HARBINGER GROUP INC.
Form 10-Q
February 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 1-4219

Harbinger Group Inc.

(Exact name of registrant as specified in its charter)

Delaware		**74-1339132**
(State or other jurisdiction of		**(I.R.S. Employer**
incorporation or organization)		**Identification No.)**
450 Park Avenue, 30th Floor		
New York, NY		**10022**
(Address of principal executive offices)		**(Zip Code)**

(212) 906-8555

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x or No ¨.

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-accelerated Filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

There were 143,147,896 shares of the registrant s common stock outstanding as of February 4, 2013.

Table of Contents

HARBINGER GROUP INC.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	3
Condensed Consolidated Balance Sheets as of December 30, 2012 and September 30, 2012	3
Condensed Consolidated Statements of Operations for the three months ended December 30, 2012 and January 1, 2012	4
Condensed Consolidated Statements of Comprehensive Income for the three months ended December 30, 2012 and January 1, 2012	5
Condensed Consolidated Statements of Cash Flows for the three months ended December 30, 2012 and January 1, 2012	6
Notes to Condensed Consolidated Financial Statements	7
(1) Description of Business and Basis of Presentation	7
(2) Investments	10
(3) Derivative Financial Instruments	18
(4) Fair Value of Financial Instruments	22
(5) Goodwill and Intangibles, including deferred acquisition costs and value of business acquired	29
(6) Debt	30
(7) Defined Benefit Plans	33
(8) Reinsurance	34
(9) Stock Compensation	36
(10) Income Taxes	38
(11) Earnings Per Share	39
(12) Commitments and Contingencies	40
(13) Acquisitions	42
(14) Other Required Disclosures	49
(15) Related Party Transactions	52
(16) Segment Data	54
(17) Consolidating Financial Information	55
(18) Subsequent Event	59
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	61
Item 3. Quantitative and Qualitative Disclosures about Market Risk	89
Item 4. Controls and Procedures	93
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	98
Item 1A. Risk Factors	98
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	112
Item 3. Defaults Upon Senior Securities	112
Item 4. Mine Safety Disclosures	113
Item 5. Other Information	113
Item 6. Exhibits	114

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 30, 2012 (Unaudited)	September 30, 2012
ASSETS		
Investments:		
Fixed maturities	$ 16,476.6	$ 16,088.9
Equity securities	312.1	394.9
Derivative investments	156.4	200.7
Asset-backed loans	204.8	180.1
Other invested assets	66.6	53.8
Total investments	17,216.5	16,918.4
Cash and cash equivalents	1,103.7	1,470.7
Receivables, net	566.7	414.4
Inventories, net	679.2	452.6
Accrued investment income	153.0	191.6
Reinsurance recoverable	2,378.5	2,363.1
Deferred tax assets	189.0	312.7
Properties, net	328.0	221.6
Goodwill	1,421.3	694.2
Intangibles, including DAC and VOBA, net	2,475.7	1,988.5
Other assets	347.2	172.6
Total assets	$ 26,858.8	$ 25,200.4
LIABILITIES AND EQUITY		
Insurance reserves:		
Contractholder funds	$ 15,349.0	$ 15,290.4
Future policy benefits	3,592.3	3,614.8
Liability for policy and contract claims	99.7	91.1
Total insurance reserves	19,041.0	18,996.3
Debt	3,917.8	2,167.0
Accounts payable and other current liabilities	736.2	754.2
Equity conversion feature of preferred stock	163.1	232.0
Employee benefit obligations	100.2	95.1
Deferred tax liabilities	492.3	382.4
Other liabilities	416.8	655.3
Total liabilities	24,867.4	23,282.3
Commitments and contingencies		

Temporary equity:		
Redeemable preferred stock	323.0	319.2
Harbinger Group Inc. stockholders equity:		
Common stock	1.4	1.4
Additional paid-in capital	848.3	861.2
Accumulated deficit	(36.4)	(98.2)
Accumulated other comprehensive income	403.3	413.2
Total Harbinger Group Inc. stockholders equity	1,216.6	1,177.6
Noncontrolling interest	451.8	421.3
Total permanent equity	1,668.4	1,598.9
Total liabilities and equity	$ 26,858.8	$ 25,200.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three Months Ended	
	December 30, 2012	January 1, 2012
	(Unaudited)	
Revenues:		
Net consumer product sales	$ 870.3	$ 848.8
Insurance premiums	13.8	16.8
Net investment income	178.0	186.8
Net investment gains	146.5	103.9
Insurance and investment product fees and other	13.7	9.7
Total revenues	1,222.3	1,166.0
Operating costs and expenses:		
Consumer products cost of goods sold	582.1	564.7
Benefits and other changes in policy reserves	83.6	176.9
Selling, acquisition, operating and general expenses	254.6	255.9
Amortization of intangibles	86.6	56.7
Total operating costs and expenses	1,006.9	1,054.2
Operating income	215.4	111.8
Interest expense	(143.1)	(55.9)
Gain from the change in the fair value of the equity conversion feature of preferred stock	68.9	27.9
Other (expense) income, net	(8.7)	1.2
Income from continuing operations before income taxes	132.5	85.0
Income tax expense	64.4	39.5
Net income	68.1	45.5
Less: Net (loss) income attributable to noncontrolling interest	(6.0)	6.0
Net income attributable to controlling interest	74.1	39.5
Less: Preferred stock dividends and accretion	12.1	15.7
Net income attributable to common and participating preferred stockholders	$ 62.0	$ 23.8
Net income per common share attributable to controlling interest:		
Basic	$ 0.31	$ 0.12
Diluted	$ 0.03	$ 0.06

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three Months Ended	
	December 30, 2012	January 1, 2012
	(Unaudited)	
Net income	$ 68.1	$ 45.5
Other comprehensive income (loss):		
Foreign currency translation gains (losses)	2.7	(14.9)
Net unrealized gain on derivative instruments	0.3	2.1
Actuarial adjustments to pension plans	(0.3)	0.3
Unrealized investment gains (losses):		
Changes in unrealized investment gains before reclassification adjustment	126.3	76.3
Net reclassification adjustment for gains included in net income	(172.0)	(69.1)
Changes in unrealized investment gains after reclassification adjustment	(45.7)	7.2
Adjustments to intangible assets	28.0	5.3
Changes in deferred income tax asset/liability	6.2	(4.4)
Net unrealized gain on investments	(11.5)	8.1
Non-credit related other-than-temporary impairment:		
Changes in non-credit related other-than-temporary impairment		(0.9)
Adjustments to intangible assets		0.3
Changes in deferred income tax asset/liability		0.2
Net non-credit related other than-temporary impairment		(0.4)
Net change to derive comprehensive income (loss) for the period	(8.8)	(4.8)
Comprehensive income	59.3	40.7
Less: Comprehensive income attributable to the noncontrolling interest:		
Net income	(6.0)	6.0
Other comprehensive income (loss)	1.3	(5.7)
	(4.7)	0.3
Comprehensive income attributable to the controlling interest	$ 64.0	$ 40.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Three Months Ended	
	December 30, 2012	January 1, 2012
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 68.1	$ 45.5
Adjustments to reconcile net income to operating cash flows:		
Depreciation of properties	11.6	10.0
Amortization of intangibles	86.6	56.7
Stock-based compensation	6.5	4.5
Amortization of debt issuance costs	2.6	2.4
Amortization of debt discount	0.2	0.3
Write-off of debt issuance costs on retired debt	15.5	
Write-off of debt discount on retired debt	3.0	
Deferred income taxes	129.7	41.2
Cost of trading securities acquired for resale		(348.5)
Proceeds from trading securities sold		415.9
Interest credited/index credits to contractholder account balances	55.9	137.9
Amortization of fixed maturity discounts and premiums	13.2	24.5
Net recognized gains on investments and derivatives	(207.8)	(133.9)
Charges assessed to contractholders for mortality and administration	(6.8)	(3.1)
Deferred policy acquisition costs	(35.7)	(39.8)
Cash transferred to reinsurer		(176.8)
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	5.2	
Non-cash restructuring and related charges	4.9	0.6
Changes in operating assets and liabilities:	(328.2)	(41.9)
Net change in cash due to operating activities	(175.5)	(4.5)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid		
Available-for-sale	2,913.4	1,605.9
Held-to-maturity		70.9
Trading (acquired for holding)	91.0	21.4
Derivatives and other	50.3	41.5
Cost of investments acquired		
Available-for-sale	(3,395.1)	(536.6)
Held-to-maturity		(30.0)
Trading (acquired for holding)		(54.1)
Derivatives and other	(45.3)	(33.8)
Acquisitions, net of cash acquired	(1,295.9)	(183.1)
Asset-backed loans originated, net	(26.2)	
Capital expenditures	(10.7)	(10.9)
Other investing activities, net	(100.0)	(0.1)
Net change in cash due to investing activities	(1,818.5)	891.1
Cash flows from financing activities:		
Proceeds from issuance of new debt	2,585.0	218.4
Repayment of debt, including tender and call premiums	(917.1)	(97.2)
Revolving credit facility activity	32.0	11.4
Debt issuance costs	(62.8)	(4.0)
Purchases of subsidiary stock, net	(16.0)	(12.8)
Contractholder account deposits	491.5	611.3
Contractholder account withdrawals	(475.6)	(540.8)

Dividend paid by subsidiary to noncontrolling interest	(1.0)	
Dividends paid on preferred stock	(8.3)	(7.1)
Net change in cash due to financing activities	1,627.7	179.2
Effect of exchange rate changes on cash and cash equivalents	(0.7)	1.6
Net (decrease) increase in cash and cash equivalents	(367.0)	1,067.4
Cash and cash equivalents at beginning of period	1,470.7	1,137.4
Cash and cash equivalents at end of period	$ 1,103.7	$ 2,204.8

See accompanying notes to condensed consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions, except share and per share figures)

(1) Description of Business, Basis of Presentation and Recent Accounting Pronouncements

Description of the Business

Harbinger Group Inc. (HGI and, collectively with its respective subsidiaries, the Company) is a diversified holding company, the outstanding common stock of which is 76.7% and 74.6% owned, respectively, as of December 30, 2012 and the date of this filing, collectively, by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the Principal Stockholders), not giving effect to the conversion rights of the Company s Series A Participating Convertible Preferred Stock (the Series A Preferred Stock) or the Series A-2 Participating Convertible Preferred Stock (the Series A-2 Preferred Stock , together the Preferred Stock). Such common stock ownership by the Principal Stockholders represents a voting interest of 57.2% in relation to the existing voting rights of all HGI s common and preferred stockholders. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HGI is focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. As such, the Company has gained controlling interests in Spectrum Brands Holdings, Inc., a Delaware corporation (collectively with its consolidated subsidiaries, where applicable, Spectrum Brands), Fidelity & Guaranty Life Holdings, Inc., a Delaware corporation (FGL) and Salus Capital Partners, LLC (Salus). As of December 30, 2012, the Company s beneficial ownership of the outstanding common stock of Spectrum Brands was 57.4%. Spectrum Brands is a global branded consumer products company which trades on the NYSE under the symbol SPB. FGL, a wholly-owned subsidiary, is a provider of annuity and life insurance products in the United States of America. Salus is a provider of secured asset-based loans to entities across a variety of industries.

In addition to acquiring controlling interests, HGI may make investments in debt instruments, acquire minority equity interests in companies and expand its operating businesses. The Company also owns 97.9% of Zap.Com Corporation (Zap.Com), a public shell company that may seek assets or businesses to acquire or may sell assets and/or liquidate.

In November, the Company announced a joint venture with EXCO Resources Inc. (EXCO) to create a private oil and gas limited partnership (the EXCO/HGI Partnership) that will purchase and operate EXCO s producing U.S. conventional oil and gas assets, for a total consideration of $725.0 million (the EXCO/HGI Production Partners Acquisition). The Partnership will constitute the Company s initial operating business in the energy sector.

In December 2012, the Company closed a secondary offering, in which the Principal Stockholders offered 20.0 million shares of common stock at a price to the public of $7.50 per share. In addition, in January 2013, the underwriters exercised their option to purchase an additional 3.0 million shares of common stock from the Principal Stockholders. The Company did not receive any proceeds from the sale of shares in this offering.

In December 2012, the Company issued $700.0 aggregate principal amount 7.875% Senior Secured Notes due 2019 (the 7.875% Notes) and used part of the proceeds of the offering to accept for purchase $498.0 aggregate principal amount of its 10.625% Senior Secured Notes due 2015 (the 10.625% Notes) pursuant to a tender offer (the Tender Offer) for the 10.625% Notes. Additionally, the Company deposited sufficient funds in trust with the trustee under the indenture governing the 10.625% Notes in satisfaction and discharge of the remaining $2.0 aggregate principal amount of the 10.625% Notes. The remainder of the proceeds will be used for working capital by the Company and its subsidiaries and for general corporate purposes, including the financing of future acquisitions and businesses.

In December, Spectrum Brands acquired the residential hardware and home improvement business (the HHI Business) from Stanley Black & Decker, Inc. (Stanley Black & Decker), which includes (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business (the Hardware Acquisition). The HHI Business has a broad portfolio of recognized brands names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as Smartkey, a rekeyable lockset technology, and Smart Code Home Connect. A portion of the Hardware Acquisition has not yet closed, consisting of the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation (TLM Taiwan), which is involved in the production of residential locksets. For information pertaining to the Hardware Acquisition, see Note 13, Acquisitions.

Also in December 2012, Spectrum Brands Escrow Corp. issued $520.0 aggregate principal amount of 6.375% Senior Notes due 2020 (the 6.375% Notes) and $570.0 aggregate principal amount of 6.625% Senior Notes due 2022 (the 6.625% Notes). The 6.375% Notes and the 6.625% Notes were assumed by Spectrum Brands, in connection with the Hardware Acquisition. Spectrum Brands used the net proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands financed the remaining portion of the Hardware Acquisition with a new $800.0 term loan facility, of which $100.0 is in Canadian dollar equivalents (the Term Loan). A portion of the Term Loan proceeds were also used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 prior to refinancing. Refer to Note 6, Debt, as well as Note 13, Acquisitions, to our Condensed Consolidated Financial Statements.

The Company s reportable business segments are organized in a manner that reflects how HGI s management views those business activities. Accordingly, the Company currently operates its business in three reporting segments: (i) Consumer Products through Spectrum Brands, (ii) Insurance through FGL and (iii) Other Financial Services. For the results of operations by segment, and other segment data, see Note 16, Segment Data.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), have been condensed or omitted pursuant to such rules and regulations. Certain prior year amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported results of operations or accumulated deficit. These interim financial statements should be read in conjunction with the Company s annual consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed with the SEC on November 27, 2012 (the Form 10-K). The results of operations for the three months ended December 30, 2012 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2013.

Recent Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income,* which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, comprehensive income

must be reported in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. A deferral of provisions of the guidance requiring disclosure of the income statement location were gains and losses reclassified out of comprehensive income are located was issued in December 2011. In November 2012, the FASB issued a statement of opinion to clarify their position on the reclassification disclosures, allowing disclosure of reclassification adjustments on the face of the comprehensive income statement or in the notes to the financial statements. The Company implemented the new guidance effective October 1, 2012, electing to present comprehensive income in two separate but consecutive statements, however the final disclosure requirements for reclassification adjustments are not effective until the second quarter of Fiscal 2013. The Company has implemented all required disclosures except the deferred reclassification provisions which will be implemented in the second quarter of Fiscal 2013.

Impairment Testing

Also effective October 1, 2012, the Company implemented new guidance intended to simplify how the Company tests for impairments of goodwill and indefinite-lived intangible assets. The guidance will allow the Company to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment tests for goodwill and indefinite-lived intangible assets. The Company will no longer be required to calculate, respectively for goodwill and indefinite-lived intangible assets, the fair value of a reporting unit, or the fair value of an indefinite-lived intangible asset, unless the Company determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The Company will apply this new guidance upon its annual impairment analysis of its goodwill and indefinite-lived intangible assets, in August 2013. The Company does not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

Offsetting Assets and Liabilities

In December 2011, the FASB issued amended disclosure requirements for offsetting financial assets and financial liabilities to allow investors to better compare financial statements prepared under US GAAP with financial statements prepared under International Financial Reporting Standards. The new standards are effective for us beginning in the first quarter of our fiscal year ending September 30, 2014. We are currently evaluating the impact of this new accounting guidance on the disclosures included in our consolidated financial statements.

Table of Contents

(2) Investments

HGI s investments consist of (1) marketable equity securities classified as trading and carried at fair value with unrealized gains and losses recognized in earnings, including certain securities for which the Company has elected the fair value option under Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*, which would otherwise have been classified as available-for-sale, and (2) U.S. Treasury securities and a certificate of deposit classified as held-to-maturity and carried at amortized cost, which approximates fair value. FGL s debt and equity securities have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in AOCI, net of associated adjustments for value of business acquired (VOBA), deferred acquisition costs (DAC) and deferred income taxes. The Company s consolidated investments are summarized as follows:

	December 30, 2012				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
Fixed-maturity securities, available-for sale					
Asset-backed securities	$ 1,263.6	$ 27.8	$ (0.7)	$ 1,290.7	$ 1,290.7
Commercial mortgage-backed securities	526.4	39.0	(1.8)	563.6	563.6
Corporates	9,161.3	724.1	(11.2)	9,874.2	9,874.2
Hybrids	422.1	21.1	(1.7)	441.5	441.5
Municipals	1,039.3	136.2	(1.2)	1,174.3	1,174.3
Agency residential mortgage-backed securities	135.8	4.5	(0.3)	140.0	140.0
Non-agency residential mortgage-backed securities	914.1	57.9	(2.8)	969.2	969.2
U.S. Government	2,011.3	11.8		2,023.1	2,023.1
Total fixed-maturity securities	15,473.9	1,022.4	(19.7)	16,476.6	16,476.6
Equity securities					
Available-for-sale	253.8	11.7	(1.7)	263.8	263.8
Held for trading	101.7		(53.4)	48.3	48.3
Total equity securities	355.5	11.7	(55.1)	312.1	312.1
Derivative investments	141.4	35.3	(20.3)	156.4	156.4
Asset-backed loans	204.8			204.8	204.8
Other invested assets					
U.S. Treasuries and certificate of deposit, held-to maturity	33.9			33.9	33.9
Policy loans and other invested assets	32.7			32.7	32.7
Total other invested assets	66.6			66.6	66.6
Total investments	$ 16,242.2	$ 1,069.4	$ (95.1)	$ 17,216.5	$ 17,216.5

Table of Contents

	September 30, 2012				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
Fixed-maturity securities, available-for-sale					
Asset-backed securities	$ 1,010.9	$ 18.6	$ (1.6)	$ 1,027.9	$ 1,027.9
Commercial mortgage-backed securities	520.0	36.2	(2.4)	553.8	553.8
Corporates	10,211.8	807.2	(10.0)	11,009.0	11,009.0
Hybrids	519.0	18.8	(9.6)	528.2	528.2
Municipals	1,083.2	141.9	(1.1)	1,224.0	1,224.0
Agency residential mortgage-backed securities	149.5	5.8	(0.3)	155.0	155.0
Non-agency residential mortgage-backed securities	629.1	35.8	(4.3)	660.6	660.6
U.S. Government	917.5	12.9		930.4	930.4
Total fixed-maturity securities	15,041.0	1,077.2	(29.3)	16,088.9	16,088.9
Equity securities					
Available-for-sale	237.5	11.9	(1.3)	248.1	248.1
Held for trading	191.8		(45.0)	146.8	146.8
Total equity securities	429.3	11.9	(46.3)	394.9	394.9
Derivative investments	142.1	67.0	(8.4)	200.7	200.7
Asset-backed loans	180.1			180.1	180.1
Other invested assets					
U.S. Treasuries and certificate of deposit, held-to-maturity	35.0			35.0	35.0
Policy loans and other invested assets	18.8			18.8	18.8
Total other invested assets	53.8			53.8	53.8
Total investments	$ 15,846.3	$ 1,156.1	$ (84.0)	$ 16,918.4	$ 16,918.4

Included in AOCI were unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage-backed securities at both December 30, 2012 and September 30, 2012.

Securities held on deposit with various state regulatory authorities had a fair value of $20.6 and $20.7 at December 30, 2012 and September 30, 2012, respectively.

Table of Contents

Maturities of Fixed-maturity Securities

The amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

	December 30, 2012	
	Amortized Cost	**Fair Value**
Corporate, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$ 622.0	$ 624.7
Due after one year through five years	4,175.7	4,263.1
Due after five years through ten years	3,419.4	3,690.8
Due after ten years	4,333.0	4,850.4
Subtotal	12,550.1	13,429.0
Other securities which provide for periodic payments:		
Asset-backed securities	1,263.7	1,290.7
Commercial-mortgage-backed securities	526.5	563.6
Structured hybrids	83.6	84.0
Agency residential mortgage-backed securities	135.8	140.0
Non-agency residential mortgage-backed securities	914.2	969.3
Total fixed maturity available-for-sale securities	$ 15,473.9	$ 16,476.6

12

Table of Contents

Securities in an Unrealized Loss Position

As part of FGL s ongoing securities monitoring process, FGL evaluates whether securities in an unrealized loss position could potentially be other-than-temporarily impaired. Excluding the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage backed securities, FGL has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of December 30, 2012. This conclusion is derived from the issuers continued satisfaction of the securities obligations in accordance with their contractual terms along with the expectation that they will continue to do so. Also contributing to this conclusion is FGL s determination that it is more likely than not that FGL will not be required to sell these securities prior to recovery, an assessment of the issuers financial condition, and other objective evidence. As it specifically relates to asset-backed securities and commercial mortgage-backed securities, the present value of cash flows expected to be collected is at least the amount of the amortized cost basis of the security and FGL s management has the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value. The fair value and gross unrealized losses of available-for-sale securities, aggregated by investment category, were as follows:

	December 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 7.6	$ (0.1)	$ 186.9	$ (0.6)	$ 194.5	$ (0.7)
Commercial-mortgage-backed securities	7.1	(1.7)	14.4	(0.1)	21.5	(1.8)
Corporates	98.4	(2.3)	709.5	(8.9)	807.9	(11.2)
Hybrids	40.1	(1.6)	6.4	(0.1)	46.5	(1.7)
Municipals			103.7	(1.2)	103.7	(1.2)
Agency residential mortgage-backed securities	6.5	(0.2)	3.3	(0.1)	9.8	(0.3)
Non-agency residential mortgage-backed securities	77.9	(2.1)	65.4	(0.7)	143.3	(2.8)
Equities	40.5	(1.1)	6.7	(0.6)	47.2	(1.7)
Total available-for-sale securities	$ 278.1	$ (9.1)	$ 1,096.3	$ (12.3)	$ 1,374.4	$ (21.4)
Total number of available-for-sale securities in an unrealized loss position		158		62		220

13

Table of Contents

	September 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 169.8	$ (1.0)	$ 7.5	$ (0.6)	$ 177.3	$ (1.6)
Commercial-mortgage-backed securities	0.8	(0.8)	10.7	(1.6)	11.5	(2.4)
Corporates	411.3	(8.1)	45.5	(1.9)	456.8	(10.0)
Hybrids	13.4	(0.4)	107.7	(9.2)	121.1	(9.6)
Municipals	71.1	(1.1)			71.1	(1.1)
Agency residential mortgage-backed securities	1.8	(0.2)	6.1	(0.1)	7.9	(0.3)
Non-agency residential mortgage-backed securities	12.9	(0.3)	101.8	(4.0)	114.7	(4.3)
Equities			44.5	(1.3)	44.5	(1.3)
Total available-for-sale securities	$ 681.1	$ (11.9)	$ 323.8	$ (18.7)	$ 1,004.9	$ (30.6)
Total number of available-for-sale securities in an unrealized loss position		100		56		156

At December 30, 2012 and September 30, 2012, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments, residential mortgage-backed securities and hybrids. Total unrealized losses were $21.4 and $30.6 at December 30, 2012 and September 30, 2012, respectively. Exposure to finance-related holdings represents the largest component of the unrealized loss position in the portfolio, as spreads for holdings in this industry sector remain above historical levels. Elevated spreads in certain structured asset classes have also affected prices of commercial mortgage-backed securities and non-agency residential mortgage-backed securities. With evidence that the housing sector in the U.S. is recovering, FGL has added to its non-agency residential mortgage-backed holdings during the year by purchasing securities with a National Association of Insurance Commissioners (NAIC) 1 equivalent rating. As of December 30, 2012, these securities were in an unrealized gain position. The improvement in unrealized loss positions in hybrids from September 30, 2012 to December 30, 2012 was primarily a result of greater availability of capital for firms and regulatory changes which have encouraged certain issuers to retire their outstanding securities, thereby moving prices higher.

The combination of ongoing liquidity efforts by global central banks to stem contagion from a Eurozone slowdown, and accommodative monetary policy (especially in the U.S.) that is keeping base interest rates low, helped drive strong performance in risk assets in the December 30, 2012 quarter. The prices of securities exposed to the residential real estate market in the U.S. also increased, which management believes is a result of the decline in risk aversion and data indicating that the housing market in the U.S. has improved.

At December 30, 2012 and September 30, 2012, securities with a fair value of $0.7 and $1.2, respectively, were depressed greater than 20% of amortized cost (excluding United States Government and United States Government sponsored agency securities), which represented less than 1% of the carrying values of all investments. The improvement in unrealized loss positions from September 30, 2012 is primarily due to two factors: (i) securities at depressed prices were sold over the past fiscal quarter, reducing the size of holdings at an unrealized loss position and (ii) improving risk sentiment has lifted the market prices of investment grade bonds. Based upon FGL s current evaluation of these securities in accordance with its impairment policy and its intent to retain these investments for a period of time sufficient to allow for recovery in value, FGL has determined that these securities are not other-than-temporarily impaired.

14

Table of Contents

Credit Loss Portion of Other-than-temporary Impairments

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of other-than-temporary impairments on fixed maturity securities held by FGL at December 30, 2012 and January 1, 2012, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Balance at the beginning of the period	$ 2.7	$ 0.7
Increases attributable to credit losses on securities:		
Other-than-temporary impairment was not previously recognized		1.5
Balance at the end of the period	$ 2.7	$ 2.2

For the three months ended December 30, 2012, FGL recognized impairment losses in operations totaling $0.5, including credit impairments of $0.2 and change-of-intent impairments of $0.3 and had an amortized cost of $1.6 and a fair value of $1.1 at the time of impairment. For the three months ended January 1, 2012, FGL recognized impairment losses in operations totaling $13.2, solely caused by change-of-intent, and non-credit losses in other comprehensive income totaling $0.9, for investments which experienced other-than-temporary impairments and had an amortized cost of $66.9 and a fair value of $52.8 at the time of impairment. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on securities were as follows:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Other-than-temporary impairments recognized in net income:		
Corporates	$	$ 0.7
Non-agency residential mortgage-backed securities	0.5	2.8
Hybrids		9.7
Total other-than-temporary impairments	$ 0.5	$ 13.2

Asset-backed Loans

Salus portfolio of asset-backed loans receivable, included in Asset-backed loans in the Condensed Consolidated Balance Sheets as of December 30, 2012 and September 30, 2012, consisted of the following:

	December 30, 2012	September 30, 2012
Asset-backed loans, by major industry:		
Wholesale	$ 101.9	$ 77.2
Apparel	49.1	70.1
Jewelry	23.0	27.9
Other	33.4	6.3
Total asset-backed loans	207.4	181.5
Less: Allowance for credit losses	2.6	1.4
Total asset-backed loans, net	$ 204.8	$ 180.1

Table of Contents

Salus establishes its allowance for credit losses through a provision for credit losses based on its evaluation of the credit quality of its loan portfolio. The following table presents the activity in its allowance for credit losses for the three months ended December 30, 2012 and January 1, 2012:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Allowance for credit losses:		
Balance at beginning of period	$ 1.4	$
Provision for credit losses	1.2	
Charge-offs		
Recoveries		
Balance at end of period	$ 2.6	$

Salus monitors credit quality as indicated by various factors and utilizes such information in its evaluation of the adequacy of the allowance for credit losses. As of December 30, 2012 and September 30, 2012, Salus had no outstanding loans that either were non-performing, in a non-accrual status, or had been subject to a troubled-debt restructuring. As of December 30, 2012 and September 30, 2012, Salus had no outstanding loans that had been individually considered impaired, as all loans were in current payment status.

Salus internal loan ratings provide information about the credit quality of its asset-based lending borrowers, and its risk of potential loss. The following tables present information about the credit quality of Salus asset-based loan portfolio, based on National Association of Insurance Commissioners (NAIC) risk rating, as of December 30, 2012 and September 30, 2012:

NAIC Designation	Credit Equivalent Rating	December 30, 2012	Percent of Total	September 30, 2012	Percent of Total
1	AAA/AA/A	$18.1	8.7%	$75.8	41.7%
2	BBB	165.9	80.0%	94.9	52.3%
3	B			10.8	6.0%
4	B				
5	CCC	23.4	11.3%		
Not rated					
Total		$207.4	100.0%	$181.5	100.0%

Net Investment Income

The major sources of Net investment income on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Fixed maturity available-for-sale securities	$ 167.6	$ 187.2
Equity available-for-sale securities	4.7	2.6
Policy loans	0.3	0.3
Invested cash and short-term investments	0.8	0.1
Other investments	8.7	(0.3)
Gross investment income	182.1	189.9
External investment expense	(4.1)	(3.1)

Net investment income	$ 178.0	$ 186.8

Table of Contents

Net Investment Gains

Net investment gains reported on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Net realized gains before other-than-temporary impairments	$ 172.5	$ 81.9
Gross other-than-temporary impairments	(0.5)	(14.1)
Non-credit portion of other-than-temporary impairments included in other comprehensive income		0.9
Net realized gains on fixed maturity available-for-sale securities	172.0	68.7
Realized gains on equity securities		0.3
Net realized gains on securities	172.0	69.0
Realized gains (losses) on certain derivative instruments	15.6	(15.5)
Unrealized (losses) gains on certain derivative instruments	(41.2)	50.3
Change in fair value of derivatives	(25.6)	34.8
Realized gains on other invested assets	0.1	0.1
Net investment gains	$ 146.5	$ 103.9

For the three months ended December 30, 2012 and January 1, 2012, proceeds from the sale of fixed maturity available-for-sale securities, including assets transferred to Wilton Re as discussed in Note 8 for the three month period January 1, 2012 only, totaled $2,415.1 and $1,733.1, gross gains on such sales totaled $178.0 and $92.3 and gross losses totaled $0.5 and $10.5, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three months ended December 30, 2012 and January 1, 2012.

Underlying write-downs taken to fixed maturity available-for-sale securities as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on available-for-sale securities above were $0.5 and $13.2 for the three months ended December 30, 2012 and January 1, 2012, respectively.

Concentrations of Financial Instruments

As of December 30, 2012, the Company s most significant investment in one industry, excluding treasuries, was FGL s investment securities in the banking industry with a fair value of $1,878.9, or 11.0%, of the invested assets portfolio. FGL s holdings in this industry includes investments in 114 different issuers with the top ten investments accounting for 34.8% of the total holdings in this industry. As of December 30, 2012, FGL s exposure to sub-prime and Alternative-A residential mortgage-backed securities was $237.5 and $249.1 or collectively 1.5% of FGL s invested assets. As of December 30, 2012 and September 30, 2012 FGL had investments in 8 issuers that exceeded 10% of the Company s stockholders equity with a fair value of $1,131.5 and $1,082.0, or 6.6% and 6.5% of the invested assets portfolio, respectively. Additionally, FGL s largest concentration in any single issuer as of December 30, 2012 and September 30, 2012 had a fair value of $167.0 and $152.9, or 1.0% and 0.7% of FGL s invested assets portfolio, respectively.

(3) Derivative Financial Instruments

The fair value of outstanding derivative contracts recorded in the accompanying Condensed Consolidated Balance Sheets were as follows:

Asset Derivatives	Classification	December 30, 2012	September 30, 2012
Derivatives designated as hedging instruments:			
Commodity swap and option agreements	Receivables, net	$ 1.1	$ 1.0
Commodity swap and option agreements	Other assets	0.7	1.0
Foreign exchange forward agreements	Receivables, net	0.6	1.2
Total asset derivatives designated as hedging instruments		2.4	3.2
Derivatives not designated as hedging instruments:			
Call options	Derivative investments	152.5	200.7
Futures contracts	Derivative investments	3.9	
Total asset derivatives		$ 158.8	$ 203.9

Liability Derivatives	Classification	December 30, 2012	September 30, 2012
Derivatives designated as hedging instruments:			
Foreign exchange forward agreements	Accounts payable and other current liabilities	$ 2.1	$ 3.1
Total liability derivatives designated as hedging instruments		2.1	3.1
Derivatives not designated as hedging instruments:			
FIA embedded derivative	Contractholder funds	1,517.0	1,550.8
Futures contracts	Other liabilities		0.9
Foreign exchange forward agreements	Accounts payable and other current liabilities	5.7	4.0
Foreign exchange forward agreements	Other liabilities	2.8	2.9
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	163.1	232.0
Total liability derivatives		$ 1,690.7	$ 1,793.7

Changes in AOCI from Derivative Instruments

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

The following table summarizes the pretax impact of derivative instruments designated as cash flow hedges on the accompanying Condensed Consolidated Statements of Operations, and within AOCI, for the three months ended December 30, 2012 and January 1, 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Classification
Three Months Ended	December 30, 2012	January 1, 2012	December 30, 2012	January 1, 2012	
Commodity contracts	$ (0.2)	$ (0.8)	$ (0.1)	$ (0.4)	Consumer products cost of goods sold
Interest rate contracts				(0.7)	Interest expense
Foreign exchange contracts	0.5	(0.1)	0.1	(0.1)	Net consumer products sales
Foreign exchange contracts	(0.4)	1.3	(0.5)	(1.2)	Consumer products cost of goods sold
Total	$ (0.1)	$ 0.4	$ (0.5)	$ (2.4)	

Fair Value Contracts and Other

For derivative instruments that are used to economically hedge the fair value of Spectrum Brands third party and intercompany foreign currency payments, commodity purchases and interest rate payments, and the equity conversion feature of the Company s Preferred Stock, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. FGL recognizes all derivative instruments as assets or liabilities in the Condensed Consolidated Balance Sheets at fair value, including derivative instruments embedded in Fixed Indexed Annuity (FIA) contracts, and any changes in the fair value of the derivatives are recognized immediately in the Condensed Consolidated Statements of Operations. During the three months ended December 30, 2012 and January 1, 2012 the Company recognized the following gains on these derivatives:

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives		Classification
Three Months Ended	December 30, 2012	January 1, 2012	
Equity conversion feature of preferred stock	$ 68.9	$ 27.9	Gain from the change in the fair value of the equity conversion feature of preferred stock
Foreign exchange contracts	(4.1)	7.3	Other (expense) income, net
Call options	(20.9)	19.9	Net investment gains
Futures contracts	(4.7)	14.9	Net investment gains
FIA embedded derivatives	33.8	(58.7)	Benefits and other changes in policy reserves
Total	$ 73.0	$ 11.3	

Additional Disclosures

Cash Flow Hedges

When appropriate, Spectrum Brands has used interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is

designated. At December 30, 2012, Spectrum Brands did not have any interest rate swaps outstanding.

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Mexican Pesos, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net consumer product sales or purchase price variance in Consumer products cost of goods sold. At December 30, 2012, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through March 2014 with a contract value of $173.0. The derivative net (loss) on these contracts recorded in AOCI at December 30, 2012 was $(0.6), net of tax benefit of $0.4 and noncontrolling interest of $0.4. At December 30, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $(0.6), net of tax and noncontrolling interest.

Spectrum Brands is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. Spectrum Brands hedges a portion of the risk associated with these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At December 30, 2012, Spectrum Brands had a series of such swap contracts outstanding through September 2014 for 12 tons of raw materials with a contract value of $24.3. The derivative net gain on these contracts recorded in AOCI at December 30, 2012 was $0.9, net of tax expense of $0.3 and noncontrolling interest of $0.6. At December 30, 2012, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next twelve months is $0.5, net of tax and noncontrolling interest.

Fair Value Contracts

Spectrum Brands periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Balance Sheets. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At December 30, 2012 and September 30, 2012, Spectrum Brands had $162.8 and $172.6, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Credit Risk

Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty s credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which was insignificant at December 30, 2012 and $0.1 at September 30, 2012, respectively.

Spectrum Brands standard contracts do not contain credit risk related contingent features whereby Spectrum Brands would be required to post additional cash collateral as a result of a credit event. However, Spectrum Brands is typically required to post collateral in the normal course of business to offset its liability positions. At December 30, 2012 and September 30, 2012, Spectrum Brands had posted cash collateral of $0.5 and $0.1, respectively, related to such liability positions. In addition, at December 30, 2012 and September 30, 2012, Spectrum Brands had no posted standby letters of credit related to such liability positions. The cash collateral is included in Receivables, net within the accompanying Condensed Consolidated Balance Sheet.

Table of Contents

FGL is exposed to credit loss in the event of nonperformance by its counterparties on the call options and reflects assumptions regarding this nonperformance risk in the fair value of the call options. The nonperformance risk is the net counterparty exposure based on the fair value of the open contracts less collateral held. FGL maintains a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement.

Information regarding FGL s exposure to credit loss on the call options it holds is presented in the following table:

		December 30, 2012		September 30, 2012	
Counterparty	**Credit Rating (Moody s/S&P)**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Bank of America	Baa2/A-	$ 1,760.5	$ 45.1	$ 1,884.0	$ 64.1
Deutsche Bank	A2/A+	1,892.7	46.8	1,816.5	61.7
Morgan Stanley	Baa1/A-	1,869.8	43.4	1,634.7	51.6
Royal Bank of Scotland	Baa1/A-	352.4	15.2	353.9	19.6
Barclay s Bank	A2/A+	119.9	2.0	131.3	3.1
Credit Suisse	A2/A			10.0	0.6
		$ 5,995.3	$ 152.5	$ 5,830.4	$ 200.7

FIA Contracts

FGL has FIA contracts that permit the holder to elect an interest rate return or an equity index linked component, where interest credited to the contracts is linked to the performance of various equity indices, primarily the Standard and Poor s (S&P) 500 Index. This feature represents an embedded derivative under US GAAP. The FIA embedded derivative is valued at fair value and included in the liability for contractholder funds in the accompanying Condensed Consolidated Balance Sheets with changes in fair value included as a component of benefits and other changes in policy reserves in the Condensed Consolidated Statements of Operations.

FGL purchases derivatives consisting of a combination of call options and futures contracts on the applicable market indices to fund the index credits due to FIA contractholders. The call options are one, two and three year options purchased to match the funding requirements of the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the interest credit is reset and FGL purchases new one, two or three year call options to fund the next index credit. FGL manages the cost of these purchases through the terms of its FIA contracts, which permit FGL to change caps or participation rates, subject to guaranteed minimums, on each contract s anniversary date. The change in the fair value of the call options and futures contracts is generally designed to offset the portion of the change in the fair value of the FIA embedded derivative related to index performance. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains. The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instrument term or upon early termination and the changes in fair value of open positions.

Other market exposures are hedged periodically depending on market conditions and FGL s risk tolerance. FGL s FIA hedging strategy economically hedges the equity returns and exposes FGL to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets. FGL uses a variety of techniques, including direct estimation of market sensitivities and value-at-risk, to monitor this risk daily. FGL intends to continue to adjust the hedging strategy as market conditions and FGL s risk tolerance change.

Collateral Agreements

FGL is required to maintain minimum ratings as a matter of routine practice under its ISDA agreements. Under some ISDA agreements, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between

the parties, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. FGL s current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, FGL and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of December 30, 2012 and September 30, 2012, no collateral was posted by FGL s counterparties as they did not meet the net exposure thresholds. Accordingly, the maximum amount of loss due to credit risk that FGL would incur if parties to the call options failed completely to perform according to the terms of the contracts was $152.5 and $200.7 at December 30, 2012 and September 30, 2012, respectively.

FGL held 2,001 and 2,835 futures contracts at December 30, 2012 and September 30, 2012, respectively. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). FGL provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in Cash and cash equivalents in the Condensed Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $6.9 and $9.8 at December 30, 2012 and September 30, 2012, respectively.

(4) Fair Value of Financial Instruments

The Company s measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which may include the Company s own credit risk. The Company s estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability (exit price) in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability (entry price). The Company categorizes financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lower level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

Table of Contents

The carrying amounts and estimated fair values of the Company s consolidated financial instruments for which the disclosure of fair values is required, including (i) financial assets and liabilities measured and carried at fair value on a recurring basis, and (ii) financial assets and liabilities not measured at fair value but for which fair value disclosures are required; are summarized according to the hierarchy previously described as follows:

	December 30, 2012				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents (a)	$ 1,103.7	$	$	$ 1,103.7	$ 1,103.7
Contingent purchase price reduction receivable			41.0	41.0	41.0
Derivatives:					
Foreign exchange forward agreements		0.6		0.6	0.6
Commodity swap and option agreements		1.8		1.8	1.8
Call options and futures contracts		156.4		156.4	156.4
Fixed maturity securities, available-for-sale:					
Asset-backed securities		1,285.4	5.3	1,290.7	1,290.7
Commercial mortgage-backed securities		557.5	6.1	563.6	563.6
Corporates		9,618.1	256.1	9,874.2	9,874.2
Hybrids		436.5	5.0	441.5	441.5
Municipals		1,174.3		1,174.3	1,174.3
Agency residential mortgage-backed securities		140.0		140.0	140.0
Non-agency residential mortgage-backed securities		969.2		969.2	969.2
U.S. Government	2,023.1			2,023.1	2,023.1
Equity securities:					
Available-for-sale		263.8		263.8	263.8
Trading	48.3			48.3	48.3
U.S. Treasuries and certificate of deposit, held-to-maturity		33.9		33.9	33.9
Policy loans and other invested assets			32.7	32.7	32.7
Asset-backed loans			204.8	204.8	204.8
Total financial assets	$ 3,175.1	$ 14,637.5	$ 551.0	$ 18,363.6	$ 18,363.6
Liabilities					
Total debt	$	$ 4,138.3	$	$ 4,138.3	$ 3,917.8
Derivatives:					
FIA embedded derivatives, included in contractholder funds			1,517.0	1,517.0	1,517.0
Futures contracts					
Foreign exchange forward agreements		10.6		10.6	10.6
Commodity swap and option agreements					
Equity conversion feature of preferred stock			163.1	163.1	163.1
Redeemable preferred stock, excluding equity conversion feature			377.8	377.8	323.0
Investment contracts, included in contractholder funds			12,442.7	12,442.7	13,832.0
Total financial liabilities	$	$ 4,148.9	$ 14,500.6	$ 18,649.5	$ 19,763.5

Table of Contents

	September 30, 2012				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents (a)	$ 1,468.4	$ 2.3	$	$ 1,470.7	$ 1,470.7
Contingent purchase price reduction receivable			41.0	41.0	41.0
Derivatives:					
Foreign exchange forward agreements		1.2		1.2	1.2
Commodity swap and option agreements		2.0		2.0	2.0
Call options		200.7		200.7	200.7
Fixed maturity securities, available-for-sale:					
Asset-backed securities		1,012.0	15.9	1,027.9	1,027.9
Commercial mortgage-backed securities		548.8	5.0	553.8	553.8
Corporates		10,873.7	135.3	11,009.0	11,009.0
Hybrids		519.4	8.8	528.2	528.2
Municipals		1,224.0		1,224.0	1,224.0
Agency residential mortgage-backed securities		155.0		155.0	155.0
Non-agency residential mortgage-backed securities		660.6		660.6	660.6
U.S. Government	930.4			930.4	930.4
Equity securities					
Available-for-sale		248.1		248.1	248.1
Trading	146.8			146.8	146.8
U.S. Treasuries and certificate of deposit, held-to-maturity		35.0		35.0	35.0
Policy loans and other invested assets			18.8	18.8	18.8
Asset-backed loans			180.1	180.1	180.1
Total financial assets	$ 2,545.6	$ 15,482.8	$ 404.9	$ 18,433.3	$ 18,433.3
Liabilities					
Total debt	$ 524.0	$ 1,804.8	$	$ 2,328.8	$ 2,167.0
Derivatives:					
FIA embedded derivatives, included in contractholder funds			1,550.8	1,550.8	1,550.8
Futures contracts		0.9		0.9	0.9
Foreign exchange forward agreements		10.0		10.0	10.0
Commodity swap and option agreements					
Equity conversion feature of preferred stock			232.0	232.0	232.0
Redeemable preferred stock, excluding equity conversion feature			368.9	368.9	319.2
Investment contracts, included in contractholder funds			12,271.9	12,271.9	13,739.6
Total financial liabilities	$ 524.0	$ 1,815.7	$ 14,423.6	$ 16,763.3	$ 18,019.5

(a) The fair values of cash equivalents, short-term investments and debt set forth above are generally based on quoted or observed market prices.

(b) The carrying amounts of trade receivables, accounts payable, accrued investment income and portions of other insurance liabilities approximate fair value due to their short duration and, accordingly, they are not presented in the tables above.

Table of Contents

Valuation Methodologies

FGL measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and FGL will then consistently apply the valuation methodology to measure the security s fair value. FGL s fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. FGL uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored and further market data will be acquired when certain thresholds are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices. The fair value of the asset-backed loans originated by Salus approximate their carrying value, as those loans carry a variable rate, are revolving in nature, and can be settled at the demand of either party.

FGL did not adjust prices received from third parties as of December 30, 2012 and September 30, 2012. However, FGL does analyze the third party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

The fair value of derivative assets and liabilities is based upon valuation pricing models, which represents what FGL would expect to receive or pay at the balance sheet date if it cancelled the options, entered into offsetting positions, or exercised the options. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). Fair values for these instruments are determined externally by an independent actuarial firm using market observable inputs, including interest rates, yield curve volatilities, and other factors. Credit risk related to the counterparty is considered when estimating the fair values of these derivatives. The fair values of the embedded derivatives in FGL s FIA products are derived using market indices, pricing assumptions and historical data.

Investment contracts include deferred annuities, FIAs, IUL and immediate annuities. The fair values of deferred annuity, FIAs, and IUL contracts are based on their cash surrender value (i.e. the cost FGL would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At December 30, 2012 and September 30, 2012, this resulted in lower fair value reserves relative to the carrying value. FGL is not required to and has not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosure of fair value.

Goodwill, intangible assets and other long-lived assets are also tested annually or if an event occurs that indicates an impairment loss may have been incurred using fair value measurements with unobservable inputs (Level 3).

Table of Contents

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of December 30, 2012 is as follows:

	Valuation Technique	Unobservable Input(s)	Fair Value at December 30, 2012	Fair Value at September 30, 2012	Range (Weighted average) December 30, 2012	Range (Weighted average) September 30, 2012
Assets						
Contingent purchase price reduction receivable	Discounted cash flow	Probability of collection	$ 41.0	$ 41.0	88% -96% (92%)	88% - 96% (92%)
		Expected term			9 months	9 months
		Discount rate			0.62%	0.72%
		Credit insurance risk premium			12%	12%
Asset-backed securities	Broker-quoted	Offered quotes	5.3	15.9	109%	100% -110% (103%)
Commercial mortgage-backed securities	Broker-quoted	Offered quotes	6.1	5.0	102%	101%
Corporates	Broker-quoted	Offered quotes	223.4	103.3	0% -149% (80%)	0% - 141% (69%)
Corporates	Market pricing	Quoted prices	32.7	32.0	88% -149% (95%)	88% - 158% (98%)
Hybrids	Broker-quoted	Offered quotes		8.8		0% - 103% (25%)
Hybrids	Market pricing	Quoted prices	5.0		100%	
Total			$ 313.5	$ 206.0		
Liabilities						
FIA embedded derivatives, included in contractholder funds	Discounted cash flow	Market value of option	$ 1,517.0	$ 1,550.8	0% - 30% (2%)	0% - 31% (4%)
		SWAP rates			0.86% - 2% (1%)	0.76% - 2% (1%)
		Mortality multiplier			80%	70%
		Surrender rates			0.50% - 75% (7%)	2% - 50% (7%)
		Non-performance spread			0.25% - 0.25% (0.25%)	0.25% - 0.25% (0.25%)
Equity conversion feature of preferred stock	Monte Carlo simulation / Option model	Annualized volatility of equity	163.1	232.0	44%	41%
		Discount yield			11%	12% -13% (12%)
		Non-cash accretion rate			0%	0%
		Calibration adjustment			17% - 19% (18%)	10% -13% (11%)
Total			$ 1,680.1	$ 1,782.8		

The significant unobservable inputs used in the fair value measurement of the contingent purchase price reduction receivable are the probability of collection depending on the outcomes of litigation and regulatory action, the expected term until payment, discount rate and the credit insurance risk premium. Generally, an increase in the assumptions for the expected term, discount rate and credit insurance risk premium would decrease the fair value of the contingent purchase price receivable. An increase in the probability of collection would increase the fair value of the contingent purchase price reduction receivable.

The significant unobservable inputs used in the fair value measurement of FIA embedded derivatives included in contractholder funds are market value of option, interest swap rates, mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier is based on the 1983 annuity table and assumes the contractholder population is 50% female and 50% male. Significant increases (decreases) in the

market value of option in isolation would result in a higher (lower) fair value measurement. Significant increases (decreases) in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower (higher) fair value measurement. Generally, a change in any one unobservable input would not result in a change in any other unobservable input.

Table of Contents

The significant unobservable inputs used in the fair value measurement of the equity conversion feature of the Company s Preferred Stock are annualized volatility of the market value of the Company s listed shares of common stock, the discount yield as of the valuation date, a calibration factor to the issued date fair value of the Preferred Stock and the forecasted non-cash accretion rate. Significant increases (decreases) in any of the inputs in isolation would result in a significantly higher (lower) fair value measurement. Generally, an increase in the assumptions used for the volatility and discount yield assumptions would increase the fair value of the equity conversion feature of preferred stock, and maintaining a higher forecasted non-cash accretion rate, would also increase the fair value of the equity conversion feature of preferred stock. A decrease in the calibration factor would result in an increase in the fair value of the equity conversion feature of preferred stock.

The following tables summarize changes to the Company s financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three months ended December 30, 2012 and January 1, 2012. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Three Months Ended December 30, 2012							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$ 41.0	$	$	$	$	$	$	$ 41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	15.9		(0.1)				(10.5)	5.3
Commercial mortgage-backed securities	5.0		0.1	1.0				6.1
Corporates	135.3	(0.2)	(2.0)	133.2	(9.6)	(0.7)	0.1	256.1
Hybrids	8.8		(0.1)				(3.7)	5.0
Total assets at fair value	$ 206.0	$ (0.2)	$ (2.1)	$ 134.2	$ (9.6)	$ (0.7)	$ (14.1)	$ 313.5
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,550.8	$ (33.8)	$	$	$	$	$	$ 1,517.0
Equity conversion feature of preferred stock	232.0	(68.9)						163.1
Total liabilities at fair value	$ 1,782.8	$ (102.7)	$	$	$	$	$	$ 1,680.1

(a) The net transfers in and out of Level 3 during the three month period ended December 30, 2012 was exclusively to or from Level 2.

Table of Contents

	Three Months Ended January 1, 2012							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Fixed maturity securities available-for-sale:								
Asset-backed securities	$ 374.5	$	$ (4.6)	$ 38.8	$	$ (8.0)	$	$ 400.7
Corporates	159.7	(0.1)	(0.9)		(7.0)	(2.8)	(10.4)	138.5
Hybrids	5.2		(0.1)					5.1
Municipals							0.1	0.1
Agency residential mortgage-backed securities	3.3							3.3
Non-agency residential mortgage-backed securities	3.8					(0.1)		3.7
Total assets at fair value	$ 546.5	$ (0.1)	$ (5.6)	$ 38.8	$ (7.0)	$ (10.9)	$ (10.3)	$ 551.4
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,396.3	$ 58.7	$	$	$	$	$	$ 1,455.0
Equity conversion feature of preferred stock	75.4	(27.9)						47.5
Available-for-sale embedded derivatives	0.4							0.4
Total liabilities at fair value	$ 1,472.1	$ 30.8	$	$	$	$	$	$ 1,502.9

(a) The net transfers in and out of Level 3 during the three month period ended January 1, 2012 was exclusively to or from Level 2.

FGL reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the three months ended December 30, 2012 and January 1, 2012.

During the three months ended December 30, 2012, primary market issuance and secondary market activity for certain asset-backed and hybrid securities increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in FGL s conclusion that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of December 30, 2012 and January 1, 2012. Accordingly, FGL s assessment resulted in a transfer out of Level 3 of $14.2 related primarily to asset-backed and hybrid securities during the three months ended December 30, 2012 and $10.4 related to corporate securities during the three months ended January 1, 2012. There were also net transfers into Level 3 of $0.1 related to corporate securities and $0.1 related to municipal securities during the three months ended December 30, 2012 and January 1, 2012, respectively.

Table of Contents

(5) Goodwill and Intangibles, including DAC and VOBA

A summary of the changes in the carrying amounts of goodwill and intangible assets, including FGL s DAC and VOBA balances, are as follows:

	Goodwill	Indefinite Lived	Definite Lived	Intangible Assets VOBA	DAC	Total
Balance at Balance at September 30, 2012	$ 694.2	$ 841.1	$ 873.9	$ 104.3	$ 169.2	$ 1,988.5
Acquisitions (Note 13)	726.1	330.0	175.5			505.5
Deferrals					35.7	35.7
Less: Components of amortization -						
Periodic amortization			(17.1)	(73.5)	(15.0)	(105.6)
Interest				5.3	2.3	7.6
Unlocking				9.3	2.1	11.4
Reclassifications						
Adjustment for unrealized investment (gains), net				31.2	(3.2)	28.0
Effect of translation	1.0	2.8	1.8			4.6
Balance at Balance at December 30, 2012	$ 1,421.3	$ 1,173.9	$ 1,034.1	$ 76.6	$ 191.1	$ 2,475.7

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Definite lived intangible assets include customer relationships, proprietary technology intangibles and certain trade names that are amortized using the straight-line method over their estimated useful lives of ranging from one to twenty years.

Goodwill and indefinite lived trade name intangibles are not amortized and are tested for impairment at least annually at our August financial period end, or more frequently if an event or circumstance indicates that an impairment loss may have been incurred between annual impairment tests.

Amortization of DAC and VOBA is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment gains represents the amount of DAC and VOBA that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the shadow adjustments as the additional amortization is reflected in other comprehensive income rather than the statement of operations. As of December 30, 2012 and September 30, 2012, the VOBA balance included cumulative adjustments for net unrealized investment gains of $308.2 and $339.4, respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains of $53.9 and $50.7, respectively. Amortization of VOBA and DAC for the three months ended December 30, 2012 and January 1, 2012 was $58.9 and $36.5, and $10.6 and $5.6, respectively.

The above DAC balances include $10.7 and $9.1 of deferred sales inducements (DSI), net of shadow adjustments, as of December 30, 2012 and September 30, 2012 respectively.

Definite lived intangible assets are summarized as follows:

	December 30, 2012 Cost	Accumulated Amortization	Net	September 30, 2012 Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$ 875.5	$ 127.0	$ 748.5	$ 796.2	$ 113.0	$ 683.2	15 to 20 years
Trade names	165.9	31.9	134.0	150.8	28.3	122.5	1 to 12 years
Technology assets	177.4	25.8	151.6	91.0	22.8	68.2	4 to 17 years
	$ 1,218.8	$ 184.7	$ 1,034.1	$ 1,038.0	$ 164.1	$ 873.9	

Table of Contents

Amortization expense for definite lived intangible assets is as follows:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Customer relationships	$ 10.4	$ 9.6
Trade names	3.6	3.1
Technology assets	3.1	1.9
	$ 17.1	$ 14.6

The Company estimates annual amortization expense of amortizable intangible assets for the next five fiscal years will approximate $78.5 per year.

The weighted average amortization period for VOBA and DAC are approximately 5.3 and 6.1 years, respectively. Estimated amortization expense for VOBA and DAC in future fiscal periods is as follows:

	Estimated Amortization Expense	
Fiscal Year	VOBA	DAC
2013	$ 28.6	$ 15.4
2014	53.9	26.7
2015	48.3	27.2
2016	43.7	25.9
2017	36.4	24.3
Thereafter	174.1	125.5

(6) Debt

The Company s consolidated debt consists of the following:

	December 30, 2012		September 30, 2012	
	Amount	Rate	Amount	Rate
HGI:				
7.875% Senior Secured Notes, due July 15, 2019	$ 700.0	7.875%	$	
10.625% Senior Secured Notes, due November 15, 2015		10.625%	500.0	10.625%
Spectrum Brands:				
Term loan, due December 17, 2019	799.1	4.6%		
Former term loan facility			370.2	5.1%
9.5% Senior Secured Notes, due June 15, 2018	950.0	9.5%	950.0	9.5%
6.75% Senior Notes, due March 15, 2020	300.0	6.75%	300.0	6.75%
6.375% Senior Notes, due November 15, 2020	520.0	6.375%		
6.625% Senior Notes, due November 15, 2022	570.0	6.625%		
ABL Facility, expiring May 24, 2017	32.0	3.8%		4.3%
Other notes and obligations	26.3	8.6%	18.1	10.9%
Capitalized lease obligations	28.5	6.2%	26.7	6.2%
Total	3,925.9		2,165.0	
Original issuance (discounts) premiums on debt, net	(8.1)		2.0	
Total debt	3,917.8		2,167.0	

Less current maturities	29.2	16.4
Non-current portion of debt	$ 3,888.6	$ 2,150.6

Table of Contents

HGI

In December 2012, the Company issued the 7.875% Notes and used part of the proceeds of the offering to accept for purchase $498.0 aggregate principal amount of its 10.625% Notes pursuant to a tender offer for the 10.625% Notes. Additionally, the Company deposited sufficient funds in trust with the trustee under the indenture governing the 10.625% Notes in satisfaction and discharge of the remaining $2.0 aggregate principal amount of the 10.625% Notes (the Satisfaction and Discharge).

As a result of the Satisfaction and Discharge, the trustee became the primary obligor for payment of the remaining 10.625% Notes on or about the call date of the Satisfaction and Discharge on December 24, 2012. HGI has a contingent obligation for payment of the 10.625% Notes were the trustee to default on its payment obligations. The Company believed the risk of such default is remote and therefore has not recorded a related liability. The remaining 10.625% Notes were redeemed by the trustee on January 23, 2013. In connection with the Tender Offer and Satisfaction and Discharge, HGI recorded $58.9 of charges to Interest Expense in the Condensed Consolidated Statements of Operations for the three month period ended December 30, 2012, consisting of $45.7 cash charges for fees and expenses related to the Tender Offer, $0.2 cash charges related to the Satisfaction and Discharge and $13.0 of non-cash charges for the write down of debt issuance costs and net unamortized discount.

The 7.875% Notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and to certain persons in offshore transactions in reliance on Regulation S, under the Securities Act. The 7.875% Notes were issued at an aggregate price equal to 99.36% of the principal amount thereof, with a net original issue discount of $4.5. Interest on the 7.875% Notes is payable semi-annually, through July 15, 2019, but if the Company s Preferred Stock has not been redeemed, repurchased or otherwise retired prior to May 13, 2018; then the 7.875% Notes will mature on May 13, 2018. The 7.875% Notes are collateralized with a first priority lien on substantially all of the assets directly held by HGI, including stock in HGI s direct subsidiaries (with the exception of Zap.Com Corporation, but including Spectrum Brands, Harbinger F&G, LLC (HFG) and HGI Funding LLC) and the HGI s directly held cash and investment securities.

In connection with the 7.875% Note offering the Company recorded $19.2 of fees during the three months ended December 30, 2012. These fees are classified as Other assets in the accompanying Condensed Consolidated Balance Sheets as of December 30, 2012, and are being amortized to interest expense utilizing the effective interest method over the term of the 7.875% Notes.

The Company has the option to redeem the 7.875% Notes prior to January 15, 2016 at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest, if any, to the date of redemption. At any time on or after January 15, 2016, the Company may redeem some or all of the 7.875% Notes at certain fixed redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest. At any time prior to January 15, 2016, the Company may redeem up to 35% of the original aggregate principal amount of the 7.875% Notes with net cash proceeds received by us from certain equity offerings at a price equal to 107.875% of the principal amount of the 7.875% Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption, provided that redemption occurs within 90 days of the closing date of such equity offering, and at least 65% of the aggregate principal amount of the 7.875% Notes remains outstanding immediately thereafter.

The Indenture governing the 7.875% Notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, the Company s ability, and, in certain cases, the ability of the Company s subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of the Company s assets to, another person. The Company is also required to maintain compliance with certain financial tests, including

Table of Contents

minimum liquidity and collateral coverage ratios that are based on the fair market value of the collateral, including the Company s equity interests in Spectrum Brands and its other subsidiaries such as HFG and HGI Funding LLC. At December 30, 2012, the Company was in compliance with all covenants under the indenture governing the 7.875% Notes.

Spectrum Brands

Term Loan

In December 2012, Spectrum Brands entered into the Term Loan which matures on December 17, 2019, and provides borrowings in an aggregate principal amount of $800.0, with $100.0 in Canadian dollar equivalents in connection with the acquisition of the HHI Business from Stanley Black & Decker. A portion of the Term Loan proceeds were used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 prior to refinancing. In connection with the refinancing, Spectrum Brands recorded accelerated amortization of portions of the unamortized discount and unamortized debt issuance costs totaling $5.5 as an adjustment to interest expense during the three month period ended December 30, 2012.

The Term Loan contains financial covenants with respect to debt, including, but not limited to, a fixed charge ratio. In addition, the Term Loan contains customary restrictive covenants, including, but not limited to, restrictions on Spectrum Brands ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, Spectrum Brands, its domestic subsidiaries and its Canadian subsidiaries have guaranteed their respective obligations under the Term Loan and related loan documents and have pledged substantially all of their respective assets to secure such obligations. The Term Loan also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

6.375% Notes and 6.625% Notes

In December 2012, in connection with the Hardware Acquisition, Spectrum Brands Escrow Corp offered the 6.375% Notes and the 6.625% Notes, at par value. The 6.375% Notes and the 6.625% Notes were assumed at par value by Spectrum Brands, upon closing of the acquisition. The 6.375% Notes and the 6.625% Notes are unsecured and guaranteed by Spectrum Brands parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

Spectrum Brands may redeem all or part of the 6.375% Notes and the 6.625% Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the 6.375% Notes and the 6.625% Notes (together, the 2020/22 Indenture), requires Spectrum Brands to make an offer, in cash, to repurchase all or a portion of the applicable outstanding 6.375% Notes and 6.625% Notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of Spectrum Brands, as defined in such indenture.

The 2020/22 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2020/22 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020/22 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.375% Notes and the 6.625% Notes. If any other event of default under the 2020/22 Indenture occurs and is continuing, the trustee for the 2020/22 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.375% Notes, or the 6.625% Notes, may declare the acceleration of the amounts due under those notes.

Table of Contents

ABL Facility

In December 2012, Spectrum Brands exercised its option to increase its asset based lending revolving credit facility (the ABL Facility) from $300.0 to $400.0 and extend the maturity to May 24, 2017.

As a result of borrowings and payments under the ABL Facility, at December 30, 2012, Spectrum Brands had aggregate borrowing availability of approximately $133.3, net of lender reserves of $7.9 and outstanding letters of credit of $25.4.

In connection with the 6.375% Note offering, the 6.625% Note offering, the issuance of the Term Loan and the amendment to the ABL Facility, Spectrum Brands recorded $43.6 of fees during the three month period ended December 30, 2012. The fees are classified as Other assets in the accompanying Condensed Consolidated Balance Sheets as of December 30, 2012 and are being amortized to interest expense utilizing the effective interest method over the respective terms of the debt. In addition, Spectrum Brands recorded charges to Interest expense aggregating $2.4 during the three months ended December 30, 2012, for cash fees and expenses in connection with the issuance of the Term Loan.

(7) Defined Benefit Plans

HGI

HGI has a noncontributory defined benefit pension plan (the HGI Pension Plan) covering certain former U.S. employees. During 2006, the HGI Pension Plan was frozen which caused all existing participants to become fully vested in their benefits.

Additionally, HGI has an unfunded supplemental pension plan (the Supplemental Plan) which provides supplemental retirement payments to certain former senior executives of HGI. The amounts of such payments equal the difference between the amounts received under the HGI Pension Plan and the amounts that would otherwise be received if HGI Pension Plan payments were not reduced as the result of the limitations upon compensation and benefits imposed by Federal law. Effective December 1994, the Supplemental Plan was frozen.

Spectrum Brands

Spectrum Brands has various defined benefit pension plans (the Spectrum Brands Pension Plans) covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom, the Netherlands, Germany, Guatemala, Brazil and Mexico. The Spectrum Brands Pension Plans generally provide benefits of stated amounts for each year of service.

Spectrum Brands funds its U.S. pension plans in accordance with the Internal Revenue Service defined guidelines and, where applicable, in amounts sufficient to satisfy the minimum funding requirements of applicable laws. Additionally, in compliance with Spectrum Brands funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

Spectrum Brands also provides post-retirement life insurance and medical benefits to certain retirees under two separate contributory plans.

Table of Contents

Consolidated

The components of consolidated net periodic benefit and deferred compensation benefit costs and contributions made are as follows:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Service cost	$ 0.8	$ 0.6
Interest cost	2.6	2.2
Expected return on assets	(2.5)	(1.5)
Recognized net actuarial loss	0.5	
Employee contributions		
Net periodic benefit expense	$ 1.4	$ 1.3
Contributions made during period	$ 0.7	$ 0.9

(8) Reinsurance

FGL reinsures portions of its policy risks with other insurance companies. The use of reinsurance does not discharge an insurer from liability on the insurance ceded. The insurer is required to pay in full the amount of its insurance liability regardless of whether it is entitled to or able to receive payment from the reinsurer. The portion of risks exceeding FGL s retention limit is reinsured with other insurers. FGL seeks reinsurance coverage in order to limit its exposure to mortality losses and enhance capital management. FGL follows reinsurance accounting when there is adequate risk transfer. Otherwise, the deposit method of accounting is followed. FGL also assumes policy risks from other insurance companies.

The effect of reinsurance on premiums earned, benefits incurred and reserve changes were as follows:

	Three Months Ended			
	December 30, 2012		January 1, 2012	
	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves
Direct	$ 72.4	$ 139.6	$ 76.2	$ 237.7
Assumed	12.1	6.5	12.2	8.5
Ceded	(70.7)	(62.5)	(71.6)	(69.3)
Net	$ 13.8	$ 83.6	$ 16.8	$ 176.9

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three months ended December 30, 2012 and January 1, 2012, FGL did not write off any reinsurance balances nor did it commute any ceded reinsurance. As discussed below under Wilton Agreement, FGL monitors the risk of default by reinsurers.

No policies issued by FGL have been reinsured with any foreign company, which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance.

FGL has not entered into any reinsurance agreements in which the reinsurer may unilaterally cancel any reinsurance for reasons other than non-payment of premiums or other similar credit issues.

FGL had the following significant reinsurance agreements during the three months ended December 30, 2012 and January 1, 2012 as described below.

34

Wilton Agreement

On January 26, 2011, HFG entered into a commitment agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton) committing Wilton Re, a wholly-owned subsidiary of Wilton and a Minnesota insurance company, to enter into one of two amendments to an existing reinsurance agreement with Fidelity & Guaranty Life Insurance Company (FGL Insurance).

On April 8, 2011, FGL Insurance ceded significantly all of the remaining life insurance business that it had retained to Wilton Re under the first of the two amendments with Wilton. FGL Insurance transferred assets with a fair value of $535.8, net of ceding commission, to Wilton Re. The Company considered the effects of the first amendment in the opening balance sheet and purchase price allocation as of April 6, 2011, the effective date of the Company s acquisition of FGL from OM Group (UK) Limited (OMGUK) (the FGL Acquisition). Effective April 26, 2011, HFG elected the second of the two amendments under the Commitment Agreement (the Raven Springing Amendment), which committed FGL Insurance to cede to Wilton Re all of the business (the Raven Block) then reinsured with Raven Reinsurance Company (Raven Re), a wholly-owned subsidiary of FGL, on or before December 31, 2012. On September 9, 2011, FGL Insurance and Wilton Re executed an amended and restated Raven Springing Amendment whereby the recapture of the business ceded to Raven Re by FGL Insurance and the re-cession to Wilton Re closed on October 17, 2011 with an effective date of October 1, 2011. In connection with the closing, FGL Insurance transferred assets with a fair value of $580.7, including ceding commission, to Wilton Re.

In September 2012, Wilton Re and FGL Insurance reached a final agreement on the initial settlements associated with the reinsurance transactions FGL Insurance entered into subsequent to the FGL Acquisition. The final settlement amounts did not result in any material adjustments to the amounts reflected in the financial statements. FGL Insurance recognized a net pre-tax gain of $18.0 on these reinsurance transaction which has been deferred and is being amortized over the remaining life of the underlying reinsured contracts.

Commissioners Annuity Reserve Valuation Method Facility (CARVM)

Effective October 1, 2012, FGL Insurance recaptured the CARVM reinsurance agreement from Old Mutual Reassurance (Ireland) Ltd., an affiliate of OM Group (OM Re) and simultaneously ceded the business to Raven Re. The recapture of the OM Re CARVM reinsurance agreement satisfied FGL s obligation under the F&G Stock Purchase Agreement to replace the letter of credit provided by Old Mutual no later than December 31, 2015. In connection with the new CARVM reinsurance agreement, FGL and Raven Re entered into an agreement with Nomura Bank International plc (Nomura) to establish a $295.0 reserve financing facility in the form of a letter of credit issued by Nomura and Nomura charged an upfront structuring fee in the amount of $2.8. The structuring fee was paid by FGL Insurance and will be deferred and amortized over the expected life of the facility. As this letter of credit is provided by an unaffiliated financial institution, Raven Re is permitted to carry the letter of credit as an admitted asset on the Raven Re statutory balance sheet.

Front Street

Subsequent to the end of the quarter on December 30, 2012, FGL Insurance entered into a reinsurance treaty with Front Street Re (Cayman) Ltd. (Front Street Cayman), an indirectly wholly-owned subsidiary of HFG, FGL s parent, whereby FGL cedes 10% of its in-force annuity block of business as of June 30, 2012, on a funds withheld basis. For additional information, see Note 18, Subsequent Events, to our Condensed Consolidated Financial Statements.

Table of Contents

(9) Stock Compensation

The Company recognized consolidated stock compensation expense as follows:

	Three Months Ended	
	December 30, 2012	January 1, 2012
Stock compensation expense	$ 6.5	$ 4.5
Less:		
Related tax benefit	0.3	
Noncontrolling interest	1.4	2.0
Net	$ 4.8	$ 2.5

The amounts before taxes and non-controlling interest are principally included in Selling, acquisition, operating and general expenses in the accompanying Condensed Consolidated Statements of Operations.

A summary of stock options outstanding as of December 30, 2012 and related activity during the three months then ended, under HGI and FGL s respective incentive plans are as follows (share amounts in thousands):

	HGI			FGL		
Stock Option Awards	**Options**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**	**Options**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**
Stock options outstanding at September 30, 2012	2,285	$ 4.96	$ 1.77	201	$ 38.20	$ 3.90
Granted	1,498	8.52	3.53			
Stock options outstanding at December 30, 2012	3,783	6.37	2.46	201	38.20	3.90
Stock options vested and exercisable at December 30, 2012	812	6.13	2.35			
Stock options outstanding and expected to vest	2,971	6.43	2.50	179	38.20	3.90

A summary of restricted stock and restricted stock units outstanding as of December 30, 2012 and related activity during the three months then ended, under HGI and Spectrum Brands respective incentive plans are as follows (share amounts in thousands):

	HGI		Spectrum Brands	
Restricted Stock Awards	**Shares**	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Restricted stock outstanding at September 30, 2012	830	$ 4.93	13	$ 28.00
Granted	3,227	8.52		
Vested	(633)	8.23		

Forfeited				
Restricted stock outstanding at December 30, 2012	3,424	7.70	13	28.00
Restricted stock expected to vest	3,424	7.70	13	28.00

36

Table of Contents

Restricted Stock Units	HGI Units	HGI Weighted Average Grant Date Fair Value	Spectrum Brands Units	Spectrum Brands Weighted Average Grant Date Fair Value
Restricted stock units outstanding at September 30, 2012	17	$ 4.61	1,931	$ 28.45
Granted			574	44.63
Vested	(17)	4.61	(1,004)	28.30
Forfeited			(263)	28.85
Restricted stock units outstanding at December 30, 2012			1,238	35.98
Restricted stock units vested and exercisable at December 30, 2012	22	4.61		
Restricted stock units expected to vest			1,238	35.98

HGI

HGI granted stock option awards representing approximately 1,498 thousand and 75 thousand shares during the three months ended December 30, 2012 and January 1, 2012, respectively. All of these grants are time based, and vests either immediately, or over periods of 12 to 36 months. The total fair value of the stock option grants on their respective grant dates were approximately $5.3 and $0.1, respectively.

HGI granted restricted stock awards representing approximately 3,227 thousand and 68 thousand shares during the three months ended December 30, 2012 and January 1, 2012, respectively. All of these grants are time based, and vests either immediately, or over periods of 7 to 36 months. The total fair value of the restricted stock grants on their respective grant dates were approximately $27.5 and $0.3, respectively.

HGI granted restricted stock unit awards representing approximately 22 thousand shares during the three months ended January 1, 2012. All of these grants are time based, and vests either immediately, or over periods of 7 to 12 months. The total fair value of the restricted stock grants on their respective grant dates was approximately $0.1.

Under HGI s executive bonus plan for Fiscal 2013, executives will be paid in cash, stock options and restricted stock shares. The equity grants will have a grant date in the first fiscal quarter of 2014 and the shares will vest between 12 and 36 months from the grant date.

As of December 30, 2012, there was approximately $25.1 of total unrecognized compensation costs related to unvested share-based compensation agreements, which is expected to be recognized over a weighted-average period of 2.74 years.

The fair values of restricted stock and restricted stock unit awards are determined based on the market price of HGI s common stock on the grant date. The fair value of stock option awards is determined using the Black-Scholes option pricing model. The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2013	2012
Risk-free interest rate	0.84%	1.19%
Assumed dividend yield	%	%
Expected option term	5.3 to 6.0 years	6.0 years
Volatility	42.8% to 44.0%	33.0%

The weighted-average remaining contractual term of outstanding stock option awards at December 30, 2012, was 9.46 years.

Spectrum Brands

Spectrum Brands granted restricted stock unit awards representing approximately 574 thousand shares during the three months ended December 30, 2012. Of these grants, 22 thousand restricted stock units are time based and vest over a one year period. Of the remaining 552 thousand restricted stock units, 90 thousand are performance based and vest over a one year period, and 462 thousand are performance and time-based and vest over a two year period. The total fair value of the restricted stock units on the dates of the grants was approximately $25.6.

Spectrum Brands granted restricted stock unit awards representing approximately 704 shares during the three months ended January 1, 2012. Of these 704 thousand grants, 17 thousand restricted stock units are time-based and vest over a one year period. The remaining 687 thousand restricted stock units are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $18.9.

The fair values of restricted stock awards and restricted stock units are determined based on the market price of Spectrum Brands common stock on the grant date.

FGL

On November 2, 2011, FGL s compensation committee (on behalf of its board of directors) approved a long-term stock-based incentive plan that permits the grant of options to purchase shares of FGL common stock to key employees of FGL. On November 2, 2011, FGL s compensation committee also approved a dividend equivalent plan that permits holders of these options the right to receive a payment in cash in an amount equal to the ordinary dividends declared and paid or debt service payments to HGI by FGL in each calendar year, divided by the total number of FGL common shares outstanding, starting in the year in which the dividend equivalent is granted through the year immediately prior to the year in which the dividend equivalent vests with respect to a participant s option shares. As of December 30, 2012, FGL determined that it was probable that the dividend equivalent will vest and recorded a provision of $0.7 for the ratable recognition of such projected liability over the option vesting period.

The weighted-average remaining contractual term of outstanding stock option awards at December 30, 2012, was 1.84 years.

(10) Income Taxes

For the three months ended December 30, 2012 and January 1, 2012, the Company s effective tax rates of 48.6% and 46.5%, respectively, were higher than the United States Federal statutory rate of 35%, primarily as a result of (i) pretax losses in the United States and some foreign jurisdictions for which the Company concluded that the tax benefits are not more-likely-than-not realizable, (ii) deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes, and (iii) tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States. Partially offsetting these factors in the three months ended December 30, 2012 and January 1, 2012 were the releases of U.S. valuation allowances of $45.9 and $13.9, respectively, on deferred tax assets that Spectrum Brands has determined are more-likely-than-not realizable as a result of recent acquisitions. Net operating loss (NOL) and tax credit carryforwards of HGI and Spectrum Brands are subject to full valuation allowances and those of FGL are subject to partial valuation allowances, as the Company concluded all or a portion of the associated tax benefits are not more-likely-than-not realizable. Utilization of NOL and other tax credit carryforwards of HGI, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code (IRC) Sections 382 and 383. Such limitations result from ownership changes of more than 50 percentage points over a three-year period.

The Company recognizes in its consolidated financial statements the impact of a tax position if it concludes that the position is more likely than not sustainable upon audit, based on the technical merits of the position. At

Table of Contents

December 30, 2012 and September 30, 2012, the Company had $5.5 and $5.9, respectively, of unrecognized tax benefits related to uncertain tax positions. The Company also had approximately $3.4 and $3.6, respectively, of accrued interest and penalties related to the uncertain tax positions at those dates. Interest and penalties related to uncertain tax positions are reported in the financial statements as part of income tax expense. As of December 30, 2012, certain of the Company s legal entities in various jurisdictions are undergoing income tax audits. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

(11) Earnings Per Share

The Company follows the provisions of ASC Topic 260, *Earnings Per Share*, which requires companies with complex capital structures, such as having two (or more) classes of securities that participate in declared dividends to calculate earnings (loss) per share (EPS) utilizing the two-class method. As the holders of the Preferred Stock are entitled to receive dividends with common stock on an as-converted basis, the Preferred Stock has the right to participate in undistributed earnings and must therefore be considered under the two-class method.

The following table sets forth the computation of basic and diluted EPS (share amounts in thousands):

	Three Months Ended	
	December 30, 2012	January 1, 2012
Net income attributable to common and participating preferred stockholders	$ 62.0	$ 23.8
Participating shares at end of period:		
Common shares outstanding	139,724	139,346
Preferred shares (as-converted basis)	62,839	61,294
Total	202,563	200,640
Percentage of income allocated to:		
Common shares	69.0%	69.5%
Preferred shares	31.0%	30.5%
Net income attributable to common shares basic	$ 42.8	$ 16.5
Dilutive adjustments to income attributable to common shares from assumed conversion of preferred shares, net of tax:		
Income allocated to preferred shares in basic calculation	19.2	7.3
Reversal of preferred stock dividends and accretion	12.1	15.7
Reversal of income related to fair value of preferred stock conversion feature	(68.9)	(27.9)
Net adjustment	(37.6)	(4.9)
Net income attributable to common shares diluted	$ 5.2	$ 11.6
Weighted-average common shares outstanding basic	139,483	139,346
Dilutive effect of preferred stock	62,839	61,294
Dilutive effect of unvested restricted stock and restricted stock units	1,089	6
Dilutive effect of stock options	786	2
Weighted-average shares outstanding diluted	204,197	200,648
Net income per common share attributable to controlling interest:		
Basic	$ 0.31	$ 0.12

Diluted	$ 0.03	$ 0.06

The number of shares of common stock outstanding used in calculating the weighted average thereof reflects the actual number of HGI common stock outstanding, excluding nonvested restricted stock.

Table of Contents

(12) Commitments and Contingencies

The Company has aggregate reserves for its legal, environmental and regulatory matters of approximately $21.2 at December 30, 2012. These reserves relate primarily to the matters described below. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal, environmental and regulatory matters will have a material effect on its financial position, results of operations or cash flows.

Legal and Environmental Matters

HGI

HGI is a nominal defendant, and the members of its board of directors are named as defendants in a derivative action filed in December 2010 by Alan R. Kahn in the Delaware Court of Chancery. The plaintiff alleges that the Spectrum Brands acquisition was financially unfair to HGI and its public stockholders and seeks unspecified damages and the rescission of the transaction. The Company believes the allegations are without merit and intends to vigorously defend this matter.

HGI is also involved in other litigation and claims incidental to its current and prior businesses. These include worker compensation and environmental matters and pending cases in Mississippi and Louisiana state courts and in a Federal multi-district litigation alleging injury from exposure to asbestos on offshore drilling rigs and shipping vessels formerly owned or operated by its offshore drilling and bulk-shipping affiliates. Based on currently available information, including legal defenses available to it, and given its reserves and related insurance coverage, the Company does not believe that the outcome of these legal and environmental matters will have a material effect on its financial position, results of operations or cash flows.

Spectrum Brands

Spectrum Brands has provided approximately $5.3 for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. Spectrum Brands believes that any additional liability which may result from resolution of these matters in excess of the amounts provided for will not have a material adverse effect on the financial condition, results of operations or cash flows of Spectrum Brands.

Spectrum Brands is a defendant in various other matters of litigation generally arising out of the ordinary course of business.

FGL

FGL is involved in various pending or threatened legal proceedings, including purported class actions, arising in the ordinary course of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. In the opinion of FGL management and in light of existing insurance and other potential indemnification, reinsurance and established reserves, such litigation is not expected to have a material adverse effect on FGL s financial position, although it is possible that the results of operations and cash flows could be materially affected by an unfavorable outcome in any one period.

Regulatory Matters

FGL

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future

premium taxes in certain states. At December 30, 2012, FGL has accrued $5.8 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4.3.

FGL has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration s Death Master File (Death Master File) and compliance with state claims practices regulation. To date, FGL has received inquiries from authorities in Maryland, Minnesota and New York. The New York Insurance Department issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities, and retained asset accounts. Legislation requiring insurance companies to use the Death Master File to identify potential claims has recently been enacted in FGL s state of domicile (Maryland) and other states. As a result of these legislative and regulatory developments, in May 2012 FGL undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. In July 2012, FGL incurred an $11.0 pre-tax charge, net of reinsurance, to increase reserves to cover potential benefits payable resulting from this ongoing effort. Based on its analysis to date and management s estimate, FGL believes this accrual will cover the reasonably estimated liability arising out of these developments. In addition, FGL has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states. FGL has established a contingency of $2.0, the mid-point of an estimated range of $1.0 to $3.0, related to the external legal costs and potential liabilities of said audits and examinations. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

Guarantees

Throughout its history, the Company has entered into indemnifications in the ordinary course of business with customers, suppliers, service providers, business partners and, in certain instances, when it sold businesses. Additionally, the Company has indemnified its directors and officers who are, or were, serving at the request of the Company in such capacities. Although the specific terms or number of such arrangements is not precisely known due to the extensive history of past operations, costs incurred to settle claims related to these indemnifications have not been material to the Company s financial statements. The Company has no reason to believe that future costs to settle claims related to its former operations will have a material impact on its financial position, results of operations or cash flows.

The F&G Stock Purchase Agreement between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGL as a grantor and also grants a security interest to OMGUK of FGL s equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

Unfunded Asset Based Lending Commitments

Through Salus, the Company enters into commitments to extend credit to meet the financing needs of its asset based lending customers upon satisfaction of certain conditions. At December 30, 2012, the notional amount of unfunded, legally binding lending commitments was approximately $128.8, of which $9.1 expires in one year or less, and the remainder expires between one and four years.

Shareholder Contingencies

The Master Fund has pledged all of its shares of the Company s common stock, together with securities of other issuers to secure a certain portfolio financing, which as of the date hereof, constitutes a majority of the outstanding shares of the Company s common stock. The sale or other disposition of a sufficient number of such shares (including any foreclosure on or sale of the Company s shares pledged as collateral) to non-affiliates could

cause the Company and its subsidiaries to experience a change of control, which may accelerate certain of the Company s and its subsidiaries debt instruments and other obligations (including the 7.875% Notes and Preferred Stock) and/or allow certain counterparties to terminate their agreements. Any such sale or disposition may also cause the Company and its subsidiaries to be unable to utilize certain of their net operating loss carryforwards and other tax attributes for income tax purposes.

(13) Acquisitions

Spectrum Brands Acquisition of Stanley Black & Decker s Hardware and Home Improvement Business

On December 17, 2012, Spectrum Brands completed the cash acquisition of the HHI Business from Stanley Black & Decker. The following table summarizes the preliminary consideration paid for the HHI Business:

	December 17, 2012
Negotiated sales price, excluding TLM Taiwan	$ 1,300.0
Preliminary working capital and other adjustments	(10.6)
Preliminary purchase price	$ 1,289.4

The HHI Business is a major manufacturer and supplier of residential locksets, residential builders hardware and faucets with a portfolio of recognized brand names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as the SmartKey, a re-keyable lockset technology, and Smart Code Home Connect. HHI Business customers include retailers, non-retail distributors and homebuilders. Headquartered in Lake Forest, California, the HHI Business has a global sales force and operates manufacturing and distribution facilities in the U.S., Canada, Mexico and Asia.

A portion of the Hardware Acquisition consisting of the purchase of certain assets of TLM Taiwan has not yet closed. Spectrum Brands paid Stanley Black & Decker the negotiated sales price of $100.0 on December 17, 2012, which is being held in escrow until the close of the TLM Taiwan acquisition. This payment was made in conjunction with the close of the HHI Business acquisition and is classified within Other assets in the Company s Condensed Consolidated Statements of Operations

The results of HHI Business operations since December 17, 2012 are included in the Company s Condensed Consolidated Statements of Operations.

Preliminary Valuation of Assets and Liabilities

The preliminary fair values of net tangible and intangible assets acquired and liabilities assumed in connection with the purchase of the HHI Business have been recognized in the Condensed Consolidated Balance Sheets based upon their preliminary values at December 17, 2012, as set forth below. The excess of the purchase price over the preliminary net tangible assets and intangible assets was recorded as goodwill, the majority of which is not expected to be deductible for income tax purposes. The preliminary fair values were based upon a preliminary valuation and the estimates and assumptions that are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of certain tangible assets and liabilities acquired, certain legal matters, amounts for income taxes including deferred tax accounts, amounts for uncertain tax positions, and net operating loss carryforwards inclusive of associated limitations and valuation allowance, the determination of identifiable intangible assets and the final amount of residual goodwill. Additionally, finalized fair values associated with deferred tax accounts could have a material affect on Spectrum Brands estimated reversal of its consolidated U.S. valuation allowances recognized during the three month period ended December 30, 2012. See Note 10, Income Taxes, for further information. Spectrum Brands expects to continue to obtain information to assist it in determining the fair values of the net assets acquired at the

acquisition date during the measurement period. The preliminary valuation of the assets acquired and liabilities assumed for the HHI Business is as follows:

	December 17, 2012
Cash	$ 17.4
Current assets	325.1
Property, plant and equipment	104.5
Intangible assets	470.0
Other assets	3.1
Total assets acquired	920.1
Current liabilities	174.8
Long-term liabilities	115.9
Total liabilities assumed	290.7
Total identifiable net assets	629.4
Non-controlling interests	(2.2)
Goodwill	662.2
Total net assets acquired	$ 1,289.4

Preliminary Pre-Acquisition Contingencies Assumed

Spectrum Brands has evaluated and continues to evaluate pre-acquisition contingencies relating to the HHI Business that existed as of the acquisition date. Based on the evaluation to date, Spectrum Brands has preliminarily determined that certain pre-acquisition contingencies are probable in nature and estimable as of the acquisition date. Accordingly, Spectrum Brands has preliminarily recorded its best estimates for these contingencies as part of the preliminary valuation of the assets and liabilities acquired for the HHI Business. Spectrum Brands continues to gather information relating to all pre-acquisition contingencies that it has assumed from the HHI Business. Any changes to the pre-acquisition contingency amounts recorded during the measurement period will be included in the final valuation and related amounts recognized. Subsequent to the end of the measurement period any adjustments to pre-acquisition contingency amounts will be reflected in the Company s Condensed Consolidated Statements of Operations.

Preliminary Valuation Adjustments

Spectrum Brands performed a preliminary valuation of the assets and liabilities of the HHI Business at December 17, 2012. Significant adjustments as a result of the valuation and he bases for their determination are summarized as follows:

Inventories An adjustment of $31.5 was recorded to adjust inventory to fair value. Finished goods were valued at estimated selling prices less the sum of costs of disposal and a reasonable profit allowance for the selling effort.

Property, plant and equipment, net An adjustment of $8.9 was recorded to adjust the net book value of property, plant and equipment to fair value giving consideration to the highest and best use of the assets. The valuation of the property, plant and equipment was based on the cost approach.

Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $470.0 as of December 17, 2012. A summary of the significant key inputs is as follows:

43

Spectrum Brands valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationships, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an expected growth rate of 3.0%. Spectrum Brands assumed a customer retention rate of approximately 95.0%, which was supported by historical retention rates. Income taxes were estimated at 35.0% and amounts were discounted using a rate of 12.0%. The customer relationships were valued at $74.0 under this approach and will be amortized over 20 years.

Spectrum Brands valued indefinite lived trade names and trademarks using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names and trademarks ranged from 3.0% - 5.0% of expected net sales related to the respective trade names and trademarks. Spectrum Brands anticipates using the majority of the trade names and trademarks for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trademarks and trade names, net sales for significant trade names and trademarks were estimated to grow at a rate of 2.5% - 5.0% annually with a terminal year growth rate of 2.5%. Income taxes were estimated at 35.0% and amounts were discounted using a rate of 12.0%. Trade name and trademarks were valued at $330.0 under this approach.

Spectrum Brands valued a definite lived trade name using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. The royalty rate used in the determination of the fair values of trade name was 3.5% of expected net sales related to the respective trade name. Spectrum brands assumed a 8 year useful life of the trade name. In estimating the fair value of the trade name, net sales for the trade name were estimated to grow at a rate of 2.5% - 5.0% annually. Income taxes were estimated at 35.0% and amounts were discounted using a rate of 12.0%. The trade name was valued at $3.0 under this approach.

Spectrum Brands valued a trade name license agreement using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. The royalty rate used in the determination of the fair value of the trade name license agreement was 4.0% of expected net sales related to the respective trade name. In estimating the fair value of the trade name license agreement, net sales were estimated to grow at a rate of 2.5% - 5.0% annually. Spectrum Brands assumed a 5 year useful life of the trade name license agreement. Income taxes were estimated at 35.0% and amounts were discounted using a rate of 12.0%. The trade name license agreement was valued at $12.0 under this approach.

Table of Contents

Spectrum Brands valued technology using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related licensing agreements and the importance of the technology and profit levels, among other considerations. Royalty rates used in the determination of the fair values of technologies ranged from 4.0% - 5.0% of expected net sales related to the respective technology. Spectrum Brands anticipates using these technologies through the legal life of the underlying patent and therefore the expected life of these technologies was equal to the remaining legal life of the underlying patents which was 10 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 2.5% - 31.0% annually. Income taxes were estimated at 35.0% and amounts were discounted using the rate of 12.0%. The technology assets were valued at $51.0 under this approach.

Deferred tax liabilities, net An adjustment of $111.8 was recorded to adjust deferred taxes for the preliminary fair value adjustments made in accounting for the purchase.

Shaser

On November 8, 2012, Spectrum Brands completed the cash acquisition of an approximately 56% interest in Shaser Biosciences, Inc. (Shaser). Shaser is a global technology leader in developing energy-based, aesthetic dermatological technology for home use devices. This acquisition was not significant individually.

The following table summarizes the preliminary consideration paid for Shaser:

	November 8, 2012
Negotiated sales price	$ 50.0
Preliminary working capital	(0.4)
Preliminary purchase price	$ 49.6

The purchase agreement provides Spectrum Brands with an option, exercisable solely at Spectrum Brands discretion, to acquire the remaining 44% interest of Shaser (the Call Option). The Call Option is exercisable any time between January 1, 2017 and March 31, 2017 at a price equal to 1.0x trailing revenues or 7.0x adjusted trailing EBITDA, as defined, for calendar year ended December 31, 2016.

As of December 30, 2012, Spectrum Brands has paid approximately half of the negotiated sales price to the seller. The remaining purchase consideration is payable no later than April 2, 2013.

The results of Shaser s operations since November 8, 2012 are included in the Company s Condensed Consolidated Statements of Operations.

Preliminary Valuation of Assets and Liabilities

The assets acquired and liabilities assumed in the Shaser acquisition have been measured at their fair values at November 8, 2012 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which is not expected to be deductible for income tax purposes. The preliminary fair values recorded were determined based upon a preliminary valuation and the estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of acquisition accounting that are not yet finalized relate to the preliminary valuation, amounts for income taxes including deferred tax accounts, uncertain tax positions and net operating loss carryforwards inclusive of associated limitations and valuation allowances, certain legal matters and residual goodwill.

Table of Contents

The preliminary fair values recorded for the assets acquired and liabilities assumed for Shaser are as follows:

	November 8, 2012
Cash	$ 0.9
Intangible asset	35.5
Other assets	2.6
Total assets acquired	39.0
Total liabilities assumed	14.3
Total identifiable net assets	24.7
Non-controlling interest	(39.0)
Goodwill	63.9
Total identifiable net assets	$ 49.6

Preliminary Pre-Acquisition Contingencies Assumed

Spectrum Brands evaluated and continues to evaluate pre-acquisition contingencies relating to Shaser that existed as of the acquisition date. Based on the evaluation to date, Spectrum Brands has preliminarily determined that certain pre-acquisition contingencies are probable in nature and estimable as of the acquisition date. Accordingly, Spectrum Brands has preliminarily recorded its best estimates for these contingencies as part of the preliminary accounting for Shaser. Spectrum Brands continues to gather information relating to all pre-acquisition contingencies that it has assumed from Shaser. Any changes to the pre-acquisition contingency amounts recorded during the measurement period will be included in the final valuation and related amounts recognized. Subsequent to the end of the measurement period any adjustments to pre-acquisition contingency amounts will be reflected in Spectrum Brands results of operations.

Preliminary Valuation Adjustments

Spectrum Brands performed a preliminary valuation of the acquired proprietary technology assets, the non-controlling interest and the Call Option related to Shaser at November 8, 2012. A summary of the significant key inputs is as follows:

Spectrum Brands valued the technology assets using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Shaser, related licensing agreements and the importance of the technology and profit levels, among other considerations. The royalty rate used in the determination of the fair value of the technology asset was 10.5% of expected net sales related to the technology. Spectrum Brands anticipates using the technology through the legal life of the underlying patent and therefore the expected life of the technology was equal to the remaining legal life of the underlying patent which was 13 years. In estimating the fair value of the technology, net sales were estimated to grow at a long-term rate of 3.0% annually. Income taxes were estimated at 35.0% and amounts were discounted using the rate of 11.0%. The technology asset was valued at approximately $35.5 under this approach.

Spectrum Brands valued the non-controlling interest in Shaser, a private company, by applying both income and market approaches. Under these methods, the non-controlling value was determined by using a discounted cash flow method, a guideline companies method, and a recent transaction. In estimating the fair value of the non-controlling interest, key assumption include (i) cash flow projections based on market participant data and Spectrum Brands management, with net sales estimated to grow at a terminal growth rate of 3.0% annually, income taxes estimated at 35.0%, and amounts discounted using a rate of 12.0%, (ii) financial multiples of companies deemed to be similar to

46

Table of Contents

Shaser, and (iii) adjustments because of lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in Shaser. The non-controlling interest was valued at $39.0 under this approach.

Spectrum Brands, in connection with valuing the non-controlling interest in Shaser, also valued the Call Option. In addition to the valuation methods and key assumptions discussed above, Spectrum Brands compared the forecasted revenue and EBITDA multiples, as defined, associated with the Call Option to current guideline companies. The Call Option was determined to have an immaterial value under this approach.

FGL Acquisition Update

On April 6, 2011, the Company acquired all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between the seller, as lender, and FGL, as borrower, for cash consideration of $350.0 (including $5.0 re-characterized as an expense), which amount could be reduced by up to $50.0 post closing (as discussed further below).

Contingent Purchase Price Reduction

As contemplated by the terms of the F&G Stock Purchase Agreement, Front Street Re, Ltd. (Front Street), a then recently formed Bermuda-based reinsurer and wholly-owned subsidiary of the Company sought to enter into a reinsurance agreement (the Front Street Reinsurance Transaction) with FGL whereby Front Street would reinsure up to $3,000.0 of insurance obligations under annuity contracts of FGL, and Harbinger Capital Partners II LP (HCP II), an affiliate of the Principal Stockholders, would be appointed the investment manager of up to $1,000.0 of assets securing Front Street s reinsurance obligations under the reinsurance agreement. These assets would be deposited in a reinsurance trust account for the benefit of FGL.

The Front Street Reinsurance Transaction required the approval of the Maryland Insurance Administration (the MIA). The F&G Stock Purchase Agreement provides that, the seller may be required to pay up to $50.0 as a post-closing reduction in purchase price if, among other things, the Front Street Reinsurance Transaction is not approved by the MIA or is approved subject to certain restrictions or conditions. FGL received written notice, dated January 10, 2012, from the MIA, rejecting the Front Street Reinsurance Transaction, as proposed by the respective parties. HGI is pursuing all available options to recover the full purchase price reduction, including the commencement of litigation against the seller; however, the outcome of any such action is subject to risk and uncertainty and there can be no assurance that any or all of the $50.0 purchase price reduction will be obtained by HGI.

Prior to the receipt of the written rejection notice from the MIA, management believed, based on the facts and circumstances at that time, that the likelihood was remote that the purchase price would be required to be reduced. Therefore a fair value of zero had been assigned to the contingent purchase price reduction as of the FGL Acquisition date and at each subsequent quarterly remeasurement date through January 1, 2012. Management now believes that it is near certain that the purchase price will be required to be reduced by the full $50.0 amount and has estimated a fair value of $41.0 for the contingent receivable as of December 30, 2012 (essentially unchanged from September 30, 2012, and April 1, 2012), reflecting appropriate discounts for potential litigation and regulatory action, length of time until expected payment is received and a credit insurance risk premium. Such $41.0 estimated fair value of the contingent receivable has been reflected in Receivables, net in the Condensed Consolidated Balance Sheets as of December 30, 2012. A corresponding credit to Gain on contingent purchase price reduction was recorded in earnings during Fiscal 2012.

Table of Contents

Supplemental Pro Forma Information

The following table reflects the Company s pro forma results as if the Hardware Acquisition was completed on October 1, 2011 and the results of the HHI Business had been included in the full three months ended December 30, 2012 and January 1, 2012.

	Three Months Ended	
	December 30, 2012	January 1, 2012
Revenues:		
Reported revenues	$ 1,222.3	$ 1,166.0
HHI adjustment	187.2	226.4
Pro forma revenues	$ 1,409.5	$ 1,392.4
Net income:		
Reported net income	$ 68.1	$ 45.5
HHI adjustment	2.1	10.2
Pro forma net income	$ 70.2	$ 55.7
Basic net income per common share attributable to controlling interest:		
Reported net loss per common share	$ 0.31	$ 0.12
HHI adjustment	0.02	0.07
Pro forma net income per common share	$ 0.33	$ 0.19
Diluted net income per common share attributable to controlling interest:		
Reported diluted net loss per common share	$ 0.03	$ 0.06
HHI adjustment	0.01	0.05
Pro forma diluted net income per common share	$ 0.04	$ 0.11

Acquisition and Integration Related Charges

Acquisition and integration related charges reflected in Selling, acquisition, operating and general expenses in the accompanying Condensed Consolidated Statements of Operations include, but are not limited to transaction costs such as banking, legal and accounting professional fees directly related to an acquisition or potential acquisition, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination related expenses. Such charges for the three months ended December 30, 2012 relate primarily to the Hardware Acquisition and the EXCO/HGI Production Partners Acquisition, and for the three months ended January 1, 2012 relate primarily to the Spectrum Brands merger with Russell Hobbs, Inc. (the SB/RH Merger) and the FURminator acquisition.

Table of Contents

The following table summarizes acquisition and integration related charges incurred by the Company for the three months ended December 30, 2012 and January 1, 2012:

	Three Months Ended	
	December 30, 2012	January 1, 2012
SB/RH Merger		
Integration costs	$ 1.1	$ 2.4
Employee termination charges	0.1	0.6
Legal and professional fees	0.1	0.6
	1.3	3.6
HHI Business		
Legal and professional fees	14.5	
Integration costs	0.1	
	14.6	
FGL		0.1
EXCO/HGI Partnership	5.0	
FURminator	0.6	2.5
BlackFlag		1.3
Shaser	4.2	
Other	1.5	1.6
Total acquisition and integration related charges	$ 27.2	$ 9.1

(14) Other Required Disclosures

Receivables and Concentrations of Credit Risk

Receivables, net in the accompanying Condensed Consolidated Balance Sheets consist of the following:

	December 30, 2012	September 30, 2012
Trade accounts receivable	$ 505.4	$ 357.2
Contingent purchase price reduction receivable (Note 13)	41.0	41.0
Other receivables	44.5	38.1
Total receivables	590.9	436.3
Less: Allowance for doubtful trade accounts receivable	24.2	21.9
Total receivables, net	$ 566.7	$ 414.4

Trade receivables subject Spectrum Brands to credit risk. Trade accounts receivable are carried at net realizable value. Spectrum Brands extends credit to its customers based upon an evaluation of the customer s financial condition and credit history, and generally does not require collateral. Spectrum Brands monitors its customers credit and financial condition based on changing economic conditions and makes adjustments to credit policies as required. Provision for losses on uncollectible trade receivables are determined based on ongoing evaluations of Spectrum Brands receivables, principally on the basis of historical collection experience and evaluations of the risks of nonpayment for a given customer.

Spectrum Brands has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 21% and 24% of Spectrum Brands net sales during the three months ended

December 30, 2012 and January 1, 2012, respectively. This customer also represented approximately 8% and 13% of Spectrum Brands trade accounts receivable, net at December 30, 2012 and September 30, 2012, respectively.

Table of Contents

Approximately 50% and 49% of Spectrum Brands net sales during the three months ended December 30, 2012 and January 1, 2012, respectively, occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. Spectrum Brands monitors these risks and makes appropriate provisions for collectability based on an assessment of the risks present.

Inventories

Inventories of Spectrum Brands, which are stated at the lower of cost (using the first-in, first-out method) or market, consist of the following:

	December 30, 2012	September 30, 2012
Raw materials	$ 103.1	$ 58.5
Work-in-process	44.2	23.4
Finished goods	531.9	370.7
Total inventories	$ 679.2	$ 452.6

Properties

Properties, net consist of the following:

	December 30, 2012	September 30, 2012
Land, buildings and improvements	$ 94.9	$ 93.6
Machinery, equipment and other	441.5	325.7
Construction in progress	19.8	18.4
Total properties, at cost	556.2	437.7
Less accumulated depreciation	228.2	216.1
Total properties, net	$ 328.0	$ 221.6

Shipping and Handling Costs

Spectrum Brands incurred shipping and handling costs of $50.0 and $50.3 for the three months ended December 30, 2012 and January 1, 2012, respectively. These costs are included in Selling, acquisition, operating and general expenses expenses in the accompanying Condensed Consolidated Statements of Operations. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare Spectrum Brands products for shipment from its distribution facilities.

Other Assets

Other assets in the accompanying Condensed Consolidated Balance Sheets consist of the following:

	December 30, 2012	September 30, 2012
Prepaid expenses and other current assets	$ 181.2	$ 53.1
Debt issuance costs	95.7	50.9
Deferred charges and other assets	70.3	68.6
Total other assets	$ 347.2	$ 172.6

50

Table of Contents

Accounts payable and other current liabilities

Accounts payable and other current liabilities in the accompanying Condensed Consolidated Balance Sheets consist of the following:

	December 30, 2012	September 30, 2012
Accounts payable	$ 411.7	$ 325.9
Wages and benefits	76.1	110.9
Income taxes payable	17.6	96.6
Accrued interest	22.1	50.4
Accrued expenses	27.6	25.1
Accrued dividends on Preferred Stock	8.4	8.3
Restructuring and related charges	8.5	6.6
Other	164.2	130.4
Total accounts payable and other current liabilities	$ 736.2	$ 754.2

Other liabilities

Other liabilities in the accompanying Condensed Consolidated Balance Sheets consist of the following:

	December 30, 2012	September 30, 2012
Amounts payable for investment purchases	$ 9.3	$ 206.7
Retained asset account	192.7	203.7
Funds withheld from reinsurers	54.1	54.7
Amounts payable to reinsurers	31.8	32.0
Remittances and items not allocated	35.9	29.5
Other	93.0	128.7
Total other liabilities	$ 416.8	$ 655.3

Restructuring and Related Charges

The Company reports restructuring and related charges associated with manufacturing and related initiatives of Spectrum Brands in Consumer products cost of goods sold. Restructuring and related charges reflected in Consumer products cost of goods sold include, but are not limited to, termination, compensation and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives, and other costs directly related to the restructuring or integration initiatives implemented.

The Company reports restructuring and related charges relating to administrative functions of Spectrum Brands in Selling, acquisition, operating and general expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing functions. Restructuring and related charges reflected in Selling, acquisition, operating and general expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives.

Table of Contents

In 2009, Spectrum Brands implemented a series of initiatives to reduce operating costs and to evaluate opportunities to improve its capital structure (the Global Cost Reduction Initiatives). The following table summarizes restructuring and related charges incurred by the Global Cost Reduction Initiatives, as well as other initiatives which were not significant, for the three months ended December 30, 2012 and January 1, 2012 and where those charges are classified in the accompanying Condensed Consolidated Statements of Operations:

	Three Months Ended					
	December 30, 2012	January 1, 2012	Charges Since Inception	Expected Future Charges	Total Projected Costs	Expected Completion Date
Initiatives:						
Global Cost Reduction	$ 6.5	$ 7.1	$ 89.5	$ 8.3	$ 97.8	January 31, 2015
Other	0.1	0.6				
	$ 6.6	$ 7.7				
Classification:						
Consumer products cost of goods sold	$ 1.1	$ 4.6				
Selling, acquisition, operating and general expenses	5.5	3.1				
	$ 6.6	$ 7.7				

The following table summarizes the remaining accrual balance associated with the initiatives and the activity during the three months ended December 30, 2012:

	Accrual Balance at September 30, 2012	Provisions	Cash Expenditures	Accrual Balance at December 30, 2012	Expensed as Incurred(a)
Global Cost Reduction Initiatives:					
Termination benefits	$ 3.3	$ 3.8	$ (1.5)	$ 5.6	$ 0.2
Other costs	1.1	0.1	(0.3)	0.9	2.4
	4.4	3.9	(1.8)	6.5	2.6
Other initiatives	2.2		(0.2)	2.0	0.1
	$ 6.6	$ 3.9	$ (2.0)	$ 8.5	$ 2.7

(a) Consists of amounts not impacting the accrual for restructuring and related charges.

(15) Related Party Transactions

In November 2012, the Company and Harbinger Capital Partners LLC (Harbinger Capital), an affiliate of the Company and the Principal Stockholders, entered into a reciprocal services agreement (the Services Agreement) with respect to the provision of services to each other going forward. Pursuant to the Services Agreement, the parties each agreed to provide or cause to be provided services to each other, including their respective affiliates and subsidiaries. The services may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. Each party will pay the other party a service fee for the services provided and such service fee is intended to be the actual cost of the service without profit but including, as applicable, one-time costs, out-of pocket costs,

costs of consents, fully loaded hourly rates and any pass through or allocation of payments. The Services Agreement provides that the parties are subject to confidentiality obligations and that the parties will indemnify each other and their related parties against certain costs and liabilities arising out of the performance of the Services Agreement. The Services Agreement will continue in effect until terminated by either party, following thirty (30) days advance written notice. A special committee of the Company s board of directors, comprised of independent directors under the rules of the New York Stock Exchange, advised by independent

counsel, determined that it is in the best interests of the Company and its stockholders (other than Harbinger Capital and its affiliates) for the Company to enter into the Services Agreement and recommended to the Company s board directors that they approve entry into the Services Agreement. Following such determination, the Company s board of directors approved the Services Agreement. The Company recognized $0.3 of expenses under these Service Agreement with respect to the three months ended December 30, 2012.

During the three months ended January 1, 2012, prior to entering into the Services Agreement discussed above, Harbinger Capital provided the Company with certain advisory and consulting services and office space for certain of the Company s employees and officers. The Company reimbursed Harbinger Capital for its out-of-pocket expenses and the cost of advisory and consulting services and office space provided to the Company by Harbinger Capital. In addition, on January 9, 2012, the Company hired certain former personnel of Harbinger Capital effective as of October 1, 2011. The Company reimbursed Harbinger Capital for employment and other costs associated with the above employees to the extent their services related to the Company from October 1, 2011 to the January 9, 2012. The Company recognized $0.7 of expenses under these arrangements with respect to the three month period ended January 1, 2012. Such amounts have been approved by a special committee of the Company s board of directors, comprised solely of independent directors under the NYSE rules, which was advised by independent counsel. The Company believes that the amount of expenses recognized is reasonable; however, it does not necessarily represent the costs that would have been incurred by the Company on a stand-alone basis.

In addition, pursuant to the terms of an existing registration rights agreement between the Company and the Principal Stockholders, the Company undertook a registered secondary offering of 23.0 million shares of the Company s common stock owned by the Principal Stockholders. The Company incurred $0.4 related to such offering. The Company also provided customary representations, warranties and indemnifications to the underwriters.

Table of Contents

(16) Segment Data

The Company follows the accounting guidance which establishes standards for reporting information about operating segments in interim and annual financial statements. The Company s reportable business segments are organized in a manner that reflects how HGI s management views those business activities. Accordingly, the Company currently operates its business in three reporting segments: (i) Consumer Products through Spectrum Brands, (ii) Insurance through FGL and (iii) Other Financial Services.

	Three Months Ended	
	December 30, 2012	January 1, 2012
Revenues:		
Consumer Products	$ 870.3	$ 848.8
Insurance	343.6	317.2
Other Financial Services	10.6	
Intersegment elimination	(2.2)	
Consolidated revenues	$ 1,222.3	$ 1,166.0
Operating income (loss):		
Consumer Products	$ 68.2	$ 83.7
Insurance	165.3	36.4
Other Financial Services	7.3	(0.2)
Intersegment elimination	(2.2)	
Total segments	238.6	119.9
Corporate expenses (a)	(23.2)	(8.1)
Consolidated operating income	215.4	111.8
Interest expense	(143.1)	(55.9)
Gain from the change in the fair value of the equity conversion feature of preferred stock	68.9	27.9
Other (expense) income, net	(8.7)	1.2
Consolidated income from continuing operations before income taxes	$ 132.5	$ 85.0

	December 30, 2012	September 30, 2012
Total assets:		
Consumer Products	$ 5,519.6	$ 3,751.6
Insurance	20,718.6	20,905.8
Other Financial Services	232.3	195.1
Intersegment elimination	(182.6)	(182.1)
Total segments	26,287.9	24,670.4
Corporate assets	570.9	530.0
Consolidated total assets	$ 26,858.8	$ 25,200.4

	Three Months Ended	
	December 30, 2012	January 1, 2012
Total cash provided from operating activities:		
Consumer Products	$ (186.8)	$ (89.0)
Insurance	71.8	(2.3)
Other Financial Services	1.9	(0.1)
Total cash provided from segment operating activities	(113.1)	(91.4)
Cash used in corporate operating activities	(62.4)	86.9
Consolidated cash provided from operating activities	$ (175.5)	$ (4.5)

(a) Included in corporate expenses for the three months ended December 30, 2012, and January 1, 2012, are $0.9 and $1.1, respectively, for start-up costs relating to Front Street and Salus, and $6.4 and $1.5, respectively, relating to acquisitions and other projects.

(17) Consolidating Financial Information

The following schedules present the Company s consolidating balance sheet information at December 30, 2012 and September 30, 2012, and consolidating statements of operations information for the three months ended December 30, 2012 and January 1, 2012. These schedules present the individual segments of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company s subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, some of the Company s subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

The Corporate and Other column primarily reflects the parent company s investment in its subsidiaries, invested cash portfolio and corporate long term debt. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company s investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

Table of Contents

Harbinger Group Inc. Condensed Consolidating Balance Sheet Information

December 30, 2012	Consumer Products	Insurance	Other Financial Services	Corporate and Other	Eliminations	Total
Assets:						
Investments	$	$ 16,929.5	$ 204.8	$ 82.2	$	$ 17,216.5
Investments in subsidiaries and affiliates				1,667.6	(1,667.6)	
Affiliated loans and receivables		182.6		209.8	(392.4)	
Cash and cash equivalents	70.9	605.6	20.2	407.0		1,103.7
Receivables, net	525.7			41.0		566.7
Inventories, net	679.2					679.2
Accrued investment income		153.0				153.0
Reinsurance recoverable		2,378.5				2,378.5
Deferred tax assets	20.3	163.8		4.9		189.0
Properties, net	320.1	7.3	0.4	0.2		328.0
Goodwill	1,421.3					1,421.3
Intangibles, including DAC and VOBA, net	2,208.0	267.7				2,475.7
Other assets	274.1	30.6	6.9	35.6		347.2
Total assets	$ 5,519.6	$ 20,718.6	$ 232.3	$ 2,448.3	$ (2,060.0)	$ 26,858.8
Liabilities and Equity:						
Insurance reserves	$	$ 19,041.0	$	$	$	$ 19,041.0
Debt	3,222.3			695.5		3,917.8
Accounts payable and other current liabilities	672.5	23.7	0.2	39.8		736.2
Equity conversion feature of preferred stock				163.1		163.1
Employee benefit obligations	95.2			5.0		100.2
Deferred tax liabilities	487.4			4.9		492.3
Other liabilities	37.5	366.2	12.7	0.4		416.8
Affiliated debt and payables		209.8	182.6		(392.4)	
Total liabilities	4,514.9	19,640.7	195.5	908.7	(392.4)	24,867.4
Temporary equity				323.0		323.0
Total stockholders equity	553.3	1,077.9	36.4	1,216.6	(1,667.6)	1,216.6
Noncontrolling interests	451.4		0.4			451.8
Total permanent equity	1,004.7	1,077.9	36.8	1,216.6	(1,667.6)	1,668.4
Total liabilities and equity	$ 5,519.6	$ 20,718.6	$ 232.3	$ 2,448.3	$ (2,060.0)	$ 26,858.8

Table of Contents

September 30, 2012	Consumer Products	Insurance	Other Financial Services	Corporate and Other	Eliminations	Total
Assets:						
Investments	$	$ 16,556.5	$ 180.1	$ 181.8	$	$ 16,918.4
Investment in subsidiaries and affiliates				1,583.1	(1,583.1)	
Affiliated loans and receivables		150.1		224.4	(374.5)	
Cash and cash equivalents	158.0	1,049.4	12.4	250.9		1,470.7
Receivables, net	373.4			41.0		414.4
Inventories, net	452.6					452.6
Accrued investment income		191.6				191.6
Reinsurance recoverable		2,363.1				2,363.1
Deferred tax assets	28.2	279.6		4.9		312.7
Properties, net	214.0	6.9	0.4	0.3		221.6
Goodwill	694.2					694.2
Intangibles, including DAC and VOBA, net	1,715.0	273.5				1,988.5
Other assets	116.2	35.1	2.2	19.1		172.6
Total assets	$ 3,751.6	$ 20,905.8	$ 195.1	$ 2,305.5	$ (1,957.6)	$ 25,200.4
Liabilities and Equity:						
Insurance reserves	$	$ 18,996.3	$	$	$	$ 18,996.3
Debt	1,669.3			497.7		2,167.0
Accounts payable and other current liabilities	594.2	91.4		68.6		754.2
Equity conversion feature of preferred stock				232.0		232.0
Employee benefit obligations	90.0			5.1		95.1
Deferred tax liabilities	377.5			4.9		382.4
Other liabilities	31.6	610.0	13.3	0.4		655.3
Affiliated debt and payables		224.4	150.1		(374.5)	
Total liabilities	2,762.6	19,922.1	163.4	808.7	(374.5)	23,282.3
Temporary equity				319.2		319.2
Total stockholders equity	567.7	983.7	31.7	1,177.6	(1,583.1)	1,177.6
Noncontrolling interests	421.3					421.3
Total permanent equity	989.0	983.7	31.7	1,177.6	(1,583.1)	1,598.9
Total liabilities and equity	$ 3,751.6	$ 20,905.8	$ 195.1	$ 2,305.5	$ (1,957.6)	$ 25,200.4

Table of Contents

Harbinger Group Inc. Condensed Consolidating Statements of Operations Information

Three Months Ended December 30, 2012	Consumer Products	Insurance	Other Financial Services	Corporate and Other	Eliminations	Total
Revenues:						
Net consumer product sales	$ 870.3	$	$	$	$	$ 870.3
Insurance premiums		13.8				13.8
Net investment income		169.6	10.6		(2.2)	178.0
Net investment gains		146.5				146.5
Insurance and investment product fees and other		13.7				13.7
Total revenues	870.3	343.6	10.6		(2.2)	1,222.3
Operating costs and expenses:						
Consumer products cost of goods sold	582.1					582.1
Benefits and other changes in policy reserves		83.6				83.6
Selling, acquisition, operating and general expenses	202.9	25.2	3.3	23.2		254.6
Amortization of intangibles	17.1	69.5				86.6
Total operating costs and expenses	802.1	178.3	3.3	23.2		1,006.9
Operating income	68.2	165.3	7.3	(23.2)	(2.2)	215.4
Interest expense	(69.9)	(5.5)	(2.2)	(73.2)	7.7	(143.1)
Affiliated interest income				5.5	(5.5)	
Equity in net income (losses) of subsidiaries				103.2	(103.2)	
Gain from the change in the fair value of the equity conversion feature of preferred stock				68.9		68.9
Other (expense) income, net	(1.6)			(7.1)		(8.7)
Income from continuing operations before income taxes	(3.3)	159.8	5.1	74.1	(103.2)	132.5
Income tax expense	10.6	53.8				64.4
Net income	(13.9)	106.0	5.1	74.1	(103.2)	68.1
Less: Net (loss) income attributable to noncontrolling interest	(6.2)		0.2			(6.0)
Net income attributable to controlling interest	(7.7)	106.0	4.9	74.1	(103.2)	74.1
Less: Preferred stock dividends and accretion				12.1		12.1
Net income attributable to common and participating preferred stockholders	$ (7.7)	$ 106.0	$ 4.9	$ 62.0	$ (103.2)	$ 62.0

Three Months Ended January 1, 2012	Consumer Products	Insurance	Other Financial Services	Corporate and Other	Eliminations	Total
Revenues:						
Net consumer product sales	$ 848.8	$	$	$	$	$ 848.8
Insurance premiums		16.8				16.8
Net investment income		186.8				186.8
Net investment gains		103.9				103.9
Insurance and investment product fees and other		9.7				9.7
Total revenues	848.8	317.2				1,166.0
Operating costs and expenses:						
Consumer products cost of goods sold	564.7					564.7
Benefits and other changes in policy reserves		176.9				176.9
Selling, acquisition, operating and general expenses	185.8	61.8	0.2	8.1		255.9
Amortization of intangibles	14.6	42.1				56.7
Total operating costs and expenses	765.1	280.8	0.2	8.1		1,054.2
Operating income	83.7	36.4	(0.2)	(8.1)		111.8
Interest expense	(41.1)	(6.2)		(14.8)	6.2	(55.9)
Affiliated interest income				6.2	(6.2)	
Equity in net income (losses) of subsidiaries				24.9	(24.9)	
Gain from the change in the fair value of the equity conversion feature of preferred stock				27.9		27.9
Other (expense) income, net	(2.2)			3.4		1.2
Income from continuing operations before income taxes	40.4	30.2	(0.2)	39.5	(24.9)	85.0
Income tax expense	27.3	12.2				39.5
Net income	13.1	18.0	(0.2)	39.5	(24.9)	45.5
Less: Net (loss) income attributable to noncontrolling interest	6.0					6.0
Net income attributable to controlling interest	7.1	18.0	(0.2)	39.5	(24.9)	39.5
Less: Preferred stock dividends and accretion				15.7		15.7
Net income attributable to common and participating preferred stockholders	$ 7.1	$ 18.0	$ (0.2)	$ 23.8	$ (24.9)	$ 23.8

(18) Subsequent Events

FGL coinsurance agreement with FSR

On December 31, 2012, subsequent to the end of the quarter, FGL entered into a coinsurance agreement (the Reinsurance Agreement) with Front Street Cayman, also an indirect subsidiary of the Company. Pursuant to the Reinsurance Agreement, Front Street Cayman will reinsure approximately 10%, or approximately $1.5 billion of FGL s policy liabilities. In connection with the Reinsurance Agreement, Front Street Cayman, FGL

and an indirect subsidiary of the Company, HGI Asset Management, LLC (HGI Asset Management), entered into an investment management agreement, pursuant to which HGI Asset Management will manage the assets securing Front Street Cayman s reinsurance obligations under the Reinsurance Agreement, which assets are held by FGL in a segregated account. The assets in the segregated account will be invested in accordance with FGL s existing guidelines.

This agreement meets the risk transfer requirements to qualify as reinsurance under US GAAP. Under the terms of the agreement, FSR will pay FGL an initial ceding allowance of $15.0.

Salus Collateralized Loan Obligation Transaction

On February 7, 2013, Salus announced the closing of Salus CLO 2012-1, Ltd., a $250.0 collateralized loan obligation (CLO) vehicle. A Salus subsidiary will act as the collateral manager of the CLO, which will invest in senior secured asset-based loans originated by Salus. As part of the transaction, Salus and its affiliates contributed to the CLO approximately $221.0 of their existing portfolio of loans. Securities of $63.5 were placed with unaffiliated investors, and Salus and its affiliate, FGL, retained $50.0 and $111.5 of the CLO s notes, respectively, including the subordinated notes. The CLO will have a reinvestment period of two years, a non-call period of two years and a final maturity of eight years.

Table of Contents

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

Introduction

This Management s Discussion and Analysis of Financial Condition and Results of Operations of Harbinger Group Inc. (HGI, we, us, our collectively with its subsidiaries, the Company) should be read in conjunction with our unaudited condensed consolidated financial statements included elsewhere in this report and Management s Discussion and Analysis of Financial Condition and Results of Operations of HGI which was included with our annual consolidated financial statements filed on Form 10-K with the Securities and Exchange Commission (the SEC) on November 27, 2012 (the Form 10-K). Certain statements we make under this Item 2 constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. See Forward-Looking Statements in Part II Other Information of this report. You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, the Form 10-K and our other filings with the SEC.

HGI Overview

We are a holding company and our principal operations are conducted through subsidiaries that offer life insurance and annuity products, and branded consumer products such as batteries, small appliances, pet supplies, home and garden control products and personal care products. Our outstanding common stock is 76.7% and 74.6% owned, respectively, as of December 30, 2012 and the date of this filing, collectively, by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the Principal Stockholders), not giving effect to the conversion rights of the Company s Series A Participating Convertible Preferred Stock or the Series A-2 Participating Convertible Preferred Stock (together, the Preferred Stock).

We are focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. We view the acquisition of Spectrum Brands Holdings, Inc. (Spectrum Brands) and Fidelity & Guaranty Life Holdings, Inc. (FGL, formerly Old Mutual U.S. Life Holdings, Inc.), in our 2011 fiscal year as our first steps in the implementation of that strategy. In addition to FGL s asset management activities, HGI has expanded its asset management business by forming HGI Asset Management Holdings, LLC, and Salus Capital Partners, LLC (Salus), its subsidiary engaged in providing secured asset-based loans to entities across a variety of industries. In addition to our intention to acquire controlling interests, we may also from time to time make investments in debt instruments, acquire minority equity interests in companies and expand our operating businesses.

In December 2012, we closed a secondary offering, in which the Principal Stockholders offered 20.0 million shares of common stock at a price to the public of $7.50 per share. In addition, in January 2013, the underwriters exercised their option to purchase an additional 3.0 million shares of common stock from the Principal Stockholders. We did not receive any proceeds from the sale of shares in this offering.

In December 2012, we issued $700.0 million aggregate principal amount 7.875% Senior Secured Notes due 2019 (the 7.875% Notes) and used part of the proceeds of the offering to accept for purchase $498.0 million aggregate principal amount of its 10.625% Senior Secured Notes due 2015 (the 10.625% Notes) pursuant to a tender offer (the Tender Offer) for the 10.625% Notes. Additionally, we deposited sufficient funds in trust with the trustee under the indenture governing the 10.625% Notes in satisfaction and discharge of the remaining $2.0 million aggregate principal amount of the 10.625% Notes. The remainder of the proceeds will be used for working capital by us and our subsidiaries and for general corporate purposes, including the financing of future acquisitions and businesses.

In November, we announced a joint venture with EXCO Resources Inc. (EXCO) to create a private oil and gas limited partnership (the EXCO/HGI Partnership) that will purchase and operate EXCO s producing U.S.

conventional oil and gas assets, for a total consideration of $725.0 million (the EXCO/HGI Production Partners Acquisition). The Partnership will constitute our initial operating business in the energy sector. We expect the joint venture to close in the second quarter of our Fiscal 2013.

We believe that our access to the public equity markets may give us a competitive advantage over privately-held entities with whom we compete to acquire certain target businesses on favorable terms. We may pay acquisition consideration in the form of cash, our debt or equity securities, or a combination thereof. In addition, as a part of our acquisition strategy we may consider raising additional capital through the issuance of equity or debt securities.

We currently operate in three segments: Consumer Products through Spectrum Brands, Insurance through FGL, and Other Financial Services (currently, primarily the operations of Salus). Subsequent to the closing of our acquisition in the second fiscal quarter of 2013 of an equity interest in the EXCO/HGI Partnership, we intend to add a fourth segment, Energy.

Consumer Products Segment

Through Spectrum Brands, we are a diversified global branded consumer products company with positions in seven major product categories: consumer batteries; small appliances; home and garden control products; pet supplies; electric shaving and grooming products; electric personal care products; and hardware and home improvement products.

Spectrum Brands manufactures and markets alkaline, zinc carbon and hearing aid batteries, herbicides, insecticides and repellents and specialty pet supplies. Spectrum Brands also designs and markets rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. In addition, Spectrum Brands designs, markets and distributes a broad range of branded small appliances and personal care products. Spectrum Brands manufacturing and product development facilities located in the United States, Europe and Latin America. Substantially, all of Spectrum Brands rechargeable batteries, chargers, and portable lighting products, shaving and grooming products, small household appliances, and personal care products are manufactured by third-party suppliers, primarily located in Asia.

In December 2012, Spectrum Brands acquired the residential hardware and home improvement business (the HHI Business) from Stanley Black & Decker, Inc. (Stanley Black & Decker), which includes (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the HHI business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the HHI business (the Hardware Acquisition). The HHI Business has a broad portfolio of recognized brands names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as Smartkey, a rekeyable lockset technology, and Smart Code Home Connect. A portion of the Hardware Acquisition has not yet closed, consisting of the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation (TLM Taiwan), which is involved in the production of residential locksets (the TLM Residential Business). For information pertaining to the Hardware Acquisition, see Note 13, Acquisitions.

Spectrum Brands sells products in approximately 140 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers (OEMs) and enjoys strong name recognition in these markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Dingo, Nature s Miracle, Spectracide, Cutter, Hot Shot, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator, the previously mentioned HHI Business brands and various other brands.

In December 2012, Spectrum Brands assumed $520.0 million aggregate principal amount of 6.375% Senior Notes due 2020 (the 6.375% Notes) and $570.0 million aggregate principal amount of 6.625% Senior Notes due 2022 (the 6.625% Notes), in connection with the Hardware Acquisition. Spectrum Brands used the net

Table of Contents

proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands financed the remaining portion of the Hardware Acquisition with a new $800.0 million term loan facility, of which $100.0 million is in Canadian dollar equivalents (the Term Loan). A portion of the Term Loan proceeds were also used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 million prior to refinancing.

The Spectrum Value Model is at the heart of Spectrum Brands operating approach. This model emphasizes providing value to the consumer with products that work as well as or better than competitive products for a lower cost, while also delivering higher retailer margins. Efforts are concentrated on winning at point of sale and on creating and maintaining a low-cost, efficient operating structure.

Spectrum Brands operating performance is influenced by a number of factors including: general economic conditions; foreign exchange fluctuations; trends in consumer markets; consumer confidence and preferences; overall product line mix, including pricing and gross margin, which vary by product line and geographic market; pricing of certain raw materials and commodities; energy and fuel prices; and general competitive positioning, especially as impacted by competitors advertising and promotional activities and pricing strategies.

Insurance Segment

Through FGL, we are a provider of annuity and life insurance products to the middle and upper-middle income markets in the United States. Based in Baltimore, Maryland, FGL operates in the United States through its subsidiaries Fidelity & Guaranty Life Insurance Company (FGL Insurance) and Fidelity & Guaranty Life Insurance Company of New York (FGL NY Insurance).

FGL s principal products are deferred annuities (including fixed indexed annuity (FIA) contracts), immediate annuities, and life insurance products, which are sold through a network of approximately 300 independent marketing organizations (IMOs) representing approximately 19,000 independent agents and managing general agents. As of December 30, 2012, FGL had over 705,000 policyholders nationwide and distributes its products throughout the United States.

FGL s most important IMOs are referred to as Power Partners. FGL s Power Partners are currently comprised of 21 annuity IMOs and 17 life insurance IMOs. For the three months ended December 30, 2012, these Power Partners accounted for approximately 75% of FGL s sales volume. FGL believes that its relationships with these IMOs are strong. The average tenure of the top ten Power Partners is approximately 10 years.

Under accounting principles generally accepted in the United States of America (US GAAP), premium collections for FIAs and fixed rate annuities and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liability for contractholder funds and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from contractholder funds, and net recognized gains (losses) on investments. Components of expenses for products accounted for as deposit liabilities are interest sensitive and index product benefits (primarily interest credited to account balances or the cost of providing index credits to the policyholder), amortization of value of business acquired (VOBA) and deferred policy acquisition costs (DAC), other operating costs and expenses and income taxes.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the interest credited or the cost of providing index credits to the policyholder, known as the net investment spread. With respect to FIAs, the cost of providing index credits includes the expenses incurred to fund the annual index credits and where applicable, minimum guaranteed interest credited. Proceeds received upon expiration or early termination of call options purchased to fund annual index credits are

recorded as part of the change in fair value of derivatives, and are largely offset by an expense for index credits earned on annuity contractholder fund balances.

FGL s profitability depends in large part upon the amount of assets under management, the ability to manage operating expenses, the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders) and the investment spreads earned on contractholder fund balances. Managing net investment spreads involves the ability to manage investment portfolios to maximize returns and minimize risks such as interest rate changes and defaults or impairment of investments and the ability to manage interest rates credited to policyholders and costs of the options and futures purchased to fund the annual index credits on the FIAs.

Other Financial Services Segment

Through Salus we are a provider of secured asset-based loans to the middle market across a variety of industries with additional complementary financing throughout the capital structure. Salus finances loan commitments that typically range from $3 to $30 million with the ability to lead and agent larger transactions. The Salus platform also serves as an asset manager to certain institutional investors such as community and regional banks, insurance companies, family offices, private equity funds and hedge funds who may lack the infrastructure and dedicated competency within senior secured lending. As of December 30, 2012, Salus has funded loans totaling $207.4 million aggregate principal amount outstanding. The Salus loans are funded through capital commitments from HGI and funds committed by FGL as co-lender.

Salus provides secured asset-based loans to the middle market. Asset-based finance is a financing tool where the decision to lend is primarily based on the value of the borrowers collateral. Collateral is viewed as the primary source of repayment, while the borrowers creditworthiness is viewed as secondary source of repayment. As a result, asset-based finance emphasizes the monitoring of the collateral that secures the asset-based loan. Salus focuses its credit analysis on the value of accounts receivable and inventory (or other assets) and estimates how much liquidity it can provide against those assets. Salus establishes a loan structure and collateral monitoring process that is continuous and focused on the collateral, significantly reducing the risk of loss inherent in delayed intervention and/or asset recovery. As of December 30, 2012, none of these loans were delinquent.

Salus looks to create partnerships with borrowers that may not qualify for traditional bank financing because of their size, historical performance, geography or complexity of their situation. Salus loans are used across a range of industries for growth capital, general working capital or seasonal needs, acquisitions or opportunistic situations, trade finance, turnarounds, dividend recaps, refinancing and debtor-in-possession financing.

Highlights for the Fiscal Quarter Ended December 30, 2012

In this Quarterly Report on Form 10-Q we refer to the three month period ended December 30, 2012 as the Fiscal 2013 Quarter and the three month period ended January 1, 2012 as the Fiscal 2012 Quarter.

The following are the most significant developments in our respective businesses during the Fiscal 2013 Quarter:

- Spectrum Brands completed the Hardware Acquisition, which is expected to enhance Spectrum Brand s top-line growth, margins and free cash flow profile, while providing added scale, greater product diversity and attractive cross-selling opportunities.

- We refinanced our $500.0 million aggregate principal amount 10.625% senior secured notes through issuance of $700.0 million aggregate principal amount of new 7.875% senior secured notes, lowering our cost of capital and extending the maturity of our debt. The remaining proceeds from the debt issuance will be used for working capital and general corporate purposes.

- We commenced a registered secondary public offering of 23.0 million shares of our common stock by the Principal Stockholders, increasing our public float and broadening our shareholder base. We announced pricing of 20.0 million shares on December 13, 2012, with the remaining 3.0 million shares purchased by the underwriters in January of 2013.

Net income attributable to common and participating preferred stockholders increased to $62.0 million, or $0.31 per common share attributable to controlling interest ($0.03 diluted), compared to $23.8 million, or $0.12 per common share attributable to controlling interest ($0.06 diluted), in the Fiscal 2012 Quarter.

Our Fiscal 2013 first quarter results include $87.9 million of costs incurred by Spectrum Brands and us relating to the extinguishment of HGI s 10.625% Notes, and the financing of the Hardware Acquisition. Partially offsetting these expenses, our stock price depreciation of 11.0% from $8.43 to $7.50 per share during the Fiscal 2013 Quarter resulted in a $68.9 million liability decrease related to the fair value of the preferred stock equity conversion feature, which represents a non-cash gain to net income. In addition, HGI realized $125.7 million of investment gains in our Insurance Segment.

We ended the quarter with corporate cash and investments of approximately $489.2 million (primarily held at HGI and HGI Funding LLC), which supports our business strategy and growth of existing businesses.

Our recorded total revenues of $1,222.3 million for the Fiscal 2013 Quarter increased $56.3 million, or 4.8%.

For the Fiscal 2013 Quarter, our Consumer Products segment recorded record net sales of $870.3 million, a $21.5 million, or 2.5%, increase from $848.8 million for the Fiscal 2012 Quarter; excluding negative foreign exchange impact, net sales grew 3.2% versus the prior quarter.

Consumer Products segment operating income was $68.2 million compared to $83.7 million in the first quarter of Fiscal 2012. The decrease reflects acquisition and integration costs primarily related to the HHI Acquisition Consumer Products segment and adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) increased by $5.6 million, or 4.5%, to $130.7 million versus the Fiscal 2012 Quarter on higher sales, synergy benefits and cost reduction initiatives. Adjusted EBITDA margin represented 15.0% of sales, compared to 14.7% in the Fiscal 2012 Quarter.

Insurance segment product sales for the Fiscal 2013 Quarter were $254.9 million compared to $372.5 million in the comparable period of Fiscal 2012, reflecting product and pricing changes to maintain target profitability.

As of December 30, 2012, our Insurance segment had a net US GAAP book value of $1,287.7 million (including accumulated other comprehensive income (AOCI) of $422.9 million), up from $1,208.1 million as of September 30, 2012. Net unrealized gains on available for sale investments were $1,012.7 million on a U.S. GAAP basis.

Salus originated $175.0 million of new asset-backed loan commitments in the Fiscal 2013 Quarter. Salus had $207.4 million of loans outstanding as of December 30, 2012, and contributed approximately $5.1 million to our consolidated earnings for the Fiscal 2013 Quarter.

Table of Contents

Results of Operations

Fiscal Quarter Ended December 30, 2012 Compared to Fiscal Quarter Ended January 1, 2012

Presented below is a table that summarizes our results of operations and compares the amount of the change between the fiscal periods (in millions):

	Fiscal Quarter		
	2013	2012	Increase / (Decrease)
	(Unaudited)		
Revenues:			
Consumer Products	$ 870.3	$ 848.8	$ 21.5
Insurance and Financial Services	352.0	317.2	34.8
Total revenues	1,222.3	1,166.0	56.3
Operating costs and expenses:			
Consumer products cost of goods sold	582.1	564.7	17.4
Benefits and other changes in policy reserves	83.6	176.9	(93.3)
Selling, acquisition, operating and general expenses	254.6	255.9	(1.3)
Amortization of intangibles	86.6	56.7	29.9
Total operating costs and expenses	1,006.9	1,054.2	(47.3)
Operating income	215.4	111.8	103.6
Interest expense	(143.1)	(55.9)	(87.2)
Gain from the change in the fair value of the equity conversion feature of preferred stock	68.9	27.9	41.0
Other (expense) income, net	(8.7)	1.2	(9.9)
Income from continuing operations before income taxes	132.5	85.0	47.5
Income tax expense	64.4	39.5	24.9
Net income	68.1	45.5	22.6
Less: Net (loss) income attributable to noncontrolling interest	(6.0)	6.0	(12.0)
Net income attributable to controlling interest	74.1	39.5	34.6
Less: Preferred stock dividends and accretion	12.1	15.7	(3.6)
Net income attributable to common and participating preferred stockholders	$ 62.0	$ 23.8	$ 38.2

Revenues

Consumer Products

Net sales for the Fiscal 2013 Quarter increased $21.5 million, or 2.5%, to $870.3 million from $848.8 million for the Fiscal 2012 Quarter. Consolidated net sales by product line for each of those respective periods are as follows (in millions):

	Fiscal Quarter	
Product line net sales	2013	2012

			Increase (Decrease)
Consumer batteries	$ 271.0	$ 268.0	$ 3.0
Small appliances	220.1	243.1	(23.0)
Pet supplies	139.8	134.9	4.9
Electric shaving and grooming products	92.9	96.3	(3.4)
Electric personal care products	82.0	81.8	0.2
Home and garden control products	30.5	24.7	5.8
Hardware and home improvement products	34.0		34.0
Total net sales to external customers	$ 870.3	$ 848.8	$ 21.5

For the Fiscal 2013 Quarter, global consumer battery sales increased $3.0 million, or 1.1%. Excluding the impact of negative foreign exchange of $4.6 million, global consumer battery sales increased $7.6 million, or 2.8%. The growth of global consumer battery sales on a constant currency basis was driven by new customer listings and promotions, geographic expansion in Eastern Europe and increased portable lighting sales driven by severe weather in the U.S.

Small appliance sales decreased $23.0 million, or 9.5%, during the Fiscal 2013 Quarter compared to the Fiscal 2012 Quarter, driven by decreased North American and Latin American sales of $26 million and $3 million, respectively, partially offset by increased European sales of $5 million. Foreign exchange positively impacted small appliances sales by $1.3 million. Decreased North American sales were attributable to the exit of low margin products, which drove an overall increase in profitability as a percentage of net sales for the product line. Latin American sales decreases were driven by a reduction in sales to customers who export to Venezuela in response to increased challenges to obtain U.S. dollar payments for goods and the timing of holiday shipments. European sales increases were attributable to market growth and promotional activities in the United Kingdom, increased online sales and regional expansion in Eastern and Western Europe.

Pet supply sales increased $4.9 million, or 3.6%, during the Fiscal 2013 Quarter, led by increases in companion animal sales of $7 million, tempered by decreased aquatics sales of $1 million and $1 million in negative foreign currency impacts. Gains in companion animal sales were due to the FURminator acquisition and growth in the Dingo brand. The slight decline in aquatics sales resulted from decreased aquatic nutrition and water care sales in Europe, offset by increased aquarium starter kits and systems sales in both North America and Europe.

During the Fiscal 2013 Quarter, electric shaving and grooming product sales decreased $3.4 million, or 3.5%, driven by a $4 million decrease in North American sales, tempered by a $2 million increase in European sales. Foreign exchange negatively impacted electric shaving and grooming sales by $1.0 million. The declines in North American sales were due to port disruptions during the peak holiday period, the exit of certain product lines, an overall decrease in the product category and decreased retail space available for promotions. European sales gains were driven by successful new product launches, promotions and customer gains.

Electric personal care sales were flat for the Fiscal 2013 Quarter compared to the Fiscal 2012 Quarter, as increased sales of $2 million in Europe were offset by a $1 million decrease in sales in Latin America and $1.0 million of negative foreign exchange impacts. The gains in Europe were driven by successful promotional activities related to new product launches and customer gains. The Latin American sales decrease was attributable to decreased sales to customers exporting to Venezuela following increased challenges to obtain U.S. dollar payments for goods.

Home and garden control product sales increased $5.8 million, or 23.5%, primarily attributable to increased household insect control sales of $4 million, resulting from retail distribution gains with existing customers and the Black Flag acquisition. Lawn and garden control sales increased $1 million driven by distribution gains and retail replenishment following strong retail sales in the fourth quarter of the fiscal year ended September 30, 2012 (Fiscal 2012).

Hardware and home improvement sales were $34.0 million during the Fiscal 2013 Quarter, reflecting the results of the HHI Business that was acquired on December 17, 2012.

Insurance and Financial Services

Insurance and financial services revenues, after intersegment eliminations, consist of the following components (in millions):

	Fiscal Quarter		
	2013	2012	Increase (Decrease)
Premiums	$ 13.8	$ 16.8	$ (3.0)
Net investment income	178.0	186.8	(8.8)
Net investment gains	146.5	103.9	42.6
Insurance and investment product fees and other	13.7	9.7	4.0
Total insurance and financial services revenues	$ 352.0	$ 317.2	$ 34.8

Premiums primarily reflect insurance premiums for traditional life insurance products which are recognized as revenue when due from the policyholder. FGL Insurance has ceded the majority of its traditional life business to unaffiliated third party reinsurers. The remaining traditional life business is primarily related to traditional life contracts that contain return of premium riders, which have not been ceded third party reinsurers. For the Fiscal 2013 Quarter, premiums decreased $3.0 million, or 17.9%, to $13.8 million from $16.8 million for the Fiscal 2012 Quarter, primarily due to policy lapses and the effects of certain trueup adjustments related to the acquisition reinsurance transactions that were recognized in Fiscal 2012 Quarter.

For the Fiscal 2013 Quarter, investment income (before deducting management fees of $4.1 million and interest credited and option costs on annuity deposits of $126.1 million) resulted in a net investment spread of $47.8 million during the period, a decrease of $10.3 million, or 17.8% before amortization of intangibles, compared to net investment spread of $58.0 million for the Fiscal 2012 Quarter. The decrease in investment spread from the Fiscal 2012 Quarter resulted primarily from lower average yield on average cash and invested assets due to portfolio changes by FGL over the last twelve months to shorten the overall portfolio duration by selling longer dated and higher yielding investment grade rated bonds at gains in anticipation of rising interest rates and the realization of certain tax-advantaged built-in-gains. Partially offsetting these decreases were lower interest credited/option costs that resulted from lower crediting rates and a slight reduction in the cost of equity options hedging the FIA index credits. Also contributing to the decrease was lower interest rates period over period and holding excess cash and cash equivalents. Average invested assets (on an amortized cost basis) were $16.7 billion and $16.0 billion and the average yield earned on average invested assets was 4.25% and 4.78% (annualized) for the Fiscal 2013 Quarter and Fiscal 2012 Quarter, respectively, compared to interest credited and option costs of 3.17% and 3.39% (annualized,) for each Fiscal Quarter, respectively.

FGL s net investment spread is summarized as follows (annualized):

	Fiscal Quarter	
	2013	2012
Average yield on invested assets	4.25%	4.78%
Less: Interest credited and option cost	3.17%	3.39%
Net investment spread	1.08%	1.39%

Net investment gains and losses, including impairment losses, recognized in operations fluctuate from period to period based upon changes in the interest rate and economic environment and the timing of the sale of investments or the recognition of other-than-temporary impairments. For the Fiscal 2013 Quarter, FGL had net investment gains of $146.5 million compared to net investment gains of $103.9 million for the Fiscal 2012 Quarter. This increase is primarily due to $172.6 million of net investment gains on fixed maturity and equity

Table of Contents

available-for-sale securities in the Fiscal 2013 Quarter, including an offset by other-than-temporary impairments of $0.5 million, compared to net investment gains of $82.3 million, including an offset by other-than-temporary impairments of $13.2 million, for the Fiscal 2012 Quarter. The $90.3 million increase period over period is primarily due to the tax strategy for realization of certain tax-advantaged built-in-gains related to FGL s 2011 acquisition and portfolio changes by FGL in Fiscal 2013 Quarter to shorten the duration of the portfolio, by selling longer dated investment grade rated bonds at gains. The other-than-temporary impairments for the Fiscal 2013 Quarter were primarily related to write-downs of residential mortgage-backed securities due to change of intent.

Partially offsetting the net investment gains on fixed maturity and equity available-for-sale securities for the Fiscal 2013 Quarter were net realized and unrealized losses of $25.6 million recognized during the Fiscal 2013 Quarter on long futures and equity options purchased to hedge the annual index credits for FIA contracts, compared to net realized and unrealized gains of $34.8 million on long futures and equity options during the Fiscal 2012 Quarter. Realized and unrealized (losses) gains on derivative instruments primarily result from the performance of the indices upon which the call options and futures contracts are based and the aggregate cost of options purchased. A substantial portion of the call options and futures contracts are based upon the Standard & Poors (S&P) 500 Index with the remainder based upon other equity and bond market indices. Accordingly, the change in the unrealized (loss) gain on derivatives was primarily driven by the 1.0% decrease and 11.2% increase in the S&P 500 Index during the Fiscal 2013 and Fiscal 2012 Quarters, respectively.

The components of the realized and unrealized gains on derivative instruments are as follows (in millions):

	Fiscal Quarter	
	2013	**2012**
Call options:		
Gain (loss) on option expiration	$ 22.9	$ (25.2)
Change in unrealized (loss) gain	(43.8)	45.1
Futures contracts:		
(Loss) gain on futures contracts expiration	(7.2)	9.7
Change in unrealized gain	2.5	5.2
	$ (25.6)	$ 34.8

The average index credits to policyholders were as follows:

	Fiscal Quarter	
	2013	**2012**
S&P 500 Index:		
Point-to-point strategy	4.90%	2.03%
Monthly average strategy	4.95%	4.24%
Monthly point-to-point strategy	2.86%	0.02%
3 Year high water mark	18.71%	17.53%

For the Fiscal 2013 Quarter, the average return to contractholders from index credits during the period was 4.38% (annualized), compared to 1.88% (annualized) for the Fiscal 2012 Quarter. The increase quarter over quarter was primarily due to greater appreciation in the S&P 500 Index and the corresponding impact on options that expired in the Fiscal 2013 Quarter compared to the appreciation in the S&P 500 Index and the corresponding impact on options that expired in the Fiscal 2012 Quarter. Actual amounts credited to contractholder fund balances may be less than the index appreciation due to contractual features in the FIA contracts (caps, participation rates and asset fees) which allow FGL to manage the cost of the options purchased to fund the annual index credits. The level of realized and unrealized gains and losses recognized on derivative instruments is also influenced by the aggregate costs of options purchased. The aggregate cost of options is primarily

influenced by the amount of FIA contracts in force. The aggregate cost of options is also influenced by the amount of contractholder funds allocated to the various indices and market volatility which affects option pricing. The cost of options purchased was $27.6 million for the Fiscal 2013 and 2012 Quarters.

For the Fiscal 2012 Quarter, insurance and investment product fees and other consists primarily of cost of insurance and surrender charges assessed against policy withdrawals in excess of the policyholder s allowable penalty-free amounts (up to 10% of the prior year s value, subject to certain limitations). These revenues increased $4.0 million, or 41.2%, to $13.7 million for the Fiscal 2013 Quarter from $9.7 million for the Fiscal 2012 Quarter, primarily due to cost of insurance revenue on new universal life policies issued during the last twelve months and policy rider fees on the Prosperity Elite product line which was introduced during the fourth quarter of the year ended September 30, 2011.

Operating Costs and Expenses

Consumer products cost of goods sold/Gross Profit. Gross profit, representing net consumer products sales minus consumer products cost of goods sold, for the Fiscal 2013 Quarter was $288.2 million compared to $284.1 million for the Fiscal 2012 Quarter. The HHI Business contributed $4.0 million in gross profit. Our gross profit margin, representing gross profit as a percentage of consumer products net sales, for the Fiscal 2013 Quarter decreased to 33.1% from 33.5% in the Fiscal 2012 Quarter. The decrease in gross profit and gross profit margin resulted from increased consumer products cost of goods sold due to the sale of inventory which was revalued in connection with the acquisition of the HHI Business, which more than offset improvements to gross profit resulting from the exit of low margin products in the small appliance category.

Benefits and other changes in policy reserves. For the Fiscal 2013 Quarter, benefits and other changes in policy reserves decreased $93.3 million, or 52.7%, to $83.6 million, from $176.9 million for the Fiscal 2012 Quarter principally due to the change in the FIA embedded derivative liability which includes the market value option liability change and the present value of future credits and guarantee liability change. For the Fiscal 2013 Quarter, the market value option liability decreased $68.0 million compared to an increase of $38.0 million for the Fiscal 2012 Quarter. The quarter over quarter decrease of $106.0 million primarily due to changes in the equity markets during those periods. For the Fiscal 2013 Quarter, the present value of future credits and guarantee liability decreased $18.7 million compared to a $5.2 million decrease in the Fiscal 2012 Quarter. The quarter over quarter decrease of $13.5 million was primarily driven by the change in the risk free rates during the Fiscal 2013 Quarter compared to the change in rates during the Fiscal 2012 Quarter. Also contributing to the quarter over quarter change was a decrease in life contingent immediate annuity reserves of $24.4 million, primarily due to mortality gains of $15.2 million recognized in the Fiscal 2013 Quarter due to large case deaths.

Partially offsetting these decreases were index credits, interest credits and bonuses of $133.2 million during the Fiscal 2013 Quarter compared to $97.4 million during the Fiscal 2012 Quarter as well as an increase in death benefits of $11.8 million. Changes in index credits are attributable to changes in the underlying indices and the amount of funds allocated by policyholders to the respective index options. Benefits also include claims incurred during the period in excess of contractholder fund balances, traditional life benefits and the change in reserves for traditional life insurance products.

Table of Contents

Below is a summary of the major components included in benefits and other changes in policy reserves for the Fiscal 2013 and 2012 Quarters:

	Fiscal Quarter	
	2013	2012
FIA market value option liability change	$ (68.0)	$ 38.0
FIA present value future credits & guarantee liability change	(18.7)	(5.2)
Index credits, interest credited & bonuses	133.2	97.4
Change in life contingent SPIA reserves	(51.5)	(27.1)
Annuity payments	59.9	62.8
Death benefits	19.7	7.9
Other policy benefits and reserve movements	9.0	3.1
Total benefits and other changes in policy reserves	$ 83.6	$ 176.9

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses decreased $1.3 million to $254.6 million for the Fiscal 2013 Quarter from $255.9 million for the Fiscal 2012 Quarter. The decrease is primarily attributable to a $33.5 million decrease in costs within Insurance and Other Financial Services, offset by a $17.1 million increase in operating and general expenses at Spectrum and an $15.1 million increase in corporate expenses.

Acquisition, operating and general expenses, net of deferrals, of FGL and Salus, decreased $33.5 million to $28.5 million for the Fiscal 2013 Quarter, from $62.0 million for the Fiscal 2012 Quarter principally due to a $31.1 million ceding commission paid to Wilton Re primarily related to $30.5 million of investment gains realized on the securities transferred to Wilton Re on the October 17, 2011 effective date of the second acquisition-related reinsurance amendment.

The $17.1 million increase in Spectrum Brands selling, operating and general expenses is principally due to a $13.0 million increase in acquisition and integration related charges incurred as a result of the Hardware Acquisition, $7.0 million in operating expenses contributed by the HHI Business and a $3.0 million increase in restructuring and related charges. These increases were offset by positive foreign exchange impacts of $2.0 million and a decrease in stock compensation expense of $1.0 million.

The $15.1 million increase in corporate expenses is primarily due to the hiring of new personnel and an increase in bonus compensation accruals during the Fiscal 2013 Quarter based on an increase in HGI s net asset value (Compensation NAV) determined in accordance with the criteria established by HGI s Compensation Committee (as discussed further under below) and an allocation of overhead costs from Harbinger Capital Partners LLC (Harbinger Capital), an affiliate.

Consolidated operating costs and expenses for the remainder of Fiscal 2013 are expected to increase over the comparable nine months of Fiscal 2012 as we continue to actively pursue our acquisition strategy and increase corporate oversight due to acquisitions, both of which have entailed the hiring of additional personnel at HGI, and experience continued growth at our subsidiaries.

HGI s Compensation Committee has established annual salary, bonus and equity-based compensation arrangements with certain of HGI s corporate employees, including performance-based bonus targets based on the achievement of personal performance goals, and performance-based bonus targets based on performance measured in terms of the change in the value of HGI s Compensation NAV. Performance-based bonuses paid based on the growth of the Compensation NAV allow management to participate in a portion of HGI s performance. HGI s operating costs increased by approximately $6.4 million for the Fiscal 2013 Quarter as a result of the accrual for these bonus compensation expenses. These amounts reflect the underlying performance and growth in the Compensation NAV, which has grown approximately 13.5% in the Fiscal 2013 Quarter. The

current results of HGI would result in a mix of cash and equity awards being paid over the next two years if the growth in Compensation NAV is sustained. If the growth in Compensation NAV is sustained, we expect the remainder of Fiscal 2013 to have approximately $22.3 million of bonus compensation expense relating to the 2013 Compensation NAV and deferred cash awards related to the 2012 Compensation NAV. In addition, we expect to recognize approximately $16.6 million of bonus compensation expense in Fiscal 2014 for the 2013 Compensation NAV and deferred cash awards relating to the 2012 Compensation NAV, subject to clawback provisions if the subsequent increase in Compensation NAV does not exceed specified threshold returns.

Amortization of intangibles. For the Fiscal 2013 Quarter, amortization of intangibles increased $29.9 million, or 52.7%, to $86.6 million from $56.7 million for the Fiscal 2012 Quarter primarily due to amortization of acquisition costs related to new business within our Insurance Segment added since the Fiscal 2012 Quarter and from higher earnings on the FIA line of business. The increase in FIA earnings was principally due to the gains on sales of longer dated investment grade rated bonds. We expect an increase in amortization of intangibles in future periods due to additional amortizable definite-lived intangibles acquired as part of business acquisitions within our Consumer Products segment (see Note 13, Acquisitions, in the accompanying Condensed Consolidated Financial Statements for further detail.) In general, for the Insurance segment, amortization of DAC will increase each period due to the growth in FGL s annuity business and the deferral of policy acquisition costs incurred with respect to sales of annuity products however FGL may experience negative DAC amortization when capitalized accrued interest is greater than the amortization expense. At each period, loss recognition testing is carried out to ensure that DAC and VOBA are recoverable. The anticipated increase in amortization from these factors will be affected by amortization associated with fair value accounting for derivatives and embedded derivatives utilized in our FIA business and amortization associated with net realized gains (losses) on investments and net other-than-temporary impairment losses recognized in operations.

Adjusted EBITDA. Spectrum Brands believes that certain non-US GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) is a metric used by management and frequently used by the financial community. Adjusted EBITDA provides insight into an organization s operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company s ability to service debt and is one of the measures used for determining Spectrum Brands debt covenant compliance. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period. While management believes that non-US GAAP measurements are useful supplemental information, such adjusted results are not intended to replace the Company s US GAAP financial results.

Adjusted EBITDA increased $5.6 million, or 4.5%, to 130.7 million for the Fiscal 2013 Quarter from $125.1 million for the Fiscal 2012 Quarter. The increase in Adjusted EBITDA was primarily a result of (i) an increase due to the first-time inclusion of the results of the recently acquired HHI Business, (ii) improvements resulting from the exit of low margin products in the small appliances category of Spectrum Brands Global Batteries and Appliances, (iii) favorable product mix and cost reductions in Spectrum Brands Home and Garden segment, and (iv) reductions in selling, general and administrative expenses at Spectrum Brands attributable to cost synergies. These increases where partially offset by (i) the decrease in gross profit resulting from an increased cost of goods sold resulting from unfavorable manufacturing variances at Spectrum Brands Global Pet Supplies segment, and (ii) decreases in the Global Batteries and Appliances segment attributable to unfavorable product mix and pricing pressures in the U.S.

Table of Contents

The table below shows the adjustments made to the reported operating income of the consumer products segment to calculate its Adjusted EBITDA:

	Fiscal Quarter	
	2013	2012
Reconciliation to reported operating income:		
Reported operating income consumer products segment	$ 68.2	$ 83.7
Add: Other expense not included above	(1.6)	(2.2)
Add back:		
Net loss attributable to non-controlling interest	0.5	
HHI Business inventory fair value adjustment	5.2	
Restructuring and related charges	6.6	7.7
Acquisition and integration related charges	20.8	7.6
Adjusted EBIT consumer products segment	99.7	96.8
Depreciation and amortization, net of accelerated depreciation		
Depreciation of properties	10.7	9.3
Amortization of intangibles	17.1	14.6
Stock-based compensation	3.2	4.4
Adjusted EBITDA consumer products segment	$ 130.7	$ 125.1

Adjusted Operating Income Insurance. Adjusted operating income is a non-US GAAP financial measure frequently used throughout the insurance industry and an economic measure FGL uses to evaluate financial performance each period. For the Fiscal 2013 Quarter, adjusted operating income increased $8.9 million to $33.0 million, or 36.9%, from $24.1 million for the Fiscal 2012 Quarter. This increase is primarily due to mortality gains of $15.2 million recognized in the Fiscal 2013 Quarter caused by large case deaths, as discussed below in benefits and other changes in policy reserves. Partially offsetting this gain was the impact of holding a larger balance of cash and short-term holdings in the Fiscal 2013 Quarter compared to the Fiscal 2012 Quarter, due to a repositioning of the portfolio in conjunction with the Company s realized built-in gain (RBIG) tax strategy in order to realize certain tax advantaged built-in gains, which resulted in lower net investment income of $7.0 million, net of amortization for the quarter.

The table below shows the adjustments made to the reported operating income (loss) of the insurance segment to calculate its adjusted operating income:

	Fiscal Quarter	
	2013	2012
Reconciliation to reported operating income:		
Reported operating income insurance segment	$ 165.3	$ 36.4
Effect of investment gains, net of offsets	(125.7)	(18.2)
Effect of change in FIA embedded derivative discount rate, net of offsets	(6.6)	2.8
Effects of transaction-related reinsurance		3.1
Adjusted operating income	$ 33.0	$ 24.1

Adjusted operating income is calculated by adjusting the reported insurance segment operating income to eliminate the impact of net investment gains, excluding gains and losses on derivatives and including net other-than-temporary impairment losses recognized in operations, the effect of changes in the rates used to discount the FIA embedded derivative liability and the effects of acquisition-related reinsurance transactions, net of the corresponding VOBA and DAC impact related to these adjustments. These items fluctuate period to period in a manner inconsistent with FGL s core operations. Accordingly, we believe using a measure which excludes their impact is effective in analyzing the trends of FGL s operations. Together with reported operating income, we believe adjusted operating income enhances the understanding of underlying results and profitability which in turn provides a meaningful analysis tool for investors.

Table of Contents

Non-US GAAP measures such as adjusted operating income should not be used as a substitute for reported operating income. We believe the adjustments made to the reported operating income in order to derive adjusted operating income are significant to gaining an understanding of FGL s results of operations. For example, FGL could have strong operating results in a given period, yet report operating income that is materially less, if during the period the fair value of derivative assets hedging the FIA index credit obligations decreased due to general equity market conditions but the embedded derivative liability related to the index credit obligation did not decrease in the same proportion as the derivative asset because of non-equity market factors such as interest rate movements. Similarly, FGL could also have poor operating results yet report operating income that is materially greater, if during the period the fair value of the derivative assets increases but the embedded derivative liability increase is less than the fair value change of the derivative assets. FGL hedges FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility. The management and board of directors of FGL review adjusted operating income and reported operating income as part of their examination of FGL s overall financial results. However, these examples illustrate the significant impact derivative and embedded derivative movements can have on reported operating income. Accordingly, the management and board of directors of FGL perform an independent review and analysis of these items, as part of their review of hedging results each period.

The adjustments to reported operating income noted in the table above are net of amortization of VOBA and DAC. Amounts attributable to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuate from period to period based upon changes in the fair values of call options purchased to fund the annual index credits for FIAs, changes in the interest rates used to discount the embedded derivative liability, and the fair value assumptions reflected in the embedded derivative liability. The accounting standards for fair value measurement require the discount rates used in the calculation of the embedded derivative liability to be based on the risk-free interest rates. The impact of the change in risk-free interest rates has been removed from reported operating income. Additionally, in evaluating operating results, the effects of acquisition-related reinsurance transactions have been removed from reported operating income.

Other items affecting net income attributable to common and participating preferred stockholders

Interest Expense. Interest expense increased $87.2 million to $143.1 million for the Fiscal 2013 Quarter from $55.9 million for the Fiscal 2012 Quarter. The increase in quarterly interest expense is principally due to $58.9 million of fees incurred by HGI related to the issuance of the 7.875% Notes, the extinguishment of the 10.625% Notes, and $29.0 million of costs incurred by Spectrum Brands associated with the financing of the Hardware Acquisition. The fees incurred by HGI consisted of $45.9 million cash charges for fees and expenses, and $13.0 of non-cash charges for the write down of debt issuance costs and net unamortized discount related to the extinguishment of the 10.625% Notes. The $29.0 million of costs incurred by Spectrum Brands relating to the Hardware Acquisition financing included: (i) $13.0 million of cash costs related to unused bridge financing commitments; (ii) $6.0 million of cash costs related to interest on the 6.375% Notes and the 6.625% Notes incurred while in escrow prior to the closing of the acquisition; (iii) $2.0 million of cash costs related to a ticking fee on the term loan facility incurred prior to the closing of the transaction; (iv) $3.0 million related to cash costs for underwriting, legal, accounting and other fees; and (v) $5.0 million of non-cash costs for the write off of unamortized deferred financing fees and original issue discount on the former term loan facility that was refinanced in connection with the acquisition.

Gain from the change in the fair value of the equity conversion feature of preferred stock. For the Fiscal 2013 Quarter the fair value of equity conversion feature of Preferred Stock decreased $68.9 million due to the effect of a mark to market change in the fair value of the derivative liability for the bifurcated equity conversion feature of our Preferred Stock. The liability decreased in the Fiscal 2013 Quarter principally due to a decrease in the market price of our common stock from $8.43 to $7.50 per share during the Fiscal 2013 Quarter. During the Fiscal 2012 Quarter the fair value of the derivative liability decreased $27.9 million due to a decrease in the market price of our common stock from $5.07 to $4.01 per share during the Fiscal 2012 Quarter.

Table of Contents

Other (expense) income, net. Other (expense) income, net in the Fiscal 2013 Quarter and the Fiscal 2012 Quarter, relates primarily to $(7.2) and $3.0 million, respectively, of net recognized gains (losses) on trading securities held principally for investing purposes of HGI during the respective periods.

Income Taxes. For the Fiscal 2013 Quarter and the Fiscal 2012 Quarter, our effective tax rates of 48.6% and 46.5%, respectively, were higher than the United States Federal statutory rate of 35%, primarily as a result of (i) pretax losses in the United States and some foreign jurisdictions for which we concluded that the tax benefits are not more-likely-than-not realizable, (ii) deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes, and (iii) tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States. Partially offsetting these factors in the Fiscal 2013 and 2012 Quarters, respectively, were the releases of valuation allowances of $45.9 million and $13.9 million, respectively, on deferred tax assets that Spectrum Brands has determined are more-likely-than-not realizable as a result of recent acquisitions. Net operating loss (NOL) and tax credit carryforwards of HGI and Spectrum Brands are subject to full valuation allowances and those of FGL are subject to partial valuation allowances, as we concluded all or a portion of the associated tax benefits are not more-likely-than-not realizable. Utilization of NOL and other tax credit carryforwards of HGI, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code (IRC) Sections 382 and 383. Such limitations result from ownership changes of more than 50 percentage points over a three-year period.

Spectrum Brands management decided to not permanently reinvest the Fiscal 2012 and future foreign subsidiary earnings, except to the extent repatriation of such earnings is limited or precluded by law. Using these funds, Spectrum Brands management plans to voluntarily prepay its U.S. debt, repurchase shares and fund U.S. acquisitions and ongoing U.S. operational cash flow requirements. As a result of the valuation allowance recorded against Spectrum Brands U.S. net deferred tax assets, including net operating loss carryforwards, Spectrum Brands does not expect to incur incremental U.S. tax expense on the expected future repatriation of foreign earnings. If the U.S. valuation allowance were released at some future date, the U.S. tax on foreign earnings repatriation could have a material impact on our effective tax rate in future periods. For Fiscal 2013, we expect to accrue less than $4.0 million of additional tax expense from non-U.S. withholding and other taxes expected to be incurred on repatriation of current earnings.

Noncontrolling Interest. The net income (loss) attributable to noncontrolling interest reflects the share of the net income (loss) of Spectrum Brands and Salus attributable to the noncontrolling interest not owned by HGI. Such amount varies in relation to Spectrum Brands and Salus net income or loss for the period and the percentage interest not owned by HGI, which was 42.6% and 46.3% for Spectrum Brands, and 7.7% and 0% for Salus, respectively, as of December 30, 2012 and January 1, 2012.

Preferred Stock Dividends and Accretion. The Preferred Stock dividends and accretion consist of (i) a cumulative quarterly cash dividend at an annualized rate of 8%, (ii) a quarterly non-cash principal accretion at an annualized rate of 4% through March 31, 2012, that was reduced to 2% for the remainder of Fiscal 2012, and which was further reduced to a zero rate of accretion on September 30, 2012 for the first half of Fiscal 2013, since we achieved a specified rate of growth measured by the increase in the value of HGI s net assets (the Preferred Stock NAV) calculated in accordance with the certificates of designation of the Preferred Stock, and (iii) accretion of the carrying value of our Preferred Stock, which was discounted by the bifurcated equity conversion feature and issuance costs. The decrease in the Preferred Stock dividends and accretion for the Fiscal 2013 Quarter compared to the Fiscal 2013 Quarter is due to the quarterly non-cash principal accretion rate decreasing from 4% in the Fiscal 2012 Quarter to a zero rate of accretion for the Fiscal 2013 Quarter.

For purposes of determining the Preferred Stock accretion amount, we calculate the Preferred Stock NAV in accordance with terms of the certificates of designation of the Preferred Stock. In accordance with the certificates of designation, we are required to calculate the Preferred Stock NAV on September 30 and March 31 of each calendar year. The accretion rate will be set for the following six months based on the performance of our Preferred Stock NAV as of the date of such calculation. The Preferred Stock NAV as of September 30, 2012,

Table of Contents

calculated in accordance with the certificates of designation, was approximately $1.5 billion. This calculation results in no quarterly non-cash accretion for the first half of Fiscal 2013, although it could increase to an annualized rate of 2% or 4% in subsequent periods based upon changes in the Preferred Stock NAV.

Liquidity and Capital Resources

HGI

HGI is a holding company and its liquidity needs are primarily for interest payments on the 7.875% Notes (approximately $55.1 million per year), dividend payments on its Preferred Stock (approximately $33.4 million per year), professional fees (including advisory services, legal and accounting fees), salaries and benefits, office rent, pension expense, insurance costs, funding certain requirements of its insurance and other subsidiaries, and certain support services and office space provided by Harbinger Capital to HGI. HGI s current source of liquidity is its cash, cash equivalents and investments, and distributions from its subsidiaries.

We currently expect to receive approximately $40.0 million in dividends from FGL during Fiscal 2013, sufficient to fund a substantial portion of the interest payments on the 7.875% Notes. We also expect to receive approximately $22.4 million during Fiscal 2013 from Spectrum Brands as HGI s portion of a $0.25 per share quarterly dividend to be declared by Spectrum Brands to its stockholders, and we also expect to receive $3.0 million in dividends from Salus during the remainder of Fiscal 2013. Lastly, we expect to receive up to $46.0 million in dividends during the remainder of Fiscal 2013 from our oil and gas MLP joint venture with EXCO Resources, after it closes in our second quarter of Fiscal 2013. The rest of HGI s cash needs for the remainder of Fiscal 2013, including if the EXCO/HGI Production Partners Acquisition is completed, are expected to be satisfied out of cash and investments on hand. The ability of HGI s subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in such subsidiary s financing agreements, availability of sufficient funds in such subsidiary, applicable state laws and regulatory restrictions and the approval of such payment by such subsidiary s board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors such subsidiary s board of directors considers relevant including, in the case of FGL, target capital ratios and ratio levels anticipated by regulatory agencies to maintain or improve current ratings (see FGL below for more detail). At the same time, HGI s subsidiaries may require additional capital to maintain or grow their businesses. Such capital could come from HGI, retained earnings at the relevant subsidiary or from third-party sources, including from the issuance of debt and/or equity by HGI or our subsidiaries. For example, Front Street Re, Ltd. (Front Street), a Bermuda-based reinsurer and wholly-owned subsidiary of ours, will require additional capital in order to engage in reinsurance transactions, and may require additional capital to meet regulatory capital requirements. In addition, FGL may issue debt and/or equity in the future to grow its business and/or pursue acquisition activities. HGI and FGL have also committed to provide Salus with capital and financing, in order to engage in asset based lending transactions.

We expect our cash, cash equivalents and investments to continue to be a source of liquidity except to the extent they may be used to fund investments in operating businesses or assets, such as the EXCO/HGI Production Partners Acquisition. At December 30, 2012, HGI s corporate cash, cash equivalents and investments were $489.2 million.

Based on current levels of operations, HGI does not have any significant capital expenditure commitments and management believes that its consolidated cash, cash equivalents and investments on hand will be adequate to fund its operational and capital requirements for at least the next twelve months. Depending on the size and terms of future acquisitions of operating businesses or assets, HGI and its subsidiaries may raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available at that time, in the amounts necessary or with terms satisfactory to HGI. We expect to service any such additional

debt through raising dividends received from our subsidiaries. We may also seek to retire or refinance our 7.875% Notes or Preferred Stock through open market purchases, tender offers, negotiated transactions or otherwise.

Spectrum Brands

Spectrum Brands expects to fund its cash requirements, including capital expenditures, dividend, interest and principal payments due during the remainder of Fiscal 2013, including the Hardware Acquisition, through a combination of cash on hand ($70.9 million at December 30, 2012) and cash flows from operations and available borrowings under its ABL revolving credit facility (the ABL Facility). Spectrum Brands expects its capital expenditures for the remaining nine months of Fiscal 2013 will be approximately $66.0 million to $71.0 million. Going forward, its ability to satisfy financial and other covenants in its senior credit agreements and senior unsecured indentures and to make scheduled payments or prepayments on its debt and other financial obligations will depend on its future financial and operating performance. There can be no assurances that its business will generate sufficient cash flows from operations or that future borrowings under the ABL Facility will be available in an amount sufficient to satisfy its debt maturities or to fund its other liquidity needs.

Subsequent to October 1, 2011, Spectrum Brands is not treating current foreign earnings as permanently reinvested. At December 30, 2012, there are no significant foreign cash balances available for repatriation. For the remainder of Fiscal 2013, Spectrum Brands expects to generate between $75.0 million and $100.0 million of foreign cash that will be repatriated for its general corporate purposes.

In December 2012, Spectrum Brands assumed $520.0 million aggregate principal amount of 6.375% Senior Notes due 2020 and $570.0 million aggregate principal amount of 6.625% Senior Notes due 2022 in connection with the acquisition of the (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the HHI Business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the HHI Business. Spectrum Brands used the net proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands financed the remaining portion of the Hardware Acquisition with a new $800.0 million term loan facility, of which $100.0 million is in Canadian dollar equivalents (the Term Loan). A portion of the Term Loan proceeds were also used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 prior to refinancing.

From time to time we or Spectrum Brands may purchase outstanding securities of Spectrum Brands or its subsidiaries, in the open market or otherwise.

FGL

FGL conducts all its operations through operating subsidiaries. Dividends from its subsidiaries are the principal sources of cash to pay dividends to HGI and to meet its holding company obligations. Other principal sources of cash include sales of assets. In addition, FGL may issue debt and/or equity in the future to grow its business and/or pursue acquisition activities.

The liquidity requirements of FGL s regulated insurance subsidiaries principally relate to the liabilities associated with their various insurance and investment products, operating costs and expenses, the payment of dividends to FGL and income taxes. Liabilities arising from insurance and investment products include the payment of benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans and obligations to redeem funding agreements.

FGL s insurance subsidiaries have used cash flows from operations and investment activities to fund their liquidity requirements. FGL s insurance subsidiaries principal cash inflows from operating activities are derived from premiums, annuity deposits and insurance and investment product fees and other income. The principal

Table of Contents

cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

FGL s insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance, are matched with investments having similar estimated lives such as long-term fixed maturity securities. Shorter-term liabilities are matched with fixed maturity securities that have short- and medium-term fixed maturities. In addition, FGL s insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated operating expenses, surrenders and withdrawals.

The ability of FGL s subsidiaries to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiaries are domiciled, which subject its subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, FGL s insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from the rating agencies. In that regard, we may limit dividend payments from our major insurance subsidiary to the extent necessary for its risk based capital ratio to be at a level anticipated by the ratings agencies to maintain or improve its current rating. Given recent economic events that have affected the insurance industry, both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for FGL s insurance subsidiaries which, in turn, could negatively affect the cash available to FGL from its insurance subsidiaries and, in turn, to us. FGL monitors its insurance subsidiaries compliance with the risk based capital requirements specified by the National Association of Insurance Commissioners (the NAIC). As of December 30, 2012, each of FGL s insurance subsidiaries has exceeded the minimum risk based capital requirements.

FGL s Investment Portfolio

The types of assets in which FGL may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Within the parameters of these laws, FGL invests in assets giving consideration to three primary investment objectives: (i) income-oriented total return, (ii) yield maintenance/enhancement and (iii) capital preservation/risk mitigation.

FGL s investment portfolio is designed to provide a stable earnings contribution and balanced risk portfolio across asset classes and is primarily invested in high quality corporate bonds with low exposure to consumer-sensitive sectors.

As of December 30, 2012 and September 30, 2012, FGL s investment portfolio, including asset-based loans originated by Salus, was approximately $17.1 billion and $16.7 billion, respectively, and was divided among the following asset classes (dollars in millions):

	December 30, 2012		September 30, 2012	
Asset Class	**Fair Value**	**Percent**	**Fair Value**	**Percent**
Asset-backed securities	$ 1,290.7	7.5%	$ 1,027.9	6.1%
Commercial mortgage-backed securities	563.6	3.3%	553.8	3.3%
Corporates	9,874.2	57.6%	11,009.0	65.8%
Equities	263.8	1.5%	248.1	1.5%
Hybrids	441.5	2.6%	528.2	3.2%
Municipals	1,174.3	6.9%	1,224.0	7.3%
Agency residential mortgage-backed securities	140.0	0.8%	155.0	0.9%
Non-agency residential mortgage-backed securities	969.2	5.7%	660.6	3.9%
U.S. Government	2,023.1	11.8%	930.4	5.6%
Other (primarily derivatives, asset-backed loans and policy loans)	393.9	2.3%	399.6	2.4%
Total investments	$ 17,134.3	100.0%	$ 16,736.6	100.0%

Table of Contents

Fixed Maturity Securities

Insurance statutes regulate the type of investments that FGL s life subsidiaries are permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations and FGL s business and investment strategy, FGL generally seeks to invest in United States government and government-sponsored agency securities and corporate securities rated investment grade by established nationally recognized statistical rating organizations (each, an NRSRO) or in securities of comparable investment quality, if not rated.

As of December 30, 2012 and September 30, 2012, FGL s fixed maturity available-for-sale portfolio was approximately $16.5 billion and $16.1 billion, respectively. The following table summarizes the credit quality, by NRSRO rating, of FGL s fixed income portfolio (dollars in millions):

	December 30, 2012		September 30, 2012	
Rating	**Fair Value**	**Percent**	**Fair Value**	**Percent**
AAA	$ 2,830.9	17.2%	$ 1,842.3	11.4%
AA	2,495.3	15.1%	2,042.9	12.7%
A	4,020.6	24.4%	4,280.4	26.6%
BBB	5,831.0	35.4%	7,084.0	44.0%
BB	519.2	3.2%	459.0	2.9%
B and below	779.6	4.7%	380.3	