offerings.

Within continuing operations, we have three operating segments: Signature Special Situations, NABCO and Cosmed. Sources of liquidity from NABCO and Cosmed include cash flows from operations and borrowings from third party lenders, secured by the assets or cash flow of the operating businesses. Sources of liquidity from Signature Special Situations include principal and interest collections from residential real estate loans, senior secured and junior secured debt financing, as well as sales and collections of corporate bonds, trade claims, and other structured debt instruments. Sources of liquidity from discontinued operations include the liquidation of loans held for sale, through whole loan sales, payoffs and principal collections, sales of REO properties sales of commercial real estate investments and collections from subordinated securities and residual interests from Fremont s prior loan securitization activities.

During the six months ended June 30, 2012, Signature s sources of liquidity included $12.3 million in net cash proceeds received from the sale of $37.1 million in non-performing first lien residential real estate loans held for sale in whole loan sale transactions in March 2012 and June 2012. In May 2012, we received proceeds of $0.3 million from the sale of approximately $142 million in UPB of charged off residential second lien real estate loans. Additional liquidity was generated from $1.4 million of borrower payments on residential real estate loans and $2.0 million in net proceeds from the sale of REO.

Signature s use of liquidity included the utilization of capital pursuant to its business strategy. Within Signature Special Situations, we purchased corporate bonds with a par value of $6.2 million for $2.6 million during the six months ended June 30, 2012. Additionally, Signature Special Situations advanced $1.6 million, net of repayments, on a secured revolving line of credit. Other uses of liquidity during the six months ended June 30, 2012 include operating expenses associated with the management of the Company s businesses, including the assets and liabilities of discontinued operations, professional fees and related expenses associated with reorganization, litigation, interest payments on the Notes Payable and lines of credit and principal and interest payments under other long-term debt arrangements. In the six months ended June 30, 2012, we incurred approximately $1.4 million of expenses related to the Annual Meeting and the contested proxy. See Note 16 *Subsequent Events* included in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for additional information regarding the Annual Meeting and the contested proxy.

The Company has received claims related to potential repurchase obligations associated with Fremont s prior subprime residential lending business. There were no new claims nor settlements of outstanding repurchase claims during the six months ended June 30, 2012. Outstanding claims totaled approximately $101.7 million at June 30, 2012. See Note 12 *Discontinued Operations* included in the Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q for additional information regarding the Company s residential loan repurchase reserve liability.

**Summary of Cash Flows**

*Net cash provided by (used in) operating activities*

During the six months ended June 30, 2012, net cash provided by operating activities totaled $6.0 million. The cash provided by operating activities primarily related to $12.3 million in proceeds from the sale of $37.1 million in UPB of non-performing residential real estate loans and $0.8 million in state income tax refunds. The increase in cash was partially offset by a $0.8 million increase in inventories and the payment of expenses associated with the $5.1 million net loss during the period.

During the six months ended June 30, 2011, net cash used in operating activities totaled $10.2 million. The cash used in operating activities primarily related to the $10.4 million net loss during the period, adjusted for noncash income of $0.6 million related to the change in fair value of common stock warrant liability, $0.3 million related to other income, and noncash charges of $0.2 million in provision for REO losses and depreciation of $0.4 million within discontinued operations. The use of cash was partially offset by $0.6 million in principal collections from loans held for sale, net.

*Net cash provided by investing activities*

During the six months ended June 30, 2012, net cash provided by investing activities totaled $0.5 million. The cash provided by investing activities primarily relates to $1.9 million in proceeds from the collection of a note receivable, $0.8 million of principal collections on loans receivable, net and $2.0 million in proceeds received from the sale of REO, partially offset by $2.6 million in purchases of investment securities, available for sale and $1.6 million in advances on loans receivable, net of repayments.

During the six months ended June 30, 2011, net cash provided by investing activities totaled $2.4 million. The cash provided by investing activities primarily relates to $3.9 million in proceeds received from the sale of commercial real estate investments, $0.7 million in principal payments received from commercial real estate investments and $3.0 million in proceeds received from the sale of REO. The cash provided by investing activities was partially offset by $1.0 million in cash used to purchase certain assets and assume certain liabilities of Costru and $4.3 million in purchases of loans receivable.

*Net cash used in financing activities*

During the six months ended June 30, 2012 net cash used in financing activities totaled $5.6 million. The cash used in financing activities primarily relates to $3.4 million in repayments of lines of credit, $0.9 million in repayments of long-term debt and $1.4 million of repurchase of Notes Payable.

During the six months ended June 30, 2011 net cash used in financing activities totaled $1.2 million. The cash used in financing activities relates to borrowings, net of repayments on Cosmed s lines of credit.

**OFF-BALANCE SHEET ARRANGEMENTS**

Prior to 2007, Fremont securitized a portion of its residential real estate loans. Securitization is a process of transforming loans into securities that are sold to investors. The loans were first sold to a special purpose corporation, which then transferred them to a Qualified Special Purpose Entity ( QSPE ) that was legally isolated from Fremont. The QSPE, in turn, issued interest-bearing securities, commonly known as asset-backed securities that were secured by the future cash flows to be derived from the securitized loans. The QSPE used the proceeds from the issuance of the securities to pay the purchase price of the securitized loans.

Securitization was used to provide an additional source of liquidity. These securitizations of mortgage loans were structured as sales. The special purpose entities to which we transferred the mortgage loans were QSPEs and, therefore under previous accounting rules, were not subject to consolidation through 2010. Accounting standards were amended effective January 1, 2010 to eliminate the concept of QSPEs. We reevaluated these QSPEs as well as all other potentially significant interests in other unconsolidated entities to determine if we should include them in our consolidated financial statements. We determined that we are not the primary beneficiary of these variable interest entities and therefore do not consolidate the loan securitization trusts.

The security investors and the QSPEs do not have any recourse against the Company if the cash flows generated by the securitized loans are inadequate to service the securities issued by the QSPEs. At the close of each securitization, Fremont removed the carrying value of the loans securitized from its balance sheet and added the estimated fair value of the assets obtained in consideration for the loans, which generally included the cash received (net of transaction expenses), retained junior class securities (referred to as residual interests) and mortgage servicing

rights, to its balance sheet.

**CONTRACTUAL OBLIGATIONS**

The Company s $37.2 million in Notes Payable outstanding at June 30, 2012 were issued pursuant to an indenture and bear interest at 9.00% per annum, payable quarterly and mature on December 31, 2016. During the six months ended June 30, 2012, the Company purchased and retired approximately $1.8 million of Notes Payable in an open market trade. See Note 8 *Debt* of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for additional information related to the retirement of Note Payable.

In July 2011, pursuant to the NABCO acquisition, NABCO issued $5.0 million in seller notes to the former NABCO shareholders as part of the consideration paid for the NABCO business combination. The seller notes bear interest at 6.00% per annum, mature on January 29, 2016 and are subject to scheduled quarterly principal payments. In addition to scheduled quarterly principal payments, accelerated principal payments are due if NABCO achieves certain EBITDA targets beginning with the year ended December 31, 2011. In 2011, NABCO exceeded the EBITDA target and accelerated principal payments due in 2012 total approximately $1.2 million. At June 30, 2012, $4.3 million was outstanding on the seller notes.

In September 2011, NABCO entered into a $16.0 million debt financing transaction with a third party lender. Pursuant to the debt financing transaction, NABCO borrowed $8.0 million under a term loan, which matures in September 2016 and is subject to annual principal payments of $0.8 million in year one; $1.2 million in each of years two and three; $1.6 million in each of years four and five; and a balloon payment of any remaining principal balance due at maturity. Additionally, NABCO borrowed $4.6 million under an $8.0 million revolving line of credit that matures in September 2014. Advances under the line of credit are subject to a borrowing base. The term loan has a variable interest rate based upon the lender s base rate plus 1.00% per annum, which is equivalent to 5.00% at June 30, 2012. The line of credit has a variable interest rate based upon the lender s base rate, which is equivalent to 4.00% at June 30, 2012. NABCO is required to maintain compliance with certain financial covenants and was in compliance with all such covenants at June 30, 2012. The term loan and line of credit are secured by all of NABCO s assets. The Company is not a borrower, an obligor, nor a guarantor under the NABCO loan agreements. At June 30, 2012, the outstanding balances on the line of credit and term loan were $1.7 million and $7.4 million, respectively.

*Other obligations*

Pursuant to the NABCO acquisition, the former NABCO shareholders may earn contingent consideration of up to $4.0 million, subject to the achievement of Adjusted EBITDA milestones for the fiscal year ending December 31, 2012. Potential contingent consideration ranges from $1.5 million to $4.0 million based on achieving Adjusted EBITDA thresholds from $6.7 million to $8.1 million, respectively. Each reporting period, the Company estimates the fair value of contingent consideration and any change in fair value is recognized in the Company s consolidated statements of operations. At June 30, 2012, we have accrued $3.7 million for the contingent consideration.

We also have repurchase reserve liabilities related to sales of residential real estate loans that are subject to standard industry representations and warranties that may require the Company to repurchase certain loans.

**Item 3. Quantitative and Qualitative Disclosures About Market Risks**

Not applicable to smaller reporting companies.

**Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures*

An evaluation was carried out by our management, with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the CEO and CFO concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were not effective at a reasonable assurance level, due to the identification of a material weakness related to our internal controls over financial reporting as discussed below and in more detail in the Annual Report.

*Material weakness*

In connection with its assessment of the Company s internal control over financial reporting as of December 31, 2011, management identified a material weakness related to our effectiveness of internal control over financial reporting. The Company did not maintain, as of December 31, 2011, a sufficient number of financial and accounting staff personnel with the appropriate level of accounting knowledge and experience in order to timely provide accurate and reliable financial statements of the Company that were prepared and reviewed in accordance with GAAP.

*Ongoing remediation of material weakness*

The Company has taken the following steps during 2011 and through June 30, 2012 to remediate the material weakness in the Company s internal control over financial reporting:

Management has developed, documented and adopted formal accounting and reporting policies with respect to significant transactions that are relevant to its business and necessary to properly account for and report our results.

Management has strengthened its policies and procedures related to critical accounting policies, including assets and liabilities that require management to make estimates and assumptions, such as fair value measurements.

Management reorganized the accounting group and has recruited experienced accounting and finance employees to oversee the accounting function and to ensure proper controls and procedures continue to be maintained.

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Management has implemented a timely review process of business transactions. The accounting group is involved as business transactions are contemplated and provides timely accounting support and accounting policy implementation as transactions are executed. This enables the Company to account for the consummation of transactions in accordance with GAAP on a timely basis.

Management is documenting and testing the design and effectiveness of the Company s internal controls over financial reporting. We believe we are taking the necessary steps to remediate the material weaknesses by focusing additional attention and resources in our internal accounting functions. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The Company s remediation process is on-going and management hopes to complete its remediation efforts in the third quarter of 2012, with the expectation that the Company will have adequate internal control over financial reporting and effective disclosure controls and procedures as of December 31, 2012. Since management has not completed its remediation efforts, there can be no assurances that the Company s remediation efforts will be successful or sufficient in remediating the material weakness.

*Changes in internal controls over financial reporting*

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, other than the remediation efforts noted above, there was no change identified in our internal control over financial reporting that occurred during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

**Item 1. Legal Proceedings**

We are currently a defendant in various legal actions and asserted claims in connection with the prior business and operations of Fremont and its subsidiaries and in the normal course of business. We anticipate that we will become involved in new litigation matters from time to time in the future. We will incur legal and related costs concerning litigation and may, from time to time, determine to settle some or all of the cases, regardless of our assessment of its legal position. The amount of legal defense costs and settlements in any period will depend on many factors, including the status of cases, the number of cases that are in trial or about to be brought to trial, and the opposing parties aggressiveness in pursuing their cases and their perception of their legal position. For additional information concerning material pending and threatened litigation actions and proceedings against the Company, see Part I, Item 3. Legal Proceedings in the Annual Report and Note 15 *Commitments and Contingencies* in the Notes to Unaudited Consolidated Financial Statements included in Part I, Item1 of this Form 10-Q.

The Company experienced the following new developments with pending material legal proceedings during the second quarter of 2012.

*Kingstown/McIntyre Matters.* On July 15, 2011 and July 18, 2011, James McIntyre, Kingstown Partners Master Ltd. and other entities affiliated therewith, Michael Blitzer, J. Hunter Brown, Robert A. Peiser, Laurie M. Shahon, Joyce White, Robert Willens and Guy Shanon (collectively, the Shareholder Group ) filed Schedule 13D s indicating that such persons and entities had formed a group (as defined by Section 13(d)(3) of the Exchange Act) in connection with the Shareholder Group s intention to nominate a slate of directors for election to the Company s Board of Directors (the Board ) at its next annual meeting of shareholders.

As a result of the formation of the Shareholder Group, the Board continues to evaluate whether the Shareholder Group should be determined to be an Acquiring Person (as defined in the Rights Agreement) and if such determination is made, whether a Distribution Date (as defined in the Rights Agreement) for the distribution of rights under and pursuant to the Rights Agreement will occur. The Company previously announced that the Board had extended the date by which such determinations needed to be made until September 30, 2012.

On August 12, 2011, James McIntyre, Kingstown Partners Master Ltd. and other entities affiliated therewith (collectively, the Plaintiffs ) filed a complaint, as amended (the Complaint ), with the Second Judicial District Court of the State of Nevada in and for the County of Washoe (the State Court ) against the Company seeking (i) a declaration that the Rights Agreement has no force and effect; (ii) a declaration that the Plaintiffs are not an Acquiring Person; and (iii) an injunction against the Board from implementing the Rights Agreement (the Proceeding ). In the Complaint, the Plaintiffs claimed that the Rights Agreement was rejected in connection with the Company s Bankruptcy Proceeding, which concluded in June 2010, or if the Rights Agreement is determined to not to have been rejected, that the Shareholder Group is not an Acquiring Person and, therefore, the condition for implementing the Rights Agreement cannot be satisfied.

On August 31, 2011, the Company filed a Notice of Removal of Pending State Court Action to remove the Proceeding to the U.S. Bankruptcy Court for the District of Nevada (the Nevada Federal Bankruptcy Court ). As a result, the Proceeding was removed to the Nevada Federal Bankruptcy Court. The Company removed the Proceeding because, among other reasons, a central issue in the Proceeding is whether the Rights Agreement was assumed, and otherwise remained in full force and effect, under the Company s reorganization plan (the Plan ), as confirmed by the California federal Bankruptcy Court (the Confirmation Order ).

Because the Proceeding involves issues central to the Confirmation Order, the Company also separately filed a motion (the Motion ) with the California Federal Bankruptcy Court on September 19, 2011 seeking an order confirming that the Rights Agreement was assumed under the Plan and granting related relief.

On November 29, 2011, the California Federal Bankruptcy Court ruled at a hearing on the Motion that the Rights Agreement was assumed under the Plan and remains in full force and effect following the Confirmation Order and the Company s emergence from Bankruptcy Proceedings. On December 9, 2011, the California Federal Bankruptcy Court entered its order on the aforementioned ruling (the Rights Agreement Order ).

On December 7, 2011, Mr. McIntyre filed an amendment to his Schedule 13D to report the termination of his agreement with the Shareholder Group to (i) solicit proxies or written consents for the election of persons nominated by the Shareholder Group to the Board at the next annual meeting of shareholders and (ii) serve as a nominee on the Shareholder Group s proposed slate of directors for election to the Board. On the same day, the Plaintiffs filed a Notice of Dismissal with the California Federal Bankruptcy Court dismissing the Proceeding.

On December 21, 2011, (i) Kingstown Partners Master Ltd., Kingstown Partners II L.P. and KTown LP, and (ii) Mr. McIntyre separately filed notices of appeal with the California Federal Bankruptcy Court from the Rights Agreement Order.

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On January 6, 2012, James A. McIntyre filed a complaint (the McIntyre Complaint ) with the Second Judicial District Court of the State of Nevada in and for the County of Washoe against the Company seeking (1) a declaration that: (i) he never took any action that may have triggered the dilution provisions of the Rights Agreement; (ii) the right to vote his shares is not impaired or diminished in any respect by the Rights Agreement; (iii) his right to demand that the Company convene a shareholder meeting or work cooperatively with other shareholders to request a shareholder meeting is not impaired in any way by the Rights Agreement; (iv) his right to nominate director candidates to be elected by the shareholders for service on the Board is not impaired or diminished in any way by the Rights Agreement; (v) his right to submit shareholder proposals for vote at the Company s next shareholder meeting is not compromised or impaired in any way by the Rights Agreement; and (vi) his right to join other shareholders to effect the election of directors or other shareholders to effect the election of directors or other corporate business is not impaired or diminished by the Rights Agreement; and (2) preliminary injunctions to enjoin the Company from implementing the Rights Agreement against Mr. McIntyre.

On May 17, 2012, the Company filed a Motion to Stay under Nevada Rules of Civil Procedure 41(d) seeking reimbursement of costs and fees arising out of the Company s defense of these same matters in the California Federal Bankruptcy Court. On July 19, 2012, the Nevada Federal Bankruptcy Court issued an order setting a briefing schedule to consider the Company s fees and costs request. A hearing date has not yet been set. Should McIntyre continue to pursue this matter, the Company intends to vigorously defend itself.

The Company is involved in additional disputes as summarized below:

*Unpaid Claims.* As of June 30, 2012, there remained $5.1 million in open claims filed with the California Federal Bankruptcy Court (the Unpaid Claims ), comprised of two claims by former employees for breach of their respective employment contracts. The Company has objected to these remaining Unpaid Claims and intends to vigorously contest them in the California Federal Bankruptcy Court. During second quarter of 2012, Signature settled three former employee claims aggregating $1.8 million for $15 thousand and the California Federal Bankruptcy Court disallowed another $0.4 million in contract claims.

**Item 1A. Risk Factors**

There were no material changes to the risk factors as previously disclosed under Part I, Item 1A of the Annual Report and Part II, Item 1A of the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 3.2 | Amended and Restated Bylaws of Signature Group Holdings, Inc. dated April 26, 2012 (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on May 2, 2012) |
| 10.2 | Amendment to Consulting & General Release Agreement, dated as of May 1, 2012, by and between Kenneth S. Grossman and Signature Group Holdings, Inc. (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2012, filed on May 15, 2012) |
| 10.3 | Amended and Restated Signature Group Holdings, Inc. 2006 Performance Incentive Plan (Incorporated by reference to Appendix B to the Company s Preliminary Proxy Statement filed with the Commission pursuant to Section 14(a) of the Exchange Act on May 3, 2012) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended. |
| 32.1** | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350. |
| 32.2** | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350. |
| 101.INS** | XBRL Instance Document[(1)] |
| 101.SCH** | XBRL Taxonomy Extension Schema Document[(1)] |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document[(1)] |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document[(1)] |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase Document[(1)] |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document[(1)] |

** *Furnished herewith.*

(1) Pursuant to Rule 406T of Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| | **SIGNATURE GROUP HOLDINGS, INC.** |
| Dated: August 14, 2012 | By: /s/ Craig Noell<br>Craig Noell |
| | President and Chief Executive Officer |
| | (Principal Executive Officer) |
| Dated: August 14, 2012 | By: /s/ Kyle Ross<br>Kyle Ross |
| | Executive Vice President |
| | Chief Financial Officer and Assistant Secretary<br>(Principal Accounting and Financial Officer) |