SIGNATURE GROUP HOLDINGS, INC.
Form DEFA14A
June 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934,

as amended

Filed by the Registrant x Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material under ss. 240.14a-12

SIGNATURE GROUP HOLDINGS, INC.

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

Investor Presentation
July 2012

CAUTIONARY STATEMENT
This presentation may contain certain forward-looking statements
within the meaning of the Private
Securities Litigation Reform Act of 1995, including statements with regard to the future performance of
Signature
Group
Holdings,

Inc. (Signature or the Company). Words such as believes, expects, projects, anticipates, and future or similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ materially from those projected in these forward-looking statements, and such factors are identified from time to time in our filings with the Securities and Exchange Commission (SEC). Pursuant to the Private Securities Litigation Reform Act of 1995, Signature undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained herein, and nothing shall be relied upon as a promise or representation as to the future of the Company.

For more specific financial information please refer to the Company s Annual Report on form 10-K for the year ended December 31, 2011, the Quarterly Report on form 10-Q for the quarter ended March,

31, 2012 and other SEC filings.
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OVERVIEW
3
Signature Group Holdings, Inc.
Reorganization
On June 11, 2010, Fremont General Corporation (Fremont) emerged from bankruptcy and was renamed Signature Group Holdings, Inc.
Facilities

Headquartered in Sherman Oaks, CA
Corporate development office in New York, NY
Ticker
SGGH, traded on OTCQX
Cash and Cash
Equivalents
$52.8 million
(1)
Total Assets
$139.2 million
(1)
NOLs
Shareholders
Equity
$63.3 million
(1)
Shares Outstanding
119,931,857 as of May 11, 2012
(1) Information provided as of March 31, 2012
$889.9 million as of 12/31/2011 Expire beginning in 2027 (Federal)

MISSION STATEMENT

To maximize long-term shareholder value by redeploying our cash and other assets to leverage our favorable tax position through acquisitions and other special situations opportunities.

4

SIGNIFICANT PROGRESS SINCE EMERGENCE
In less than two years we have addressed numerous legacy challenges remaining from the Fremont General Corp. (Fremont) bankruptcy which include:
Became
current
with
our

periodic reporting requirements under the Securities Exchange Act of 1934 as amended, which included preparing five years of audited financial statements, bringing the Company current from its last audit in 2006

Remediation included the preparation and filing of three Annual Reports on Form 10-K and eight Quarterly Reports on Form 10-Q
Resolved in excess of 200 legal proceedings associated with Fremont and its subsidiaries
Implemented value maximizing strategies for the residential loan portfolio and other legacy assets, including significant divestitures
Reduced staffing and expenses associated with the Fremont legacy operations
Rebuilt an experienced accounting and finance team and made significant progress in remediating the Company s Material Weakness in internal control surrounding financial reporting
Reduced quarterly net operating losses by 89% from June 2010 to March 2012
5

QUARTERLY NET INCOME (LOSS) AND EPS
6
Company Emerged from Bankruptcy, June 2010
89% reduction in
Quarterly Net Loss
since emergence
from bankruptcy

Made significant progress towards sustained profitability since emergence from bankruptcy

BUSINESS PLAN

Our Board and Management have provided a new direction for the organization

Signature is now a diversified business and financial services enterprise whose primary objective is to redeploy assets into successful businesses and utilize our net operating loss carryforwards (NOLs)

Actively seeking acquisition opportunities of successful companies

North American Breaker Company, Inc. (NABCO) acquired July 2011

Cosmed Inc. formed in February 2011 to acquire the assets of Costru, LLC
SEC compliance allows the Company to be in a position to access the broader capital markets and potentially complete a large acquisition
Acquire and originate debt opportunities through Signature Special Situations division
Ultimately position the Company to take advantage of its federal and state NOLs
Clean-up and wind-down of Fremont s legacy business currently classified as discontinued operations
7

ACQUISITIONS
Target Transactions
EBITDA of $7 million to $25 million
Enterprise values up to $300 million
Equity investments up to $100 million
Larger investments are achievable
Industry agnostic

Key Acquisition Criteria
Proven and committed management
team with the ability to operate
autonomously
Market leading or niche oriented
Sustainable business that can be held
long term
Low capital expenditures
8
Ideal Situations
Companies that do not have a natural strategic buyer or stand alone IPO potential
Private
equity
or
hedge
fund
holdings
which
need
an
exit
per
LP
requirements
Companies with limited or declining tax deductions
Non-core divisions of larger enterprises
Family businesses seeking to diversify and/or liquify holdings

STRATEGY
9
*per Pitchbook, $25MM to $1B transaction value
With
our
opportunistic
strategy,

we
believe
there
is
a
higher
probability
of
purchasing
deals significantly below average multiples allowing our resources to go further
NABCO acquired for a multiple significantly below the averages shown
Sourcing
proprietary
deals
through
our
extensive
relationship
network
gives
us
opportunities away from costly auction transactions

NORTH AMERICAN BREAKER COMPANY, INC.
Wholly owned subsidiary acquired July 29, 2011
Aggregate purchase price consideration of approximately $36.9 million with a net cash outlay of $10.9 million after giving effect to a debt financing facility closed in September 2011
High margin distributor of specialty electrical components, primarily circuit breakers, to electrical wholesalers throughout the country

Increased profit and revenues in each of the three years prior to acquisition despite a troubled economic climate:

Gross Margins approaching 40%

Q1 2012 over Q1 2011 sales growth of 14.9%

Minimal capital expenditures
Low risk business model:

Need it now
product critical for safety

Operates in steady replacement market with low product obsolescence

Strong national market presence with knowledgeable staff

Headquartered in Burbank Calif. With four regional distribution centers
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SIGNATURE SPECIAL SITUATIONS
Target Types
Interest income
Fees
Recovery of discounted principal
balances
Market value appreciation

Asset Types
Distressed and sub-performing debt
Secured loans
Real estate mortgages
Corporate bonds
Tranche B loans
Public and private debt
Annuity streams
11
Philosophy and Strategy
Provides alternatives that generate favorable risk adjusted financial returns over holding virtually zero return cash and helps to defray expense burn while the Company engages in its acquisition strategy
Positions are frequently purchased at a discount
Maintain focus on managing downside risk and exposure
Residential Loans held for sale transferred to division and reclassified as held for investment

SPECIAL SITUATIONS
PORTFOLIO TRANSACTION
March 2011 Signature Special Situations purchased a revolving line of credit and a term loan from a national lender at a significant discount (50% of par)
Borrower is a manufacturer of store fixtures and merchandising systems for the retail industry
March

2012
Signature
restructured
the
debt
as
part
of
a
complete
recapitalization
transaction led by the founder who was the former CEO of the business and several
members of his management team
Existing debt was converted to new term and revolving loans and Signature received
preferred
equity
shares
in
newly
capitalized
company
with
a
face
value
of
$2
million
and convertible to 45% of the total outstanding common stock
The debt position has generated greater than a 13.75% effective yield for Signature
since our initial purchase through March 2012
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DISCONTINUED OPERATIONS
LEGACY MATTERS
13
Converted a substantial portion of Fremont s legacy assets to cash, including the sales of:

Non-performing residential mortgages for $12.5 million

Residential real estate properties for $11.4 million

The former headquarters building for $3.9 million

Commercial real estate investments for $4.9 million
Monitor repurchase demands for Fremont s subprime loan originations:

Total outstanding repurchase claims of approximately $101.7 million (1)

Repurchase reserve of $8.3 million (1)

No new demands or activity since June 2011
Manage and resolve ongoing and new legacy related litigation:

Resolved over 200 lawsuits inherited from the McIntyre-led legacy businesses of Fremont

Negotiated over $15 million of savings
(1) As of March 31, 2012

COMPENSATION SUMMARY
Signature
management
team
was
initially
employed

by
a
3
rd
party
management
company
as approved by the bankruptcy court and shareholders
In
May
2011
after
receiving
critical
negative
feedback
from
McIntyre
and
two
former
directors regarding the external management structure, the GNCC recommended and the
Board
engaged
a
highly
respected
independent
3
rd
party
executive
compensation
consulting firm to evaluate management structure alternatives:

Ultimately,
in
July
2011,
the
Board
terminated
the
3
rd
party
management
agreement
and entered into employment agreements with executives

Base compensation rates based on the 25th percentile of publicly traded asset management companies were identified by the firm and adopted by the Board

Equity compensation was issued based on market comparable terms with the largest component being options for better alignment with shareholder interests and value creation

McIntyre s assertion that the warrants purchased under the plan of reorganization are related to compensation is erroneous

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CORPORATE GOVERNANCE
Signature s board has been constructed with a mindset toward strong corporate governance
A majority of the board is independent and only independent directors hold positions on the audit committee and the governance, nominating and compensation committee
There are separate Chairman and CEO positions and the Chairman is independent
The

Board
of
Directors
is
very
active
-
in
2011,
the
company
held
16
board
meetings
and
29 committee meetings
The Board and senior management own a significant number of shares aligning the interests with shareholders

Recently, Insiders purchased significant numbers of shares during the first trading window that opened since the bankruptcy, further aligning interests
The additions of Mr. Tinkler and Mr. Colville will further the Company s commitment to strong governance as both have significant senior management experience with public companies
The GNCC evaluated McIntyre s slate and elected to nominate more qualified candidates for the proxy
15

BOARD PROPOSED SLATE
Signature s proposed slate is composed of highly qualified, proven business leaders with successful experience in mergers and acquisitions, operations, and governance in various industries and diverse roles
The
proposed
slate
reduces

the
size
of
the
Board
from
eight
members
to
five
which
is
expected
to
result
in
improved efficiency and communication while also reducing costs
The board nominated three current members to the slate who have significantly contributed to the many accomplishments the Company has made since emerging from bankruptcy:

Craig
Noell
implementation

Ed Lamb
Company to compliance with the SEC s Exchange Act Reporting requirements as well as provided valuable insight to management on a multitude of strategic, governance and operating issues

John
Koral
has been actively involved in our SEC compliance project and business plan. Mr. Koral previously served on the Official Equity Committee during the bankruptcy.
The
board
nominated
two
new
candidates
who
are
or
represent
large
shareholders
and
have
specific
skills
and experience to bring to Signature

Philip
Tinkler
securities offerings. Has successfully worked with other companies to optimize the utilization of their NOLs

Chris
Colville
of acquired entities
Messrs. Lamb, Colville and Tinkler have all held senior executive management roles in financial and accounting capacities in $1+ billion public companies
16
,
our
CEO,
oversees
all
aspects
of
our
business,
including
business
strategy
and
, the Chairman of our Audit Committee, has overseen the extensive project to return the
, the Chairman of the GNCC, a member of our Audit Committee and a significant shareholder
, significant acquisition experience including structuring, diligence, bank financings, and
, significant acquisition experience with special emphasis on the operations and integration

OTHER PROXY ITEMS
Proposal 2
-
Increase
the
authorized
number

of

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued statement No. 123 (SFAS No. 123) (rev

SFAS No. 123(R) will also require the benefits of tax deductions in excess of recognized compensation cost to be reported a

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections , a replacement of APB Opini

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, (FIN 48) a clarification of FAS

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Ef

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framewo

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postr

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ITEM 7. FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of
Sunair Services Corporation
We have audited the accompanying consolidated balance sheets of Sunair Services Corporation and Subsidiaries as of Septeml
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States)
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunair
Berenfeld Spritzer Shechter & Sheer
Ft. Lauderdale, Florida, 33301
December 15, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents
Accounts receivable, net
Income tax receivable
Interest receivable
Inventories, net
Deferred tax asset
Prepaid and other current assets
Note receivable current

Total Current Assets

PROPERTY, PLANT, AND EQUIPMENT, net

OTHER ASSETS
Note receivable
Software costs, net
Customer list, net
Goodwill
Other assets

Total Other Assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:

Accounts payable
Accrued expenses
Unearned revenues
Customer deposits
Capitalized leases, current portion
Notes payable, current portion

Total Current Liabilities

LONG TERM LIABILITIES

Capitalized leases, net of current portion
Notes payable, net of current portion
Note payable -related party
Revolving line of credit
Deferred tax liability

Total Long Term Liabilities

Total Liabilities

STOCKHOLDERS EQUITY:

Preferred stock, no par value, 8,000,000 shares authorized, none issued and outstanding
Common stock, $.10 par value, 100,000,000 shares authorized, 13,007,559 and 10,186,377 shares issued and outstanding at September 30, 2006 and 2005, respectively
Additional paid-in capital
Retained earnings
Accumulated other comprehensive gain (loss) cumulative translation adjustment

Total Stockholders Equity

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY

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SALES

COST OF SALES

GROSS PROFIT

SELLING AND ADMINISTRATIVE EXPENSES

(LOSS) FROM OPERATIONS

OTHER INCOME (EXPENSES):
Interest income
Interest expense
Impairment loss
Gain on disposal of assets
Other income

Total Other Income (Expenses)

(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES

INCOME TAX BENEFIT FROM

(LOSS) FROM CONTINUING OPERATIONS

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX (PROVISION FOR) BENEFIT OF $386,213 AND ($52,258) IN 2006 AND 2005, RESPECTIVELY

NET INCOME (LOSS)

BASIC INCOME (LOSS) PER SHARE:
CONTINUING OPERATIONS

DISCONTINUED OPERATIONS

NET INCOME (LOSS)

DILUTED INCOME (LOSS) PER SHARE:
CONTINUING OPERATIONS

DISCONTINUED OPERATIONS

NET INCOME (LOSS)

WEIGHTED AVERAGE SHARES OUTSTANDING:
BASIC

DILUTED

Balance at September 30, 2004
Comprehensive income:
Net income
Currency translation adjustment
Shares issued in acquisition of Middleton
Shares issued pursuant to private placement
Cost associated with private placement
Stock options exercised
Balance at September 30, 2005
Comprehensive income:
Net (loss)
Currency translation adjustment
Shares issued pursuant to private placement
Costs associated with private placement
Shares issued in acquisition of Paragon
Shares purchased and cancelled
Equity based compensation
Balance at September 30, 2006

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CASH FLOWS FROM OPERATING ACTIVITIES:
Net income (loss)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:
Depreciation
Amortization
Deferred taxes
Goodwill impairment
Bad debt reserve
Inventories reserve
Loss (gain) on disposal of assets
Equity based compensation
(Increase) decrease in Assets:
Accounts receivable
Income tax receivable
Interest receivable
Inventories
Prepaid and other current assets
Other assets
Increase (decrease) in Liabilities:
Accounts payable and accrued expenses
Unearned revenue
Income taxes payable
Customer deposits

Net Cash Provided By (Used In) Operating Activities

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchase of property, plant, and equipment
Software development costs
Cash paid for business acquisitions
Cash acquired in business acquisitions
Notes and loans   stockholder
Net proceeds and costs incurred from disposition of business
Proceeds from redemption of held-to-maturity investment
Proceeds from sale of property

Net Cash (Used In) Investing Activities

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CASH FLOWS FROM FINANCING ACTIVITIES:
Proceeds from line of credit
Repayment of line of credit
Repayment of notes payable
Payment on capital leases
Proceeds from exercise of stock options
Stock repurchase
Proceeds from sale of common stock, net

Net Cash Provided By Financing Activities

Effect of exchange rate fluctuations on cash

NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS, END OF YEAR

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
Cash paid during the year for income taxes

Cash paid during the year for interest

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:
Common stock issued in acquisition of Middleton Pest Control, Inc.

Common stock issued in acquisition of Par Pest Control, Inc.

Debt incurred in acquisition of Middleton Pest Control, Inc.

Debt incurred in acquisition of Par Pest Control, Inc.

Debt incurred in acquisition of Pestec Pest Control, Inc.

Debt incurred in acquisition of Ron Fee, Inc.

Note receivable acquired from disposition of business

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business activity

Sunair Services Corporation (Sunair, the Company) is a Florida corporation organized in 1956. We changed our corporat

Middleton Pest Control, Inc. (Middleton), a Florida corporation, is a wholly owned subsidiary which provides pest control,

Percipia, Inc. and Subsidiary (Percipia), an Ohio corporation, is a wholly owned subsidiary which provides installation and

CPM FM Limited, formerly known as Telecom FM Ltd. (Telecom), a United Kingdom corporation, is a wholly owned subs

Our High Frequency Radio segment designed, manufactured and sold high frequency single sideband communications equipm

Capitalization

The Company s authorized capital stock consists of 100,000,000 shares of common stock, $.10 par value per share, and 8,000

The board of directors has the authority, without action by the Company s stockholders, to provide for the issuance of preferre

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Sunair Services Corporation and its wholly owne

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of Am

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable

Accounts receivable consist of balances due from sales. The Company performs periodic credit evaluations of its customers an

Inventories

Inventories, which consist of raw materials, work-in-process, and finished goods, are stated at the lower of cost or market valu

Property, plant, and equipment

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the assets using b

Buildings and improvements
Machinery and equipment

The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments are capitalized. When propert

Software costs

The Company capitalizes certain costs associated with software development in accordance with Statement of Financial Accou

Customer List

Pursuant to the acquisition of Middleton, the Company recorded the customer list as an intangible asset in the amount of $10,5
Pursuant to the acquisition of Four Season Lawn and Pest Control Inc. (Four Seasons) by Middleton, the Company recorded
Pursuant to the acquisition of Spa Creek Services, LLC, d/b/a Pest Environmental Services (Spa Creek) by Middleton, the C
Pursuant to the acquisition of Par Pest Control, Inc. d/b/a Paragon Termite & Pest Control (Paragon) by Middleton, the Com
Pursuant to the acquisition of Pestec Pest Control, Inc. (Pestec) by Middleton, the Company recorded the customer list as an

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pursuant to the acquisition of Ron Fee, Inc. (Ron Fee) by Middleton, the Company recorded the customer list as an intangib

Goodwill and other intangible assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Pursuant to FASB Statement No. 1

FASB 142 also requires that customer lists and intangible assets with estimable useful lives be amortized over their respective

Customer lists are stated at fair value based on the discounted cash flows over the estimated life of the customer contracts and

Impairment of long-lived assets and long-lived assets to be disposed of

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying

Income (loss) per share

Basic earnings per share amounts are computed by dividing the net income by the weighted average number of common share

Revenue recognition

Service revenues are recorded and recognized at the date of service completion. Sales revenues are recorded when products are

Advertising costs

The Company expenses advertising costs as incurred. Advertising expenses totaled approximately $2,727,660 and $1,230,226

Research and development

Expenditures for research and development are charged to operation as incurred. Total research and development expenses am

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

Telecom s functional currency is the British pound sterling, its local currency. Accordingly, balance sheet accounts are transla

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes c

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate

Concentration risk

The Company at various times during the year maintains cash balances in excess of federally insured (FDIC) limits. The unins

Business Risk

The Company derives a portion of its revenue from international operations, under U.S. dollar denominated contracts. Risks as

Income taxes

The Company accounts for income taxes using SFAS No. 109, Accounting for Income Taxes , which requires recognition of

Reclassification

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statement

In September 2006, the Company sold its high frequency single sideband communication business. For purposes of comparabi

Leases

In accordance with FASB statement No. 13 (SFAS No. 13), the Company performs a review of newly acquired leases to de

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In December 2004, the FASB issued statement No. 123 (SFAS No 123) (revised 2004), *Share-Based Payment*. SFAS No. 1

SFAS No. 123(R) will also require the benefits of tax deductions in excess of recognized compensation cost to be reported as a

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections , a replacement of APB Opinion

In June 2006, the Financial Accounting Standards Board issued FIN 48, Accounting for Uncertainty in Income Taxes, (FI

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering th

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretir*

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NOTE 2 ACQUISITIONS

Acquisition of Middleton

On June 7, 2005, the Company, Sunair Southeast Pest Holdings, Inc., a wholly owned subsidiary of the Company (Pest Holdi

The following table sets forth the allocation of the purchase price to Middleton s tangible and intangible assets acquired and li

Cash	
Accounts receivable	
Inventory	
Prepaid assets	
Fixed assets	
Other assets	
Customer list	
Goodwill	
Accounts payable	
Accrued liabilities	
Customer deposits	
Notes payable	
Total	

Acquisition of Four Seasons

On July 29, 2005 the Company, through its wholly-owned subsidiary, Middleton entered into an Asset Purchase Agreement to

Acquisition of Spa Creek

On December 16, 2005 the Company, through its wholly-owned subsidiary, Middleton entered in an Asset Purchase Agreemen

In addition, the Company incurred $233,419 of transaction costs consisting of legal and accounting fees.

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NOTE 2 ACQUISITIONS (CONTINUED)

The following table sets forth the allocation of the purchase price to Spa Creek tangible and intangible assets acquired and liab

Goodwill
Customer list
Accounts Receivable
Inventory
Fixed assets
Customer deposits
Accrued expenses
Total

Acquisition of Paragon

On January 9, 2006, Middleton entered into an Asset Purchase Agreement to acquire substantially all of the assets of Paragon f

Acquisition of Pestec

On February 28, 2006, Middleton entered into an Asset Purchase Agreement to acquire substantially all of the assets of Pestec

Acquisition of Ron Fee

On March 31, 2006 Middleton entered into an Asset Purchase Agreement to acquire substantially all of the assets of Ron Fee, i

In addition, the Company incurred approximately $325,000 of transaction costs consisting of legal and accounting fees.

The following table sets forth the preliminary allocation of the purchase price to Ron Fee tangible and intangible assets acquire

Goodwill
Customer list
Accounts receivable
Inventory
Fixed assets
Accounts payable
Customer deposits
Notes payable autos
Total

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NOTE 2 ACQUISITIONS (CONTINUED)

Reporting Period

The accompanying consolidated financial statements for the year ended September 30, 2006 depict the results of operations an

Pro-Forma Results of Operations

The following set forth the Company s results of operations for the years ended September 30, 2006 and 2005 as if the acquisi

Revenues

Net loss

Loss per share

Basic

Diluted

NOTE 3 INVENTORIES

Inventories consist of the following at September 30, 2006 and 2005:

Materials

Work in progress

Finished goods

The Company records reserves for inventory shrinkage and obsolescence. Reserves for inventory shrinkage and obsolescence a

NOTE 4 NOTE RECEIVABLE

As partial payment for goods and services delivered, a foreign government agency has issued a note to one of the Company s

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NOTE 4 NOTE RECEIVABLE (CONTINUED)

Pursuant to the Asset Purchase Agreement on September 8, 2006 between the Company and Sunair Holdings, LLC (Sunair H

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at September 30:

Land
Building and improvements
Automobiles
Machinery and equipment
Accumulated Depreciation

Depreciation expense consists of $934,880 and $435,497 during the years ended September 30, 2006 and 2005, respectively.

On November 20, 2006, the Company sold real estate property (see Note 21) related to the discontinued high frequency radio s

NOTE 6 CAPITAL LEASES

The Company is the lessee of equipment under capital leases expiring in various dates through 2011. In conjunction therewith,

Minimum future lease payments under capital leases as of September 30, 2006, are:

	Year ended September 30,
2007	
2008	
2009	
2010	
2011	
Thereafter	
Total minimum lease payments	
Less: Amount representing interest	
Present value of net minimum lease payments	
Less: Current portion	
Long-term portion	

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NOTE 7 REVOLVING LINE OF CREDIT

The Company has a line of credit with a financial institution collateralized by substantially all of the assets of the Company. Th

The Company, as a term of the revolving credit line, is required to maintain financial covenants. As of September 30, 2006, ce

NOTE 8 NOTES PAYABLE

Note payable with a financial institution for equipment purchases. The note is collateralized by certain automobile equipment a

Note payable with a financial institution for leased office build out costs. The note bears interest at 5.60% per annum, payable

Notes payable with financial institutions for automobile loans. Interest rates range from 0% to 9% per annum, payable in mont

The Company has notes payable relating to the acquisitions of Pestec, Paragon. and Ron Fee. The notes bear interest at 6% per

Minimum future principal payments required under the above notes as of September 30, 2006, for each of the next five years a

Year ended September 30
2007
2008
2009
2010
2011
Thereafter
Less: current portion
Long term portion

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NOTE 9 NOTE PAYABLE RELATED PARTY

The Company has a $5,000,000 subordinated note payable to related parties, in connection with the acquisition of Middleton (S

NOTE 10 INCOME TAXES

The components of the Company s income tax benefit for the years ended September 30 are as follows:

Current:
Federal
State
Foreign

Deferred:
Federal
State
Foreign

Income tax benefit

The total provision for 2006 and 2005 vary from the amounts computed by applying the 35% statutory rates to income before i

Income tax at the statutory rates

State income tax, net of federal tax
Intangibles
Other
Change in valuation allowance

Income tax benefit

Continuing operations
Discontinued operations

Income tax benefit

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NOTE 10 INCOME TAXES (CONTINUED)

As of September 30, 2006 and 2005, the components of the deferred tax assets and liabilities consisted of the following:

Deferred tax assets current:
Net operating loss carryover
Allowance for bad debt
Software costs
Inventory reserve
Deferred tax asset current
Deferred tax assets non-current:
Net operating loss carryover
Customer list
Charitable contribution credit carryover
Deferred tax assets non-current
Less: valuation allowance
Net deferred tax assets non-current
Deferred tax liabilities non-current:
Software costs
Goodwill
Deferred tax liabilities non-current
Net Deferred tax liability non-current

The Company has $6,626,958 of net operating losses carryforwards which expire in 2025. Of this amount, the Company s wh

NOTE 11 STOCK OPTIONS

At the annual meeting of shareholders held on February 4, 2005, the shareholders approved the cancellation of the stock optior

During the fiscal year ended September 30, 2005, 150,950 stock options were exercised at an average price of $2.33 per share.

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NOTE 11 STOCK OPTIONS (CONTINUED)

Stock options activity for the years ended September 2006 and 2005 are as follows:

Balances, beginning of year
Granted
Exercised
Cancelled

Balances, end of year

Stock options outstanding and exercisable at September 30, 2006 are as follows:

Exercise Price
$ 4.79
$ 5.00
$ 5.35
$ 5.60
$ 6.09
$13.78
$11.40

Fair Value

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) which requires the Company to recognize expe

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NOTE 11 STOCK OPTIONS (CONTINUED)

Fair Value (continued)

For the year ended September 30, 2006, the Company recognized $620,842 of compensation expense, which is included in sell

Prior to January 1, 2006, the Company accounted for its stock-based compensation plan as permitted by SFAS No. 123(R), usi

The options granted during 2006 and 2005 were valued at the date of grant using the Black-Scholes option pricing model.

The following table illustrates the effect on net income and net income per share of Common Stock as if the Company had app

Net income (loss):
As reported
Add: Stock-based compensation expense, as reported
Deduct: Stock-based compensation expense, pro forma

Net income, pro forma
Net income per share, basic:
Basic, as reported
Stock-based compensation expense, pro forma

Net income per share, basic, pro forma
Net income per share, diluted:
Diluted, as reported
Stock-based compensation expense, pro forma

Net income per share, diluted, pro forma

The fair value of stock-based awards was estimated using the Black-Scholes model with the following weighted-average assun

Expected term (in years)
Volatility
Interest rate
Dividend yield

Weighted average fair value at grant date

The Company s computation of the expected volatility for the year ended September 30, 2006 is based primarily upon historic

As of September 30, 2006, approximately $1.3 million of total unrecognized compensation costs related to non-vested stock op

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NOTE 12 SALE OF SECURITIES PRIVATE PLACEMENTS

On February 8, 2005, the Company completed its sale of 5,000,000 units to Coconut Palm Capital Investors II, Ltd., a Florida l

On January 27, 2006, the Company completed the sale of its securities to investors in a private placement pursuant to purchase

NOTE 13 DISCONTINUED OPERATIONS

On September 8, 2006, Sunair Communications, a wholly-owned subsidiary through which Sunair Services Corporation opera

The accompanying consolidated statements of operations for all the years presented have been adjusted to classify the high fre

Total net revenue

Pre-tax income (loss) from discontinued operations
(Loss) on disposal of discontinued operations
Income tax effect

Income (loss) on discontinued operations

A summary of the total assets of discontinued operations recorded on the accompanying consolidated balance sheet is as follow

Cash
Inventory
Prepaid expenses
Fixed assets

Total Assets

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NOTE 14 EMPLOYEE BENEFITS

The Company has a profit sharing and 401(k) Plan. Under the Plan, eligible employees may contribute up to 15% of their annu

NOTE 15 OPERATING LEASES

The Company leases office space under operating leases expiring in various years through 2011. Certain leases provide for ren

Minimum future rental payments under non-cancelable operating leases as of September 30, 2006, for each of the next 5 years

Year Ended September 30,
2007
2008
2009
2010
2011
Thereafter

Total minimum future rental payments

Rent expense was $1,600,894 and $979,641 for the years ended September 30, 2006 and 2005.

NOTE 16 GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following as of September 30, 2006 and September 30, 2005:

Ending balance, September 30, 2004

Acquisition of businesses

Less amortization expense

Ending balance, September 30, 2005
Acquisition of businesses
Purchase price adjustment
Less impairment of Percipia s Goodwill

Less amortization expense

Ending balance, September 30, 2006

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NOTE 16 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The table below presents the weighted average life in years of the Company s intangible assets.

Goodwill
Customer lists
Other

Weighted average

(a) Goodwill is not amortized but, along with all other intangible assets, is reviewed for possible impairment each year at Septe
when indicators of impairment exist.

The table below reflects the estimated aggregate customer account amortization for each of the five succeeding years of the Co

Aggregate amortization expense

NOTE 17 NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighed average number of shares outstanding during the period. Due
Loss per share data for continuing operations were computed as follows:

Basic and diluted net income (loss) per share:
Net income (loss)
Shares used in computation:
Weighted average shares outstanding

Basic and diluted net income (loss) per share

The following table summarizes the weighted average dilutive securities that were excluded from the above computation of dil

Dilutive securities:
Options/warrants

Total anti-dilutive shares

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NOTE 18 SEGMENT AND GEOGRAPHIC INFORMATION

The Company manages its business and has segregated its activities into two business segments; Installation and maintenance c
Certain financial information for each segment is provided below as of September 30:

Net revenues:
Lawn and pest control services
Telephone communications

Total net revenues

Operating income (loss):
Lawn and pest control services
Telephone communications
Unallocated home office expenses

Total operating loss

Identifiable property plant and equipment:
Lawn and pest control services

Home Office
Telephone communications

Total identifiable property plant and equipment

The Company operates worldwide, primarily in North America. No single country or geographic region, other than North Ame

NOTE 19 RELATED PARTIES

The Company pays management fees to RPC, a related party as discussed in Note 12. Management fees for the years ended Se
The Company issued a note payable to related parties in connection with the acquisition of Middleton, as discussed in Note 9.
The Company received a note receivable from former related parties through the sale of Sunair Communications, the high freq

NOTE 20 LITIGATION

On November 21, 2005, a lawsuit was filed against Percipia, Inc. (a Subsidiary of Sunair), claiming that Percipia interfered wit

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NOTE 21 SUBSEQUENT EVENTS

On November 20, 2006, the Company closed a transaction to sell the real estate associated with the previously sold high freque

On November 30, 2006 the Company, through Middleton, its wholly owned subsidiary, acquired Archer Exterminators, Inc., a

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL D

None.

ITEM 8A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. The term disclosure controls and procedures is defined in Rule 13a

(b) Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial re

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WIT

The items required by Part III, Item 9 are incorporated herein by reference from the Registrant s Proxy Statement for its 20

ITEM 10. EXECUTIVE COMPENSATION

The items required by Part III, Item 10 are incorporated herein by reference from the Registrant s Proxy Statement for its 2

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATE

The items required by Part III, Item 11 are incorporated herein by reference from the Registrant s Proxy Statement for its 2

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The items required by Part III, Item 12 are incorporated herein by reference from the Registrant s Proxy Statement for its 2

ITEM 13. EXHIBITS

1.	Financial Statements filed as a part
	Consolidated Balance Sheets as of S
	Consolidated Statements of Operati
	Consolidated Statements of Stockho
	Consolidated Statements of Cash Fl
	Notes to Consolidated Financial Sta

2. Financial Statement Schedules filed

Report on Financial Statements Sch

Other schedules are omitted becaus
given in the financial statements or

Separate financial statements of the

3. Exhibits

Exhibit No.
2.1

2.2

3.2

3.3
4.1

4.2

10.1

10.2

10.3
10.4

10.5

10.6

10.7

10.8

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Exhibit No.
10.9

10.10

10.11

10.12

10.13

10.14

10.15

10.16

10.17

10.18

10.19

10.20

10.21

14
21.1
23
31.1
31.2
32.1
32.2

*	Management Compensatory Plan

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The items required by Part III, Item 14 are incorporated herein by reference from the Registrant s Proxy Statement for its 200

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In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the u

Date: December 29, 2006
In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in th

SIGNATURE

/s/ John J. Hayes

John J. Hayes
/s/ Edward M. Carriero, Jr.

Edward M. Carriero, Jr.
/s/ Joseph Burke

Joseph Burke
/s/ Joseph S. DiMartino

Joseph S. DiMartino
/s/ Mario B. Ferrari

Mario B. Ferrari
/s/ Arnold Heggestad, Ph.D.

Arnold Heggestad, Ph.D.
/s/ Steven P. Oppenheim

Steven P. Oppenheim
/s/ Richard C. Rochon

Richard C. Rochon
/s/ Charles P. Steinmetz

Charles P. Steinmetz