HARBINGER GROUP INC.
Form 10-K
November 27, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 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, 27th Floor	
New York, NY	**10022**
(Address of principal executive offices)	*(Zip Code)*

Registrant s Telephone Number, Including Area Code (212) 906-8555

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ or No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ or No þ

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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ or No ¨.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ (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 Act). Yes ¨ or No þ

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant s most recently completed second fiscal quarter, April 1, 2012, was approximately $49.8 million. For the sole purpose of making this calculation, the term non-affiliate has been interpreted to exclude directors and executive officers and other affiliates of the registrant and persons affiliated with Harbinger Capital Partners LLC.

As of November 22, 2012, the registrant had outstanding 140,186,935 shares of common stock, $0.01 par value.

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to January 28, 2013.

Table of Contents

TABLE OF CONTENTS

PART I

Unless otherwise indicated or the context requires otherwise, in this disclosure, references to the Company, HGI, we, us or our refe Harbinger Group Inc. and, where applicable, its consolidated subsidiaries; Harbinger Capital refers to Harbinger Capital Partners LLC; Principal Stockholders refers, collectively, to Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd.; Russell Hobbs refers to Russell Hobbs, Inc. and, where applicable, its consolidated subsidiaries; Spectrum Brands refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries; SBI refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries; HFG refers to Harbinger F&G, LLC (formerly Harbinger OM, LLC); HHI refers to the hardware and home improvement business currently operated by Stanley Black & Decker and certain of its subsidiaries, which SBI has agreed to acquire; FS Holdco refers to FS Holdco Ltd.; Front Street refers to Front Street Re Ltd; FGL refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; Raven Re refers to Raven Reinsurance Company; FGL Insurance refers to Fidelity & Guaranty Life Insurance Company; FGL NY Insurance refers to Fidelity & Guaranty Life Insurance Company of New York; Salus refers to Salus Capital Partners, LLC; and HGI Energy refers to HGI Energy Holdings, LLC.

FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

This document contains, and certain oral statements made by our representatives from time to time may contain, forward-looking statements that are subject to risks and uncertainties that could cause actual results, events and developments to differ materially from those set forth in or implied by such statements. These statements are based on the beliefs and assumptions of HGI s management and the management of HGI s subsidiaries (including target businesses). Generally, forward-looking statements include information concerning possible or assumed future actions, events, results, strategies and expectations and are generally identifiable by use of the words believes, expects, intends, anticipates plans, seeks, estimates, projects, may, will could, might, or continues or similar expressions. Factors that could cause actual re developments to differ include, without limitation: the ability of HGI s subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions, capital market conditions, HGI s and its subsidiaries ability to identify any suitable future acquisition opportunities, efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with HGI or HGI subsidiaries, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management s plans, changes in regulations and taxes.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed in Item 1A of Part I of this report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating the business of the Company and our subsidiaries.

Table of Contents

HGI

HGI s actual results or other outcomes may differ from those expressed or implied by forward-looking statements contained or incorporated herein due to a variety of important factors, including, without limitation, the following:

limitations on our ability to successfully identify additional suitable acquisition and investment opportunities and to compete for these opportunities with others who have greater resources;

the need to provide sufficient capital to our operating businesses;

our dependence on distributions from our subsidiaries to fund our operations and payments on our debt;

the impact of covenants in the indenture, dated as of November 15, 2011, and supplemented by the supplemental indenture, dated June 22, 2011 and the second supplemental indenture, dated June 28, 2011, (as supplemented, the Indenture), governing our $500 million 10.625% senior secured notes due 2015 (the 10.625% Notes) and our preferred stock certificates of designation (together, the Certificate of Designation), and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of additional acquisition opportunities;

the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we and our subsidiaries may incur;

the impact on the holders of our common stock if we issue additional shares of our common stock or preferred stock;

the impact on the aggregate value of our assets and our stock price from changes in the market prices of publicly traded equity interests we hold, particularly during times of volatility in security prices;

the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;

the impact of restrictive stockholder agreements and securities laws on our ability to dispose of equity interests we hold;

the impact of decisions by our controlling stockholders, whose interest may differ from those of our other stockholders, or their ceasing to remain controlling stockholders;

the effect interests of our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;

our dependence on certain key personnel;

the impact of potential losses and other risks from changes in our portfolio of securities;

our ability to effectively increase the size of our organization and manage our growth;

the impact of a determination that we are an investment company or personal holding company;

the impact of future claims arising from operations, agreements and transactions involving former subsidiaries;

the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;

the ability of HGI Energy to consummate the joint venture transaction with EXCO Resources, Inc. (EXCO Parent) to form a partnership for the purpose of holding certain oil, gas and mineral leases and wells and certain related assets;

tax consequences associated with our acquisition, holding and disposition of target companies and assets;

the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or negative reports concerning our internal controls;

the impact of the relatively low market liquidity for our common stock; and

the effect of price fluctuations in our common stock caused by general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly held subsidiaries.

Table of Contents

Spectrum Brands

Spectrum Brands actual results or other outcomes may differ from those expressed or implied by the forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- the impact of Spectrum Brands substantial indebtedness on its business, financial condition and results of operations;
- the impact of restrictions in Spectrum Brands debt instruments on its ability to operate its business, finance its capital needs or pursue or expand business strategies;
- any failure to comply with financial covenants and other provisions and restrictions of Spectrum Brands debt instruments;
- Spectrum Brands ability to successfully integrate the business acquired in connection with the combination with HHI and achieve the expected synergies from that integration at the expected costs;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers willingness to advance credit;
- interest rate and exchange rate fluctuations;
- the loss of, or a significant reduction in, sales to a significant retail customer(s);
- competitive promotional activity or spending by competitors or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where Spectrum Brands does business;
- changes in consumer spending preferences and demand for Spectrum Brands products;
- Spectrum Brands ability to develop and successfully introduce new products, protect its intellectual property and avoid infringing the intellectual property of third parties;

Spectrum Brands ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;

the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);

public perception regarding the safety of Spectrum Brands products, including the potential for environmental liabilities, product liability claims, litigation and other claims;

the impact of pending or threatened litigation;

changes in accounting policies applicable to Spectrum Brands business;

government regulations;

the seasonal nature of sales of certain of Spectrum Brands products;

the effects of climate change and unusual weather activity;

the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets;

the risk that synergies will not be realized following the consummation of the acquisition of HHI; and

the ability of SBI to consummate the acquisition of HHI.

Table of Contents

FGL and Front Street

FGL s and Front Street s actual results or other outcomes may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

FGL s insurance subsidiaries ability to maintain and improve their financial strength ratings;

FGL s and its insurance subsidiaries need for additional capital in order to maintain the amount of statutory capital that they must hold to maintain their financial strength and credit ratings and meet other requirements and obligations;

FGL s ability to manage its business in a highly regulated industry, which is subject to numerous legal restrictions and regulations;

availability of reinsurance and credit risk associated with reinsurance;

the accuracy of FGL s assumptions and estimates regarding future events and ability to respond effectively to such events, including mortality, persistency, expenses and interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results;

the impact of interest rate fluctuations on FGL;

the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on FGL;

changes in the Federal income tax laws and regulations which may affect the relative income tax advantages of FGL s products;

FGL s ability to defend itself against litigation (including class action litigation) and respond to enforcement investigations or regulatory scrutiny;

the performance of third parties including distributors and technology service providers, and providers of outsourced services;

the impact of new accounting rules or changes to existing accounting rules on FGL;

FGL s ability to protect its intellectual property;

general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) FGL s ability to sell its products, its ability to access capital resources and the costs associated therewith, the fair value of its investments, which could result in impairments and other-than-temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;

regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies;

the impact on FGL of man-made catastrophes, pandemics, computer virus, network security branches and malicious and terrorist acts;

the impact of FGL s reinsurers, including Wilton Reassurance Company, failing to meet or timely meet their assumed obligations, increasing their reinsurance rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to FGL at consistent and economical terms;

FGL s ability to compete in a highly competitive industry;

Table of Contents

- Front Street s ability to effectively implement its business strategy, including the need for capital; and

- the ability to obtain approval of the Maryland Insurance Administration (MIA) and other regulatory authorities as required for FGL s operations.

Salus

- Salus ability to recover amounts that are contractually owed to it by its borrowers;

- Salus ability to continue to address a number of issues to implement its strategy and grow its business;

- the impact on Salus resulting from further deterioration in economic conditions;

- Salus ability to compete with traditional competitors and new market entrants;

- Salus ability to attract and retain skilled people; and

- Salus ability to address a variety of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft, operational errors and systems malfunctions.

We caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this document. Neither we nor any of our subsidiaries undertake any duty or responsibility to update any of these forward-looking statements to reflect events or circumstances after the date of this document or to reflect actual outcomes.

Table of Contents

Item 1. ***Business***

Overview

Our Company

We are a diversified holding company focused on acquiring businesses with attractive assets that we consider to be undervalued or fairly valued and growing our acquired businesses. Our principal operations are conducted through Spectrum Brands, our majority owned subsidiary that provides branded consumer products such as batteries, personal care products, small household appliances, pet supplies, and home and garden pest control products, and FGL, our wholly-owned indirect subsidiary that provides life insurance and annuity products. In addition, Salus, our wholly-owned indirect subsidiary, is engaged in the business of providing secured asset-based loans across a variety of industries, and Front Street, our wholly-owned indirect subsidiary, was formed in March 2010 to act as a long-term reinsurer, and to provide reinsurance to the specialty insurance sector of fixed, deferred and payout annuities. We also own 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. While we search for additional acquisition opportunities, we manage a portion of our available cash and acquire interests in possible acquisition targets through our wholly-owned subsidiary HGI Funding LLC, a Delaware limited liability company. We were incorporated in Delaware in 1954 under the name Zapata Corporation and reincorporated in Nevada in April 1999 under the same name. On December 23, 2009, we reincorporated in Delaware under the name Harbinger Group Inc. Our common stock trades on the New York Stock Exchange (NYSE) under the symbol HRG. Our principal executive offices are located at 450 Park Avenue, 27th Floor, New York, New York 10022.

Our Strategy

We intend to acquire companies that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to take a long-term view and seek opportunities that are able to generate high returns and significant cash flow to maximize long-term value for our stockholders. We intend to seek a variety of acquisition opportunities, including businesses where we believe a catalyst for value realization is already present, where we can engage with companies to unlock value or where we can realize synergies with our existing businesses. We may also seek businesses that are in need of a financial restructuring or operational turnaround. In addition to our intention to acquire controlling equity interests, we may also from time to time make investments in debt instruments and acquire minority equity interests in companies.

We intend to take an active approach to managing the companies in which we acquire a controlling interest. Such activities may include assembling senior management teams with the expertise to operate the businesses, providing management of such companies with specific operating objectives, acquiring or combining complimentary businesses or expanding existing operations. We will bring an owner s perspective to our operating businesses and we will hold management accountable for their performance.

Our Competition

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.

In identifying, evaluating and selecting a target business, we may encounter intense competition from other entities having similar business objectives such as strategic investors, private equity groups and special purpose acquisition corporations. Many of these entities are well established and have extensive experience identifying and effecting business combinations directly or through affiliates. Many of these competitors may possess greater technical, human and other resources than us, and our financial resources may be relatively limited when contrasted with many of these competitors. Any of these factors may place us at a competitive disadvantage in successfully negotiating a business combination.

The majority of our common stock is owned by the Principal Stockholders. The Principal Stockholders and their affiliates include other vehicles that actively are seeking acquisition opportunities, and any one of those vehicles may at any time be seeking opportunities similar to those targeted by us. Our directors and officers who are affiliated with the Principal Stockholders may consider, among other things, asset type and investment time horizon in evaluating opportunities for us. In recognition of the potential conflicts that these persons and our other directors may have with respect to corporate opportunities, our amended and restated certificate of incorporation permits our board of directors from time to time to assert or renounce our interests and expectancies in one or more specific industries. In accordance with this provision, we have determined that we will not seek business combinations or acquisitions of businesses engaged in the wireless communications industry. However, a renunciation of interests and expectancies in specific industries does not preclude us from seeking business acquisitions in those industries. We have had discussions regarding potential acquisitions in various industries, including wireless communications.

Employees

At September 30, 2012, HGI employed nineteen persons. In the normal course of business, we use contract personnel to supplement our employee base to meet business needs. We believe that employee relations are generally satisfactory. We expect that we may hire additional employees given our recent acquisitions and anticipated future acquisitions and the increasing complexity of the business. At September 30, 2012, our subsidiaries employed approximately 6,000 persons.

The EXCO/HGI Partnership

On November 5, 2012, HGI Energy, a Delaware limited liability company and a wholly owned subsidiary of HGI, entered into a Unit Purchase and Contribution Agreement (the EXCO/HGI Purchase Agreement) with EXCO Parent, a Texas corporation, EXCO Operating Company, LP (EOC , and collectively with EXCO Parent, EXCO), a Delaware limited partnership, and EXCO/HGI JV Assets, LLC (MLP LLC), a Delaware limited liability company initially formed as an indirect wholly owned subsidiary of EXCO Parent, pursuant to which, at the closing of the transactions contemplated by the EXCO/HGI Purchase Agreement (the EXCO/HGI Closing), which will be effective in economic terms as of July 1, 2012 (the EXCO/HGI Effective Time), EXCO and HGI Energy have agreed to form EXCO/HGI Production Partners, LP (the EXCO/HGI Partnership), a Delaware limited partnership, and its general partner, EXCO/HGI GP, LLC, a Delaware limited liability company (the EXCO/HGI General Partner). The EXCO/HGI Partnership will be formed for the purpose of holding oil, gas and mineral leases and wells located in shallow depths in the Permian Basin in West Texas and in East Texas/North Louisiana and holding certain contracts, easements, permits and rights-of-way, tangible assets, data and records, in each case, relating to such oil and gas properties (the EXCO Contributed Properties) (each individually, an EXCO Contributed Property). The transaction is subject to closing conditions as outlined under Conditions to the EXCO/HGI Closing below.

Contributions to MLP LLC.

Pursuant to the EXCO/HGI Purchase Agreement, prior to the EXCO/HGI Closing, EXCO Parent and EOC will contribute the EXCO Contributed Properties to MLP LLC, and MLP LLC will assume certain related liabilities, after which EXCO Parent will cause all of the issued and outstanding limited liability company interests in MLP LLC to be held by EXCO Holding MLP, Inc. (EXCO Holding), a Texas corporation and a wholly owned subsidiary of EXCO Parent.

Table of Contents

Contributions to, and Distributions from, the EXCO/HGI Partnership.

At the EXCO/HGI Closing, and in each case in accordance with the terms and conditions set forth in the EXCO/HGI Purchase Agreement, EXCO Parent will cause EXCO Holding to: (a) contribute and deliver all of the issued and outstanding limited liability company interests of MLP LLC to the EXCO/HGI Partnership in exchange for 12,750,000 common units representing limited partner interests in the EXCO/HGI Partnership (EXCO/HGI Partnership Common Units) and a cash amount equal to $597,500,000 (which amounts may be adjusted as described below) and (b) contribute 500,000 EXCO/HGI Partnership Common Units to the EXCO/HGI General Partner in exchange for 500,000 units representing limited liability company interests in the EXCO/HGI General Partner (EXCO/HGI GP LLC Units) (which amounts may be adjusted as described below). Additionally, HGI Energy will contribute (a) a cash amount equal to $372,500,000 to the EXCO/HGI Partnership (the HGI Energy Contribution) in exchange for 37,250,000 EXCO/HGI Partnership Common Units (which amounts may be adjusted as described below), and (b) contribute 500,000 EXCO/HGI Partnership Common Units to the EXCO/HGI General Partner in exchange for 500,000 EXCO/HGI GP LLC Units (which amounts may be adjusted as described below). Immediately after the aggregate 1,000,000 EXCO/HGI Partnership Common Units are contributed by EXCO Holding and HGI Energy to the EXCO/HGI General Partner, such EXCO/HGI Partnership Common Units held by the EXCO/HGI General Partner will be converted into 1,000,000 notional general partner units representing general partner interests in the EXCO/HGI Partnership (which amounts may be adjusted as described below). Also at the EXCO/HGI Closing, the EXCO/HGI Partnership is expected to enter into a $400,000,000 secured revolving credit facility (the EXCO/HGI Partnership Debt), from which an initial $225,000,000 (as may be adjusted as described below) is expected to be drawn at the EXCO/HGI Closing to fund in part the EXCO/HGI Partnership s $597,500,000 cash distribution to EXCO Holding.

Adjustment of Contributions and Distributions.

Each of the amounts described above are subject to adjustments set forth in the EXCO/HGI Purchase Agreement that are intended to provide MLP LLC with the economic benefits and costs associated with the ownership of the EXCO Contributed Properties during the period from the EXCO/HGI Effective Time to the EXCO/HGI Closing and to maintain the relative equity ownership of HGI Energy, on the one hand, and EXCO Holding, on the other hand, in the EXCO/HGI Partnership and the EXCO/HGI General Partner.

Such amounts may also be adjusted, with the effect of maintaining the relative equity ownership between HGI Energy and EXCO Holding, to the extent that assets are excluded from the transaction or adjustments are made to the applicable amounts, in each case, based upon title defects, environmental defects or the failure to obtain required third party consents, waivers of applicable preferential purchase rights or waivers of maintenance of uniform interest provisions. It is a condition to each of EXCO s and HGI Energy s obligations to complete the transactions contemplated by the EXCO/HGI Purchase Agreement that the aggregate value of these adjustments do not, in the aggregate, exceed $70,000,000.

Representations and Warranties; Covenants; Indemnities.

The EXCO/HGI Purchase Agreement contains customary representations and warranties, covenants and indemnities by EXCO and HGI Energy.

Title and Environmental Matters.

With limited exceptions, HGI Energy s exclusive remedy for title and environmental matters is through a customary title and environmental defect mechanism. HGI Energy has until January 7, 2013 to conduct its diligence of title and environmental matters relating to the EXCO Contributed Properties. To the extent HGI Energy identifies certain types of defects prior to January 7, 2013, HGI Energy may have recourse, subject to applicable thresholds, deductibles and other limitations, to exclude the affected EXCO Contributed Property or to seek indemnification or other remedies against such defects.

Table of Contents

Equity Ownership of the EXCO/HGI Partnership.

Upon completion of the EXCO/HGI Closing, HGI Energy will hold 74.5% of the EXCO/HGI Partnership Common Units and EXCO Holding will hold 25.5% of the EXCO/HGI Partnership Common Units, in each case directly or through their interest in the EXCO/HGI General Partner. In addition, each of HGI Energy, on the one hand, and EXCO Holding, on the other hand, will hold 50% of the EXCO/HGI GP LLC Units. The EXCO/HGI General Partner will, in turn, own a 2% general partner interest in the EXCO/HGI Partnership and all of the incentive distribution rights in the EXCO/HGI Partnership (the EXCO/HGI GP Incentive Distribution Rights). The EXCO/HGI GP Incentive Distribution Rights will entitle the EXCO/HGI General Partner to receive (a) quarterly distributions of available cash (as defined in the Amended and Restated Agreement of Limited Partnership of the EXCO/HGI Partnership to be entered into at the EXCO/HGI Closing (the EXCO/HGI Partnership Agreement), which will include all sources of cash after giving effect to reserves, but will exclude cash from capital contributions) equal to 23% of the amount of such distributions after distributions to the EXCO/HGI General Partner and holders of EXCO/HGI Partnership Common Units exceed $1.00 per unit per fiscal year, and (b) net proceeds from distributions of the proceeds of sales of certain capital assets equal to 23% of the amount of such distributions to the EXCO/HGI General Partner and holders of EXCO/HGI Partnership Common Units following the return of 110% of invested capital with respect to EXCO/HGI Partnership Common Units.

Management of the EXCO/HGI General Partner.

Following the EXCO/HGI Closing, the EXCO/HGI General Partner will be the sole general partner of the EXCO/HGI Partnership. The EXCO/HGI General Partner will be managed by the Board of Directors of the EXCO/HGI General Partner (the EXCO/HGI GP Board), which will initially consist of two members designated by HGI Energy and two members designated by EXCO Holding. Under the terms of the Amended and Restated Limited Liability Company Agreement of the EXCO/HGI General Partner (the EXCO/HGI GP LLC Agreement) that will be entered into at the EXCO/HGI Closing, certain material actions of the EXCO/HGI General Partner, the EXCO/HGI Partnership and their subsidiaries will require the approval of at least one HGI Energy appointee to the EXCO/HGI GP Board and at least one EXCO Holding appointee to the EXCO/HGI GP Board.

Certain Business Opportunities.

In addition, the EXCO/HGI GP LLC Agreement will require each of EXCO Parent and certain of its affiliates (the EXCO Group) and HGI and certain of its affiliates (the HGI Group) to present certain business opportunities to the EXCO/HGI Partnership. If the EXCO Group or the HGI Group desires to purchase, acquire or otherwise obtain oil and gas properties meeting certain specified criteria, including that such oil and gas properties (a) are located onshore in the United States of America, (b) have proved developed reserves that comprise at least 65% of proved reserves and projected decline rates of 12.5% or less on an annualized basis in the three calendar years post-acquisition, (c) include undeveloped acreage that contributes less than 30% of the value of such oil and gas properties, (d) with respect to future development opportunities, substantially all of such future development opportunities could economically occur through drilling vertical wells, (e) are in the aggregate reasonably estimated to generate cash flow sufficient to cover the cost of future development and (f) are valued at an amount equal to or less than the aggregate amount of then-existing financing reasonably available to the EXCO/HGI Partnership (EXCO/HGI Partnership Appropriate Oil and Gas Properties), such group will be obligated to give notice of such potential acquisition to the EXCO/HGI Partnership, which must be delivered at least 40 days prior to the closing of the potential acquisition. For a period of 30 days after such notice and all information reasonably requested by the receiving party have been received, the EXCO/HGI Partnership will have an irrevocable right and option to agree to purchase all but not less than all of such EXCO/HGI Partnership Appropriate Oil and Gas Properties either (a) from the seller(s) of such EXCO/HGI Partnership Appropriate Oil and Gas Properties or (b) from the EXCO Group or the HGI Group, as applicable, following such group s acquisition of such EXCO/HGI Partnership Appropriate Oil and Gas Properties, in each case, upon substantially the same terms and the same price as payable or paid by the EXCO Group or HGI Group, as applicable, for such EXCO/HGI Partnership Appropriate Oil and Gas Properties. If the EXCO Group or the HGI Group desires to sell, transfer or otherwise dispose of any EXCO/HGI Partnership Appropriate Oil and Gas Properties, such group will be obligated to give notice of such potential disposition to the EXCO/HGI Partnership, which must be delivered at least 40 days prior to the closing of the potential disposition. For a period of 30 days after such notice and all information reasonably requested by the receiving party have been received, the EXCO/HGI Partnership will have an irrevocable right and option to agree to purchase all but not less than all of such EXCO/HGI Partnership Appropriate Oil and Gas Properties from the EXCO Group or the HGI Group, as applicable, on substantially the same terms as those offered by the other potential purchaser and at a price no less than 2% higher than the price offered by such other potential purchaser. The provisions in the EXCO/HGI GP LLC Agreement governing business opportunities do not apply to package sales in which the EXCO/HGI Partnership Appropriate Oil and Gas Properties constitute less than 20% of the overall value of the transaction, sales of all or substantially all of HGI s or EXCO s assets, or acquisitions of an entity in which EXCO/HGI Partnership Appropriate Oil and Gas Properties constitute one-third or less of the value of such entity and will terminate upon the earliest to occur of (a) 12 months following either a change of control of EXCO Parent or a change of control of HGI, (b) HGI Energy exercising, pursuant to the EXCO/HGI GP LLC Agreement, full special committee control rights relating to certain EXCO/HGI GP Board actions after a change of control of EXCO Parent, (c) EXCO Parent or its affiliates no longer serving as an operator of the EXCO Contributed Properties or (d) either (i) EXCO Holding no longer owning any EXCO/HGI GP LLC Units, (ii) HGI Energy no longer owning any EXCO/HGI GP LLC Units or (iii) HGI Energy transferring 25% or more of the outstanding EXCO/HGI GP LLC Units to a competitor of the EXCO/HGI Partnership.

***Certain Appalachia Business Opportunities*.**

Acquisitions and dispositions by EXCO of conventional oil and gas properties in New York, Ohio, Pennsylvania and West Virginia (Appalachia Properties) are subject to the provisions in the EXCO/HGI GP LLC Agreement governing business opportunities (described above), but such rights with respect to Appalachia Properties are further subject to the terms of that certain Appalachia Letter Agreement, by and among EXCO Parent, EOC, HGI Energy and HGI, dated as of November 5, 2012 (the Appalachia Agreement). Pursuant to the Appalachia Agreement, EXCO and its affiliates may acquire, without complying with the applicable provisions of the EXCO/HGI GP LLC Agreement, Appalachia Properties (a) that (i) are acquired primarily for the purpose of complementing EXCO s existing portfolio of existing Appalachia Properties, (ii) are acquired by EXCO solely for its own account and (iii) will be operated by EXCO (or certain affiliates of EXCO) for its own account and (b) except as provided above or in any permitted disposition described below, for which EXCO will not provide any third party with any equity or equity-linked right to such acquired Appalachia Properties. Pursuant to the Appalachia Agreement, EXCO may dispose of or transfer, without complying with the applicable provisions of the EXCO/HGI GP LLC Agreement, Appalachia Properties (a) to entities for which the equity owners (i) are persons whose principal business is owning and operating oil and gas properties and (ii) received a significant portion of their equity interests in exchange for the contribution of assets and (b) to any person if after such disposition or transfer neither EXCO nor its affiliates will remain as operator or receive any general partnership or other promoted equity interest or significant control rights, provided that with respect to such disposition or transfers, subject to existing agreements with third parties, HGI shall have a right of first offer.

***EXCO/HGI Partnership Common Unit and EXCO/HGI GP LLC Unit Transfer Restrictions*.**

Under the EXCO/HGI Partnership Agreement and EXCO/HGI GP LLC Agreement, respectively, transfers of EXCO/HGI Partnership Common Units and EXCO/HGI GP LLC Units will be subject to various restrictions, and each of HGI Energy and EXCO Holding will have various rights with respect to the transfer or issuance of EXCO/HGI Partnership Common Units and EXCO/HGI GP LLC Units, including (a) rights of first refusal, (b) tagalong rights, (c) preemptive rights and (d) drag-along rights.

Table of Contents

Operation of the EXCO Contributed Properties.

Also in connection the EXCO/HGI Closing, (i) each of EXCO Parent and EOC will enter into an Operating Agreement with MLP LLC to provide certain services with respect to the operation of the EXCO Contributed Properties contributed by such party to MLP LLC and certain related assets and (ii) EXCO Parent, the EXCO/HGI General Partner and the EXCO/HGI Partnership will enter into an Administrative Services Agreement, pursuant to which EXCO Parent will provide certain services to the EXCO/HGI Partnership.

Conditions to the EXCO/HGI Closing.

The EXCO/HGI Purchase Agreement contains a number of conditions that must be satisfied before EXCO and HGI Energy have the obligation to effect the EXCO/HGI Closing, including: the accuracy of EXCO s and HGI Energy s respective representations and warranties; compliance by EXCO and HGI Energy with their respective covenants; the absence of injunctions or certain suits or actions; the receipt of certain counterparty and regulatory consents (including the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended); the receipt of the debt financing to the EXCO/HGI Partnership described above; the obtaining and maintenance of certain insurance coverage by EXCO Parent and the EXCO/HGI Partnership and its subsidiaries; the release of liens under certain existing debt of EXCO and its affiliates; the receipt by HGI Energy of certain historical financial statements relating to the EXCO Contributed Properties; and the satisfaction of the conditions described above under Adjustment of Contributions and Distributions and Title and Environmental Matters.

Termination of the EXCO/HGI Purchase Agreement.

The EXCO/HGI Purchase Agreement can be terminated upon the occurrence of certain events, including if the EXCO/HGI Closing has not occurred on or prior to the earlier of March 5, 2013 (the EXCO/HGI Termination Date) and the expiration of the obligations contained in the agreement under which the EXCO/HGI Partnership Debt is to be provided to the EXCO/HGI Partnership. Under certain circumstances, if the EXCO/HGI Purchase Agreement is terminated by a party thereto (the EXCO/HGI Terminating Party) due to (a) a breach of the EXCO/HGI Purchase Agreement by another party that would reasonably be expected to result in a failure to satisfy a condition to the EXCO/HGI Closing and that cannot be cured prior to the earlier of the EXCO/HGI Termination Date or 30 days following notice of such breach or (b) the breach of the non-terminating party of its obligation to consummate the EXCO/HGI Closing (or, in the case of EXCO, the related reorganization transactions) when all of such other party s conditions to the EXCO/HGI Closing have been satisfied or waived, then the non-terminating party shall be required to pay the EXCO/HGI Terminating Party an aggregate amount equal to $60,000,000.

HGI Available Information

HGI s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) are made available free of charge on or through HGI website at *www.harbingergroupinc.com* as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the SEC or Commission). The information on HGI s website is not, and shall not be deemed to be, part of this report or incorporated into any other filings HGI makes with the Commission.

You may read and copy any materials HGI files with the Commission at the Commission s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains an Internet site that contains HGI s reports, proxy statements and other information at *www.sec.gov*. In addition, copies of HGI s Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Code of Ethics, Code of Ethics for its Chief Executive and Senior Financial Officers and Executive Sessions policy are available at HGI s Internet site at *www.harbingergroupinc.com* under Corporate Governance. Copies will also be provided to any HGI stockholder upon written request to Investor Relations, Harbinger Group Inc. at 450 Park Avenue, 30th Floor, New York, NY 10022 or via electronic mail at *investorrelations@harbingergroupinc.com,* or by contacting Investor Relations by telephone at (212) 906-8560. See Spectrum Brands Spectrum Brands and SBI Available Information for additional information regarding Spectrum Brands and SBI.

Our Operating Subsidiaries

Spectrum Brands

Spectrum Brands Holdings, Inc., a Delaware corporation, is a diversified global branded consumer products company and was created in connection with the combination of Spectrum Brands, Inc., a global branded consumer products company and Russell Hobbs, Inc., a global branded small appliance company, to form a new combined company (the SB/RH Merger). The SB/RH Merger was consummated on June 16, 2010. As a result of the SB/RH Merger, both SBI and Russell Hobbs are wholly-owned subsidiaries of Spectrum Brands and Russell Hobbs is a wholly-owned subsidiary of SBI. Spectrum Brands common stock trades on the NYSE under the symbol SPB. As of September 30, 2012, HGI owns approximately 57.4% of Spectrum Brands common stock.

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 household 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 are located in the United States, Europe, Latin America and Asia. Substantially all of Spectrum Brands rechargeable batteries and chargers, shaving and grooming products, small household appliances, personal care products and portable lighting products are manufactured by third-party suppliers, primarily located in Asia.

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 and various other brands.

Spectrum Brands diversified global branded consumer products have positions in six major product categories: consumer batteries; small appliances; pet supplies; home and garden control products; electric shaving and grooming products; and electric personal care products.

Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each business segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for sales and marketing initiatives and the financial results for all product lines within that business segment.

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; its 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 its general competitive positioning, especially as impacted by its competitors advertising and promotional activities and pricing strategies.

On January 7, 2011, we completed our acquisition of a majority interest in Spectrum Brands (the Spectrum Brands Acquisition) pursuant to which the Principal Stockholders contributed 27,756,905 shares of Spectrum Brands common stock, (or approximately 54.5% of the then outstanding Spectrum Brands common stock, as of

Table of Contents

such date) to us in exchange for 119,909,829 newly issued shares of our common stock. This exchange ratio of 4.32 to 1.00 was based on the respective volume weighted average trading prices of our common stock ($6.33) and Spectrum Brands common stock ($27.36) on the NYSE for the 30 trading days from and including July 2, 2010 to and including August 13, 2010 (the day we received the Principal Stockholders proposal for the Spectrum Brands Acquisition). After the completion of the Spectrum Brands Acquisition, the Principal Stockholders owned a majority of our then issued and outstanding shares of common stock.

Following the consummation of the Spectrum Brands Acquisition, we also became a party to a stockholder agreement, dated as of February 9, 2010 (the Spectrum Brands Holdings Stockholder Agreement), under which the parties agree, among other things, that (i) certain committees of the Spectrum brands board and governance measures are created and maintained; (ii) neither Spectrum Brands nor any of its subsidiaries is permitted to pay any monitoring or similar fee to us or our affiliates, including the Principal Stockholders; (iii) we will not effect any transfer of Spectrum Brands equity securities to any person that would result in such person and its affiliates beneficially owning 40% or more of Spectrum Brands outstanding voting securities (a 40% Stockholder), unless such person agrees to be bound by the terms of the Spectrum Brands Holdings Stockholder Agreement, (x) the transfer is pursuant to a bona fide acquisition of Spectrum Brands approved by Spectrum Brands board of directors and a majority of the members of its Special Nominating Committee, (y) the transfer is otherwise specifically approved by Spectrum Brands board of directors and a majority of its Special Nominating Committee, or (z) the transfer is of 5% or less of Spectrum Brands outstanding voting securities; (iv) we will have certain inspection and information rights if we own a certain percentage of the outstanding Spectrum Brands voting securities. These provisions of the Spectrum Brands Holdings Stockholder Agreement (other than with respect to information and investigation rights) will terminate on the date on which we and our affiliates (including the Principal Stockholders) no longer beneficially own 40% of outstanding Spectrum Brands voting securities. The Spectrum Brands Holdings Stockholder Agreement terminates when any person or group owns 90% or more of the outstanding voting securities of Spectrum Brands. In addition, Spectrum Brands certificate of incorporation sets certain conditions on any 40% Stockholder (or its affiliates) engaging in any transactions that would constitute a Going-Private Transaction (as defined in Spectrum Brands certificate of incorporation).

On October 8, 2012, SBI entered into an agreement with Stanley Black & Decker, Inc. (Stanley Black & Decker) to acquire the residential hardware and home improvement business (the HHI Business) currently operated by Stanley Black & Decker and certain of its subsidiaries for $1.4 billion, consisting of (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 Hardware Acquisition will also include the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation (TLM Taiwan), involved in the manufacturing of commercial and residential locksets (the TLM Residential Business). Currently, TLM Taiwan is an existing supplier to HHI. Stanley Black & Decker is currently in the process of completing the acquisition of all of the issued and outstanding shares of TLM Taiwan. As part of the HHI acquisition agreement, Stanley Black & Decker has agreed to sell to SBI the residential portion of the TLM Taiwan business along with the HHI Business, while retaining the commercial portion of the TLM Taiwan business.

The consummation of the Hardware Acquisition will take place in two separate closings. The first closing (the First Closing) will involve the acquisition of the HHI Business and is subject to certain conditions, including, among others, required regulatory approvals, obtaining certain third party consents and other customary closing conditions. The second closing will involve the acquisition of the TLM Residential Business (the Second Closing) and will be subject to the completion of the First Closing and certain additional conditions, including, among others, required regulatory approvals, the consummation of the acquisition by Stanley Black & Decker of all of the issued and outstanding shares of TLM Taiwan and other customary closing conditions.

At the First Closing, SBI will pay Stanley Black & Decker a purchase price of $1.3 billion in cash to acquire the HHI Business, subject to adjustment for: (i) the net working capital of the HHI Business as of the First Closing, relative to a specified working capital target, and (ii) indebtedness of the HHI Business, net of certain cash and

Table of Contents

cash equivalents, as of the First Closing. At the Second Closing, SBI will pay Stanley Black & Decker a purchase price of $100 million to acquire the TLM Residential Business, subject to adjustment for indebtedness of the TLM Residential Business, net of certain cash and cash equivalents, as of the Second Closing. The purchase price for the TLM Residential Business, less any expected net debt of the TLM Residential Business, will be placed in an escrow account at the First Closing.

On November 8, 2012, Spectrum Brands completed a $50 million cash acquisition of an approximately 56% interest in Shaser Biosciences, Inc.

On November 16, 2012, Spectrum Brands Escrow Corp. issued $520 million aggregate principal amount of 6.375% Senior Notes due 2020 (the 2020 Notes) and $570 million aggregate principal amount of 6.625% Senior Notes due 2022 (the 2022 Notes). The 2020 Notes and the 2022 Notes will be assumed by Spectrum Brands upon the First Closing. Spectrum Brands intends to use 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 intends to finance the remaining portion of the Hardware Acquisition, as well as refinance its existing Term Loan (defined below) with a new $800 million senior secured term loan, which is expected to close concurrently with the First Closing.

Products

Spectrum Brands competes in six major product categories: consumer batteries; small appliances; pet supplies; home and garden control products; electric shaving and grooming; and electric personal care products. Spectrum Brands broad line of products includes:

- consumer batteries, including alkaline and zinc carbon batteries, rechargeable batteries and chargers and hearing aid batteries, other specialty batteries and portable lighting products;
- small appliances, including small kitchen appliances and home product appliances;
- pet supplies, including aquatic equipment and supplies, dog and cat treats, small animal foods, clean up and training aids, health and grooming products and bedding;
- home and garden control products, including household insect controls, insect repellents and herbicides;
- electric shaving and grooming devices; and
- electric and wet personal care and styling devices.

Net sales of each product category sold, as a percentage of net sales of Spectrum Brands consolidated operations, is set forth below.

For detailed information about revenues, profits and total assets of our Consumer Products Segment, see Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation and the financial statements beginning on page F-1 in this Annual Report on Form 10-K, as well as Spectrum Brands Annual Report on Form 10-K.

	Percentage of Total Company Net Sales for the Fiscal Year Ended September 30,		
	2012	**2011**	**2010**
Consumer batteries	29%	30%	38%

Small appliances	24	24	9
Pet supplies	19	18	22
Home and garden control products	12	11	13
Electric shaving and grooming products	8	9	10
Electric personal care products	8	8	8
	100%	100%	100%

Table of Contents

Consumer Batteries

Spectrum Brands markets and sells a full line of alkaline batteries (AA, AAA, C, D and 9-volt sizes) to both retail and industrial customers. Spectrum Brands alkaline batteries are marketed and sold primarily under the Rayovac and VARTA brands. Spectrum Brands also manufactures alkaline batteries for third parties who sell the batteries under their own private labels. Spectrum Brands zinc carbon batteries are also marketed and sold primarily under the Rayovac and VARTA brands and are designed for low and medium drain battery powered devices.

Spectrum Brands believes that it is currently the largest worldwide marketer and distributor of hearing aid batteries. Spectrum Brands sells its hearing aid batteries through retail trade channels and directly to professional audiologists under several brand names and private labels, including Beltone, Miracle Ear and Starkey.

Spectrum Brands also sells Nickel Metal Hydride (NiMH) rechargeable batteries and a variety of battery chargers under the Rayovac and VARTA brands. Spectrum Brands other specialty battery products include camera batteries, lithium batteries, silver oxide batteries, keyless entry batteries and coin cells for use in watches, cameras, calculators, communications equipment and medical instruments.

Spectrum Brands offers a broad line of battery-powered, portable lighting products, including flashlights and lanterns for both retail and industrial markets. Spectrum Brands sells its portable lighting products under the Rayovac and VARTA brand names, under other proprietary brand names and pursuant to licensing arrangements with third parties.

Small Appliances

Spectrum Brands markets and sells a broad range of products in the branded small household appliances category under the George Foreman, Black & Decker, Russell Hobbs, Farberware, Juiceman, Breadman and Toastmaster brands, including grills, bread makers, sandwich makers, kettles, toaster ovens, toasters, blenders, juicers, can openers, coffee grinders, coffeemakers, electric knives, deep fryers, food choppers, food processors, hand mixers, rice cookers and steamers. Spectrum Brands also markets small home product appliances, including hand-held irons, vacuum cleaners, air purifiers, clothes shavers and heaters, primarily under the Black & Decker and Russell Hobbs brands.

Pet Supplies

In the pet supplies product category Spectrum Brands markets and sells a variety of leading branded pet supplies for fish, dogs, cats, birds and other small domestic animals. Spectrum Brands has a broad line of consumer and commercial aquatics products, including integrated aquarium kits, standalone tanks and stands, filtration systems, heaters, pumps, and other equipment, fish food and water treatment products. Spectrum Brands largest aquatics brands are Tetra, Marineland, Whisper, Jungle and Instant Ocean. Spectrum Brands also sells a variety of specialty pet products, including dog and cat treats, small animal food and treats, clean up and training aid products, health and grooming aids, bedding products and consumable accessories including privacy tents, litter carpets, crystal litter cartridges, charcoal filters, corn-based litter and replaceable waste receptacles. Spectrum Brands largest specialty pet brands include FURminator, 8-in-1, Dingo, Firstrax, Nature s Miracle, Wild Harvest and Littermaid.

Home and Garden Control Products

In the home and garden control products category Spectrum Brands currently markets and sells several leading home and garden care products, including household insecticides, insect repellent, herbicides, garden and indoor plant foods and plant care treatments. Spectrum Brands offers a broad array of household insecticides such as spider, roach and ant killer, flying insect killer, insect foggers, wasp and hornet killer, flea and tick control

products and roach and ant baits. Spectrum Brands also manufactures and markets a complete line of insect repellent products that provide protection from insects, especially mosquitoes. These products include both personal repellents, such as aerosols, pump sprays and wipes as well as area repellents, such as yard sprays, citronella candles and torches. Spectrum Brands largest brands in the insect control category include Hot Shot, Cutter, Repel, Black Flag and TAT. Spectrum Brands herbicides brands include Spectracide, Real-Kill and Garden Safe. Spectrum Brands has positioned itself as the value alternative for consumers who want products that are comparable to, but sold at lower prices than, premium-priced brands.

Electric Shaving and Grooming

Spectrum Brands markets and sells a broad line of electric shaving and grooming products under the Remington brand name, including men s rotary and foil shavers, beard and mustache trimmers, body trimmers and nose and ear trimmers, women s shavers and haircut kits.

Electric Personal Care Products

Spectrum Brands electric personal care products, marketed and sold under the Remington, Russell Hobbs, Carmen and Andrew Collinge brand names, include hand-held dryers, curling irons, straightening irons, brush irons, hair setters, facial brushes, skin appliances and electric toothbrushes.

Sales and Distribution

Spectrum Brands sells its products through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs. Its sales generally are made through the use of individual purchase orders, consistent with industry practice. Retail sales of the consumer products Spectrum Brands markets have been increasingly consolidated into a small number of regional and national mass merchandisers. This trend towards consolidation is occurring on a worldwide basis. As a result of this consolidation, a significant percentage of its sales are attributable to a very limited group of retailer customers, including Wal-Mart, The Home Depot, Carrefour, Target, Lowe s, PetSmart, Canadian Tire, PetCo and Gigante. Spectrum Brands sales to Wal-Mart represented approximately 23% of its consolidated net sales for the fiscal year ended September 30, 2012 (Fiscal 2012). No other customer accounted for more than 10% of its consolidated net sales in Fiscal 2012.

Spectrum Brands manages its sales and distribution force by geographic region, customer or product group, depending on the product category. Its sales team for global batteries & appliances is divided into three major geographic territories, North America, Latin America and Europe and the rest of the world (Europe/ROW). Within each major geographic territory, Spectrum Brands has additional subdivisions designed to meet its customers needs.

The sales force for pet supply products is aligned by customer, geographic region and product group. Spectrum Brands sells pet supply products to mass merchandisers, grocery and drug chains, pet superstores, independent pet stores and other retailers.

The sales force for home and garden products is aligned by customer. Spectrum Brands sells primarily to home improvement centers, mass merchandisers, hardware stores, home and garden distributors, and food and drug retailers in the U.S.

Manufacturing, Raw Materials and Suppliers

The principal raw materials used in manufacturing Spectrum Brands products zinc powder, electrolytic manganese dioxide powder and steel are sourced either on a global or regional basis. The prices of these raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. Spectrum Brands has regularly engaged in forward purchase and hedging derivative transactions in an attempt to effectively manage the raw material costs it expects to incur over the next 12 to 24 months.

Substantially all of Spectrum Brands rechargeable batteries and chargers, portable lighting products, hair care and other personal care products and its electric shaving and grooming products and small appliances are manufactured by third party suppliers that are primarily located in the Asia/Pacific region. Spectrum Brands maintains ownership of most of the tooling and molds used by its suppliers.

Spectrum Brands continually evaluates its manufacturing facilities capacity and related utilization. As a result of such analyses, Spectrum Brands has closed a number of manufacturing facilities during the past five years. In general, Spectrum Brands believes its existing facilities are adequate for its present and foreseeable needs.

Research and Development

Spectrum Brands research and development strategy is focused on new product development and performance enhancements of its existing products. Spectrum Brands plans to continue to use its strong brand names, established customer relationships and significant research and development efforts to introduce innovative products that offer enhanced value to consumers through new designs and improved functionality.

In Spectrum Brands fiscal years ended September 30, 2012, 2011 and 2010, it invested $33.1 million, $32.9 million and $31.0 million, respectively, in product research and development.

Patents and Trademarks

Spectrum Brands owns or licenses from third parties a significant number of patents and patent applications throughout the world relating to products Spectrum Brands sells and manufacturing equipment it uses. Spectrum Brands holds a license that expires in March 2022 for certain alkaline battery designs, technology and manufacturing equipment from Matsushita Electrical Industrial Co., Ltd. (Matsushita), to whom it pays a royalty.

Spectrum Brands also uses and maintains a number of trademarks in its business, including DINGO, JUNGLETALK, MARINELAND, RAYOVAC, REMINGTON, TETRA, VARTA, 8-IN-1, CUTTER, HOT SHOT, GARDEN SAFE, NATURE S MIRACLE, REPEL, SPECTRACIDE, SPECTRACIDE TERMINATE, GEORGE FOREMAN, RUSSELL HOBBS and BLACK & DECKER. Spectrum Brands seeks trademark protection in the U.S. and in foreign countries by all available means, including registration.

As a result of the October 2002 sale by VARTA AG of substantially all of its consumer battery business to Spectrum Brands and VARTA AG s subsequent sale of its automotive battery business to Johnson Controls, Inc. (Johnson Controls), Spectrum Brands acquired rights to the VARTA trademark in the consumer battery category and Johnson Controls acquired rights to the trademark in the automotive battery category. VARTA AG continues to have rights to use the trademark with travel guides and industrial batteries and VARTA Microbattery GmbH has the right to use the trade mark with micro batteries. Spectrum Brands is party to a Trademark and Domain Names Protection and Delimitation Agreement that governs ownership and usage rights and obligations of the parties relative to the VARTA trademark.

As a result of the common origins of the Remington Products, L.L.C. (Remington Products) business Spectrum Brands acquired in September 2003 and the Remington Arms Company, Inc. (Remington Arms), the REMINGTON trademark is owned by Spectrum Brands and by Remington Arms each with respect to its principal products as well as associated products. Accordingly, Spectrum Brands owns the rights to use the REMINGTON trademark for electric shavers, shaver accessories, grooming products and personal care products, while Remington Arms owns the rights to use the trademark for firearms, sporting goods and products for industrial use, including industrial hand tools. In addition, the terms of a 1986 agreement between Remington Products and Remington Arms provides for the shared rights to use the REMINGTON trademark on products which are not considered principal products of interest for either company. Spectrum Brands retains the REMINGTON trademark for nearly all products which it believes can benefit from the use of the brand name in its distribution channels.

Table of Contents

Spectrum Brands licenses the Black & Decker brand in North America, Latin America (excluding Brazil) and the Caribbean for four core categories of household appliances: beverage products, food preparation products, garment care products and cooking products. Russell Hobbs has licensed the Black & Decker brand since 1998 for use in marketing various household small appliances. In July 2011, Russell Hobbs and The Black & Decker Corporation (BDC) extended the trademark license agreement for a fourth time through December 2015. Under the agreement as extended, Russell Hobbs agreed to pay BDC royalties based on a percentage of sales, with minimum annual royalty payments of $15 million from calendar year 2011 through calendar year 2015. The agreement also requires Spectrum Brands to comply with maximum annual return rates for products. If BDC does not agree to renew the license agreement, Spectrum Brands has 18 months to transition out of the brand name. No minimum royalty payments will be due during such transition period. BDC has agreed not to compete in the four core product categories for a period of five years after the termination of the license agreement. Upon request, BDC may elect to extend the license to use the Black & Decker brand to certain additional product categories. BDC has approved several extensions of the license to additional categories and geographies.

Competition

In Spectrum Brands retail markets, Spectrum Brands competes for limited shelf space and consumer acceptance. Factors influencing product sales include brand name recognition, perceived quality, price, performance, product packaging, design innovation, and consumer confidence and preferences as well as creative marketing, promotion and distribution strategies.

The battery product category is highly competitive. Most consumer batteries manufactured throughout the world are sold by one of four global companies: Spectrum Brands (manufacturer/seller of Rayovac and VARTA brands); Energizer Holdings, Inc. (Energizer) (manufacturer/seller of the Energizer brand); The Procter & Gamble Company (Procter & Gamble) (manufacturer/seller of the Duracell brand); and Matsushita (manufacturer/seller of the Panasonic brand). Spectrum Brands also faces competition from the private label brands of major retailers, particularly in Europe. The offering of private-label batteries by retailers may create pricing pressure in the consumer battery market. Typically, private-label brands are not supported by advertising or promotion, and retailers sell these private label offerings at prices below competing name-brands. The main barriers to entry for new competitors are investment in technology research, cost of building manufacturing capacity and the expense of building retail distribution channels and consumer brands.

In the U.S. alkaline battery category, the Rayovac brand is positioned as a value brand, which is typically defined as a product that offers comparable performance at a lower price. In Europe, the VARTA brand is competitively priced with other premium brands. In Latin America, where zinc carbon batteries outsell alkaline batteries, the Rayovac brand is competitively priced. Spectrum Brands primary competitors in the portable lighting product category are Energizer and Mag Instrument, Inc.

The pet supply product category is highly fragmented with over 500 manufacturers in the U.S. alone, consisting primarily of small companies with limited product lines. Spectrum Brands largest competitors in this product category are Mars Corporation (Mars), The Hartz Mountain Corporation (Hartz) and Central Garden & Pet Company (Central Garden & Pet). Both Hartz and Central Garden & Pet sell a comprehensive line of pet supplies and compete with a majority of the products Spectrum Brands offers. Mars sells primarily aquatics products.

Products sold by Spectrum Brands in the home and garden product category face competition from The Scotts Miracle-Gro Company (Scotts Company), which markets home and garden products under the Scotts, Ortho, Roundup and Miracle-Gro brand names; Central Garden & Pet, which markets garden products under the AMDRO and Sevin brand names; and Bayer A.G., which markets home and garden products under the Bayer Advanced brand name.

Table of Contents

Products Spectrum Brands sells in the household insect control product category through the home and garden business face competition from S.C. Johnson & Son, Inc. (S.C. Johnson), which markets insecticide and repellent products under the Raid and OFF! brands; Scotts Company, which markets household insect control products under the Ortho brand; and Henkel KGaA, which markets insect control products under the Combat brand.

Spectrum Brands primary competitors in the electric shaving and grooming product category are Norelco, a division of Koninklijke Philips Electronics NV (Philips), which sells and markets rotary shavers, and Braun, a division of Procter & Gamble, which sells and markets foil shavers. Through its Remington brand, Spectrum Brands sells both foil and rotary shavers.

Primary competitive brands in the small appliance category include Hamilton Beach, Proctor Silex, Sunbeam, Mr. Coffee, Oster, General Electric, Rowenta, DeLonghi, Kitchen Aid, Cuisinart, Krups, Braun, Rival, Europro, Kenwood, Philips, Morphy Richards, Breville and Tefal. The key competitors of Russell Hobbs in this market in the U.S. and Canada include Jarden Corporation, DeLonghi America, Euro-Pro Operating LLC, Metro Thebe, Inc., d/b/a HWI Breville, NACCO Industries, Inc. (Hamilton Beach) and SEB S.A. In addition, Russell Hobbs competes with retailers who use their own private label brands for household appliances (for example, Wal-Mart).

Spectrum Brands major competitors in the electric personal care product category are Conair Corporation, Wahl Clipper Corporation and Helen of Troy Limited (Helen of Troy).

Some of Spectrum Brands major competitors have greater resources and greater overall market share than Spectrum Brands does. They have committed significant resources to protect their market shares or to capture market share from Spectrum Brands and may continue to do so in the future. In some key product lines, Spectrum Brands competitors may have lower production costs and higher profit margins than Spectrum Brands does, which may enable them to compete more aggressively in advertising and in offering retail discounts and other promotional incentives to retailers, distributors, wholesalers and, ultimately, consumers.

Seasonality

On a consolidated basis Spectrum Brands financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum Brands first fiscal quarter). Demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products typically peaks during the first six months of the calendar year (Spectrum Brands second and third fiscal quarters). Small appliances peaks from July through December primarily due to the increased demand by customers in the late summer for back-to-school sales and in the fall for the holiday season. For a more detailed discussion of the seasonality of Spectrum Brands product sales, see Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Seasonality.

Governmental Regulations and Environmental Matters

Due to the nature of Spectrum Brands operations, Spectrum Brands facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with the releases of hazardous substances at its facilities. Spectrum Brands believes that compliance with the federal, state, local and foreign laws and regulations to which it is subject will not have a material effect upon its capital expenditures, financial condition, earnings or competitive position.

Table of Contents

From time to time, Spectrum Brands has been required to address the effect of historic activities on the environmental condition of its properties. Spectrum Brands has not conducted invasive testing at all facilities to identify all potential environmental liability risks. Given the age of Spectrum Brands facilities and the nature of its operations, it is possible that material liabilities may arise in the future in connection with Spectrum Brands current or former facilities. If previously unknown contamination of property underlying or in the vicinity of Spectrum Brands manufacturing facilities is discovered, Spectrum Brands could incur material unforeseen expenses, which could have a material adverse effect on its financial condition, capital expenditures, earnings and competitive position. Although Spectrum Brands is currently engaged in investigative or remedial projects at some of its facilities, Spectrum Brands does not expect that such projects, taking into account established accruals, will cause it to incur expenditures that are material to its business, financial condition or results of operations; however, it is possible that Spectrum Brands future liability could be material.

Spectrum Brands has been, and in the future may be, subject to proceedings related to its disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which Spectrum Brands is held responsible as a result of its relationships with such other parties. In the U.S., these proceedings are under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) or similar state laws that hold persons who arranged for the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all costs incurred in investigating and remediating contamination at a site. As a practical matter, liability at CERCLA sites is shared by all of the viable responsible parties. Spectrum Brands occasionally is identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where Spectrum Brands has been notified of its status as a potentially responsible party, it is either premature to determine whether its potential liability, if any, will be material or Spectrum Brands does not believe that its liability, if any, will be material. Spectrum Brands may be named as a potentially responsible party under CERCLA or similar state laws for other sites not currently known to us, and the costs and liabilities associated with these sites may be material.

It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, Spectrum Brands believes that its ultimate liability arising from such environmental matters, taking into account established accruals of $5.4 million for estimated liabilities at September 30, 2012 should not be material to its business or financial condition.

Electronic and electrical products that Spectrum Brands sells in Europe, particularly products sold under the Remington brand name, VARTA battery chargers, certain portable lighting and all of its batteries, are subject to regulation in European Union (EU) markets under three key EU directives. The first directive is the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment (RoHS) which took effect in EU member states beginning July 1, 2006. RoHS prohibits companies from selling products which contain certain specified hazardous materials in EU member states. Spectrum Brands believes that compliance with RoHS will not have a material effect on its capital expenditures, financial condition, earnings or competitive position. The second directive is entitled the Waste of Electrical and Electronic Equipment (WEEE). WEEE makes producers or importers of particular classes of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. WEEE assigns levels of responsibility to companies doing business in EU markets based on their relative market share. WEEE calls on each EU member state to enact enabling legislation to implement the directive. To comply with WEEE requirements, Spectrum Brands has partnered with other companies to create a comprehensive collection, treatment, disposal and recycling program. As EU member states pass enabling legislation Spectrum Brands currently expects its compliance system to be sufficient to meet such requirements. Spectrum Brands current estimated costs associated with compliance with WEEE are not significant based on its current market share. However, Spectrum Brands continues to evaluate the impact of the WEEE legislation as EU member states implement guidance and as its market share changes and, as a result, actual costs to Spectrum Brands could differ from its current estimates and may be material to its business, financial condition or results of operations. The third directive is the Directive on Batteries and Accumulators and Waste Batteries, which was adopted in September 2006 and went into effect in September 2008 (the Battery Directive). The Battery Directive bans heavy metals in batteries by establishing maximum quantities of those heavy metals in batteries and mandates waste management of batteries, including collection, recycling and disposal systems. The Battery Directive places the costs of such waste management systems on producers and importers of batteries. The Battery Directive calls on each EU member state to enact enabling legislation to implement the directive. Spectrum Brands currently believes that compliance with the Battery Directive will not have a material effect on its capital expenditures, financial condition, earnings or competitive position. However, until such time as the EU member states adopt enabling legislation, a full evaluation of these costs cannot be completed. Spectrum Brands will continue to evaluate the impact of the Battery Directive and its enabling legislation as EU member states implement guidance.

Certain of Spectrum Brands products and facilities in each of its business segments are regulated by the United States Environmental Protection Agency (the EPA) and the United States Food and Drug Administration (the FDA) or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Spectrum Brands inability to obtain or the cancellation of any registration could have an adverse effect on its business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether its competitors were similarly affected. Spectrum Brands attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients. Spectrum Brands may not always be able to avoid or minimize these risks.

The Food Quality Protection Act (FQPA) established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of Spectrum Brands products continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide Spectrum Brands uses in its products will be limited or made unavailable to Spectrum Brands. Spectrum Brands cannot predict the outcome or the severity of the effect of the EPA s continuing evaluations of active ingredients used in its products.

Certain of Spectrum Brands products and packaging materials are subject to regulations administered by the FDA. Among other things, the FDA enforces statutory prohibitions against misbranded and adulterated products, establishes ingredients and manufacturing procedures for certain products, establishes standards of identity for certain products, determines the safety of products and establishes labeling standards and requirements. In addition, various states regulate these products by enforcing federal and state standards of identity for selected products, grading products, inspecting production facilities and imposing their own labeling requirements.

Employees

Spectrum Brands had approximately 5,850 full-time employees worldwide as of September 30, 2012. Approximately 33% of Spectrum Brands total labor force is covered by collective bargaining agreements. There are three collective bargaining agreements that will expire during Spectrum Brands fiscal year ending September 30, 2013, which cover approximately 64% of the labor force under collective bargaining agreements, or approximately 21% of its total labor force. Spectrum Brands believes that its overall relationship with its employees is good.

Table of Contents

Spectrum Brands and SBI Available Information

Spectrum Brands and SBI s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act, are made available free of charge on or through Spectrum Brands website at *www.spectrumbrands.com* as soon as reasonably practicable after such reports are filed with, or furnished to, the Commission.

The information on Spectrum Brands website is not, and shall not be deemed to be, part of this report or incorporated into any other filings HGI, Spectrum Brands or SBI makes with the Commission and Spectrum Brands and SBI s reports are not and shall not be deemed to be part of this report. You may read and copy any materials Spectrum Brands files with the Commission at the Commission s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains an Internet site that contains Spectrum Brands and SBI s reports, proxy statements and other information at *www.sec.gov*. In addition, copies of Spectrum Brands (i) Corporate Governance Guidelines, (ii) charters for the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, (iii) Code of Business Conduct and Ethics and (iv) Code of Ethics for the Principal Executive Officer and Senior Financial Officers are available at Spectrum Brands Internet site at *www.spectrumbrands.com* under Investor Relations Corporate Governance. Copies will also be provided to any Spectrum Brands stockholder upon written request to the Vice President, Investor Relations & Corporate Communications, Spectrum Brands Holdings, Inc. at 601 Rayovac Drive, Madison, Wisconsin 53711 or via electronic mail at *investorrelations@spectrumbrands.com*, or by contacting the Vice President, Investor Relations & Corporate Communications by telephone at (608) 275-3340.

FGL

FGL, a Delaware corporation and indirectly wholly-owned subsidiary of HGI, is a provider of annuity and life insurance products in the United States. Based in Baltimore, Maryland, FGL operates its annuity and life insurance operations in the United States through its subsidiaries FGL Insurance and FGL NY Insurance.

FGL s principal products are immediate annuities, deferred annuities and life insurance products (including fixed indexed universal life), which it sells, as of September 30, 2012, through a network of approximately 200 insurance marketing organizations (IMOs) representing approximately 19,000 independent agents and managing general agents. As of September 30, 2012, FGL had over 713,000 policyholders nationwide and distributes its products throughout the United States.

FGL s deferred annuities include fixed index annuities and fixed rate annuities. Fixed indexed annuities allow contract owners the possibility of earning credits based on the performance of a specified market index without risk to principal. The value to the contractholder of a fixed indexed annuity contract is equal to the sum of deposits paid, premium bonuses and credits earned (index credits), up to an overall limit on the amount of interest that an annuity will earn (a cap) or a percentage of the gain of a market index that will be credited to an annuity (a participation rate) based on the annual appreciation in a recognized index or benchmark.

Fixed rate annuities include annual reset and multi-year rate guaranteed policies. During the accumulation period, the account value of the annuity is credited with interest earned at a crediting rate guaranteed for no less than one year at issue, but which may be guaranteed for up to seven years, and thereafter FGL has the discretionary ability to change the crediting rate based on the guaranteed period of the contract at a rate above the guaranteed minimum rate.

Immediate annuities provide a fixed amount of income for either a defined number of years, the annuitant s lifetime or the longer of a defined number of years or the annuitant s lifetime, in exchange for a single premium.

FGL offers indexed universal life insurance policies. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder s account value. The insurer periodically deducts its expenses and the cost of life insurance protection from the account value. The balance of the account value is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for fixed indexed annuities.

FGL s profitability depends in large part upon the amount of assets under management, its ability to manage its operating expenses, the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders) and the net investment spreads earned on its contractholder fund balances. Managing investment spreads involves the ability to manage an investment portfolio 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 fixed indexed annuities.

Under accounting principles generally accepted in the United States of America (US GAAP), premium collections for deferred annuities and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as revenues. 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 investment spread. With respect to fixed index annuities, 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 interest credited to annuity contractholder fund balances.

For detailed information about revenues, operating income and total assets of our Insurance Segment, see Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation and the financial statements beginning on page F-1 in this Annual Report on Form 10-K.

The Fidelity & Guaranty Acquisition

On April 6, 2011, pursuant to the First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the F&G Stock Purchase Agreement), by and between HFG and OM Group (UK) Limited (OM Group), HFG acquired from OM Group all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between OM Group, as lender, and FGL, as borrower, in consideration for $350 million. As described further herein, the F&G Stock Purchase Agreement provided that the $350 million purchase price may be reduced by up to $50 million post-closing if certain regulatory approvals were not obtained. Following the consummation of the Fidelity & Guaranty Acquisition, FGL became a direct wholly-owned subsidiary of HFG and FGL Insurance and FGL NY Insurance became wholly-owned subsidiaries of FGL. FGL Insurance and FGL NY Insurance are our principal insurance companies.

The Reserve Facility and the CARVM Facility

Life insurance companies operating in the United States are required to calculate required reserves for life and annuity policies based on statutory principles. These methodologies are governed by Regulation XXX (applicable to term life insurance policies), Guideline AXXX (applicable to universal life insurance policies with secondary guarantees) and the Commissioners Annuity Reserve Valuation Method, known as CARVM (applicable to annuities). Under Regulation XXX, Guideline AXXX and CARVM, insurers are required to establish statutory reserves for such policies that exceed economic reserves.

Reserve Facility. Following the consummation of the Fidelity & Guaranty Acquisition, FGL Insurance and Old Mutual plc (Old Mutual) consummated a reserve funding transaction with Nomura Bank International plc and Nomura International plc (collectively, Nomura) for the financing of XXX/AXXX reserves associated with certain life insurance policies of FGL Insurance (the Reserve Facility). As required by the F&G Stock Purchase Agreement, FGL Insurance replaced the Reserve Facility on October 17, 2011, eliminating any future financial obligations related to this facility, through the 100% coinsurance of the subject policies with Wilton Reassurance Company, a Minnesota insurance company (Wilton Re), as described below (see Wilton Transaction), and redeemed the Surplus Note, as described below (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation Debt Financing Activities FGL), paying accrued interest on the Surplus Note to HFG. Following the replacement of the Reserve Facility and the retirement of the Surplus Note, FGL has no future financial obligations related to the Reserve Facility and each of, HFG, Old Mutual and Nomura entered into an omnibus termination and release agreement, under which each party provided a full release, subject to certain exceptions, of its respective obligations under the Reserve Facility to the other parties as of October 17, 2011.

The CARVM Facility. On October 5, 2012, FGL Insurance entered into a yearly renewable term indemnity reinsurance agreement with Raven Re, a wholly-owned subsidiary of FGL Insurance, (the Raven Reinsurance Agreement) pursuant to which FGL Insurance ceded a quota share of its liability for the CARVM business (as described further below). To collateralize its obligations under the Raven Reinsurance Agreement, Raven Re entered into a reimbursement agreement with Nomura and FGL (the Reimbursement Agreement) whereby a subsidiary of Nomura issued trust notes and Nomura issued a letter of credit that, in each case, were deposited into a reinsurance trust as collateral for Raven Re s obligations under the Raven Reinsurance Agreement (the Nomura Facility). Pursuant to the Nomura Facility, FGL Insurance expects to be able to take full credit on its statutory financial statements for the CARVM reserve ceded to Raven Re. The Nomura Facility will terminate on September 30, 2017, although the facility may terminate earlier, in accordance with the terms of the Reimbursement Agreement.

Under the F&G Stock Purchase Agreement, OM Group was required to support certain annuity reserves through letters of credit or other financing sponsored by OM Group (the CARVM Facility) to enable FGL Insurance to take full credit on its statutory financial statements for certain liabilities that were ceded to Old Mutual Reassurance (Ireland) Ltd., an affiliate of OM Group (OM Re). OM Group s obligation to provide the CARVM Facility terminated upon FGL Insurance entering into the Nomura Facility, as did HFG s obligation to replace the CARVM Facility no later than December 31, 2015.

The Front Street Reinsurance Transaction

In accordance with the terms of the F&G Stock Purchase Agreement, Front Street Re, Ltd. (Front Street), a wholly-owned subsidiary of the Company, was to enter into a reinsurance agreement (the Front Street Reinsurance Transaction) with FGL whereby (i) Front Street would reinsure up to $3 billion of insurance obligations under annuity contracts of FGL Insurance (the Reinsurance Agreement), (ii) Front Street and an affiliate of Harbinger Capital would enter into an investment management agreement (the Investment Management Agreement), pursuant to which such Harbinger Capital affiliate would be appointed as the investment manager of up to $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets would be deposited in a reinsurance trust account for the benefit of FGL Insurance.

The Front Street Reinsurance Transaction required the approval of the MIA and the F&G Stock Purchase Agreement provided that the seller would be required to pay up to $50 million as a post-closing reduction in purchase price if, among other things, such transaction was not approved or was approved subject to certain restrictions or conditions. On January 10, 2012, FGL received written notice from the MIA rejecting the Front Street Reinsurance Transaction, as proposed by the respective parties. HGI has commenced litigation against the seller to recover such amount. See Part I, Item 3. Litigation below.

Wilton Transaction

On January 26, 2011, HFG entered into an agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton), pursuant to which Wilton agreed to cause Wilton Re, its wholly-owned subsidiary and a Minnesota insurance company, to enter into certain coinsurance arrangements with FGL

Insurance following the closing of the Fidelity & Guaranty Acquisition. Pursuant to the Commitment Agreement, Wilton Re has reinsured a 100% quota share of certain of FGL Insurance s policies that are subject to redundant reserves under Regulation XXX and Guideline AXXX, and that were reinsured under the Reserve Facility (the Raven Block), as well as another block of FGL Insurance s in-force traditional, universal and interest sensitive life insurance policies (the Camden Block). Wilton Re s coinsurance of the Raven Block replaced the Raven Re reserve facility.

More specifically, on April 8, 2011, FGL Insurance ceded to Wilton Re on a coinsurance basis a 100% quota share of risks associated with the Camden Block and, in connection therewith, transferred assets to Wilton Re having an aggregate fair value of approximately $535 million, net of a ceding allowance. On October 17, 2011, FGL Insurance and Wilton Re completed a further reinsurance arrangement involving the recapture of business ceded to Raven Re by FGL Insurance and the re-cession of such business to Wilton Re. The cession to Wilton Re of risks related to the Raven Block was completed on October 17, 2011 (with an effective date of October 1, 2011) and, in connection therewith, FGL Insurance transferred cash and invested assets totaling approximately $580 million to Wilton Re. While Wilton Re had no liability with respect to the Raven Block prior to the effective date, at the closing the amount payable to Wilton Re was adjusted to reflect the economic performance for the Raven Block from and after January 1, 2011 through the effective date.

Wilton Re s reinsurance of such FGL Insurance policies has not extinguished FGL Insurance s liability with respect to such business because FGL Insurance remains directly liable to policyholders and is required to pay the full amount of its policy obligations in the event that Wilton Re fails to satisfy its obligations with respect to the reinsured business.

Other Agreements

The F&G Stock Purchase Agreement includes customary mutual indemnification provisions relating to breaches of representations, warranties and covenants. Among other things, HFG agreed to indemnify OM Group for any losses arising out of the provision by OM Group of the CARVM Facility and the Reserve Facility, in each case, including with respect to any obligation to post collateral, reimburse for a draw on a letter of credit or contribute capital, except to the extent such losses were caused by OM Group.

In connection with the F&G Stock Purchase Agreement, HFG has entered into the Guarantee and Pledge Agreement (the Pledge Agreement). Pursuant to the Pledge Agreement, HFG and F&G Holdings have granted security interests in the shares of capital of FGL and FGL Insurance (the Pledged Shares) Shares to OM Group in order to secure certain of HFG s obligations arising under the F&G Stock Purchase Agreement, including its indemnity obligations and its obligations with respect to the replacement of the CARVM Facility and the Reserve Facility, and its obligation to return to OM Group any collateral posted by OM Group in connection with the Reserve Facility or the CARVM Facility (collectively, the Secured Obligations). As described above, the Reserve Facility was replaced on October 17, 2011, and the CARVM Facility was replaced effective as of October 1, 2012, eliminating the Secured Obligations associated with the Reserve Facility and the CARVM Facility. In the event that HFG defaults or breaches any remaining Secured Obligations, OM Group could foreclose upon the Pledged Shares.

Products

Annuity Products

FGL, through its insurance subsidiaries, issues a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g., one month or one year) and typically pays principal and earnings in equal payments over some period of time.

Table of Contents

As part of its significant product consolidation, FGL Insurance and FGL NY Insurance reduced from 51 in 2008 to 18 in 2012 the number of products in their portfolios of annuity products. The following table presents the deposits (also known as sales) on annuity policies issued by FGL Insurance and FGL NY Insurance, as well as reserves required by US GAAP (US GAAP Reserves), for the year ended September 30, 2012 (in millions):

	Deposits on Annuity Policies	US GAAP Reserves
Products		
Fixed Indexed Annuities	$ 1,614	$ 9,893
Fixed Rate Annuities	65	2,964
Single Premium Immediate Annuities	334	3,583
Total	$ 2,013	$ 16,440

Deferred Annuities

Fixed Indexed Annuities. FGL Insurance s fixed indexed annuities allow contract owners the possibility of earning credits based on the performance of a specified market index without risk to principal. The contracts include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law. A market index tracks the performance of a specific group of stocks representing a particular segment of the market, or in some cases an entire market. For example, the S&P 500 Composite Stock Price Index is an index of 500 stocks intended to be representative of a broad segment of the market. Most fixed indexed annuity policies allow policyholders to allocate funds once a year among several different crediting strategies, including one or more index based strategies and a traditional fixed rate strategy.

The value to the contractholder of a fixed indexed annuity contract is equal to the sum of deposits paid, premium bonuses (described below) and index credits, up to a cap or a participation rate based on the annual appreciation (based in certain situations on monthly averages or monthly point-to-point calculations) in a recognized index or benchmark. Caps generally range from 3.0% to 6.0% when measured annually and 1.0% to 3.0% when measured monthly and participation rates generally range from 30% to 100% of the performance of the applicable market index.

Approximately 96% of the fixed indexed annuity sales for the year ended September 30, 2012 involved premium bonuses by which FGL Insurance and FGL NY Insurance increased the initial annuity deposit by a specified premium bonus of 2.0% to 4.0% and vested bonus of 2.0% to 8.0%. FGL Insurance and FGL NY Insurance made compensating adjustments in the commission paid to the agent or the surrender charges on the policy to offset the premium bonus.

Fixed Rate Annuities. Fixed rate annuities include annual reset and multi-year rate guaranteed policies. Fixed rate annual reset annuities issued by FGL Insurance and FGL NY Insurance have an annual interest rate (the crediting rate) that is guaranteed for the first policy year. After the first policy year, FGL Insurance and FGL NY Insurance have the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. Fixed rate multi-year guaranteed annuities are similar to fixed rate annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years before it may be changed at the discretion of FGL Insurance and FGL NY Insurance. For the year ended September 30, 2012, FGL Insurance and FGL NY Insurance did not sell any fixed rate annual reset annuities. For the year ended September 30, 2012, FGL Insurance and FGL NY Insurance sold $29.2 million of fixed rate multi-year guaranteed annuities. As of September 30, 2012, crediting rates on outstanding (i) fixed rate annuities generally ranged from 1.5% to 6.0% and (ii) multi-year guaranteed annuities ranged from 1.1% to 6.0%. The average crediting rate on all outstanding fixed rate annuities at September 30, 2012 was 3.7%.

Table of Contents

Withdrawal Options for Deferred Annuities. After the first year following the issuance of a deferred annuity policy, holders of deferred annuities are typically permitted penalty-free withdrawals up to 10% of the prior year s value, subject to certain limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge if such withdrawals are made during the penalty period of the deferred annuity policy (a surrender charge). The penalty period typically ranges from 7 to 14 years for fixed indexed annuities and 3 to 10 years for fixed rate annuities. This surrender charge initially ranges from 9% to 17.5% of the contract value for fixed index annuities and 5% to 12% of the contract value for fixed rate annuities and generally decreases by approximately one to two percentage points per year during the penalty period. Certain annuity contracts contain a market value adjustment provision that may increase or decrease the amounts available for withdrawal upon full surrender. The policyholder may elect to take the proceeds of the surrender either in a single payment or in a series of payments over the life of the policyholder or for a fixed number of years (or a combination of these payment options). In addition to the foregoing withdrawal rights, policyholders may also elect to have additional withdrawal rights by purchasing a guaranteed minimum withdrawal benefit.

Immediate Annuities

FGL Insurance and FGL NY Insurance also sell single premium immediate annuities (SPIAs), which provide a series of periodic payments for a fixed period of time or for the life of the policyholder, according to the policyholder s choice at the time of issue. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years.

Life Insurance

FGL Insurance and FGL NY Insurance offer indexed universal life insurance policies. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder s cash value account. The insurer periodically deducts its expenses and the cost of life insurance protection from the cash value account. The balance of the cash value account is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for fixed indexed annuities. As part of their significant product consolidations, FGL Insurance and FGL NY Insurance reduced the number of products in their life insurance product portfolios from nine in 2008 to its current number, four, in 2012.

A significant portion of the indexed universal life business is subject to a reinsurance arrangement with Wilton Re. See The Fidelity & Guaranty Acquisition Wilton Transaction.

Investments

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. See Note 2 to the Consolidated Financial Statements of HGI with respect to FGL s accounting policies for the impairment of investments.

Table of Contents

As of September 30, 2012 and 2011, FGL s investment portfolio was approximately $16.6 billion and $15.8 billion, respectively, and was divided among the following asset classes:

	September 30, 2012	September 30, 2011
Asset Class		
Asset-backed securities	6.2%	3.2%
Commercial mortgage-backed securities	3.3%	3.6%
Corporates	66.5%	75.3%
Equities	1.5%	1.8%
Hybrids	3.2%	4.2%
Municipals	7.4%	5.9%
Agency residential mortgage-backed securities	0.9%	1.4%
Non-agency residential mortgage-backed securities	4.0%	2.8%
U.S. Government	5.6%	1.2%
Other (primarily policy loans and derivatives)	1.4%	0.6%
Total FGL investment portfolio	100%	100%

As of September 30, 2012 and 2011, FGL s fixed income portfolio was approximately $16.1 billion and $15.4 billion, respectively, excluding derivatives and other invested assets. The approximate percentage distribution of FGL s fixed income portfolio by composite ratings distribution was as follows:

	September 30, 2012	September 30, 2011
Rating		
AAA	11.4%	8.0%
AA	12.7%	10.8%
A	26.6%	31.8%
BBB	44.0%	44.7%
BB	2.9%	3.8%
B and below	2.4%	0.9%
Total	100%	100%

Prior to Fiscal 2012, FGL did not act as asset manager for a significant portion of its investment assets. Since September 2009, FGL s lead portfolio manager has been Goldman Sachs Asset Management (Goldman Sachs), but starting in Fiscal 2012, FGL manages a substantial portion of its portfolio in-house. As of September 30, 2012, approximately $1.9 billion of FGL s assets under management are still managed by Goldman Sachs.

Derivatives

FGL s fixed indexed annuity contracts (the FIA Contracts) permit the holder to elect to receive a return based on an interest rate or the performance of a market index. FGL uses a portion of the deposit made by policyholders pursuant to the FIA Contracts to purchase derivatives consisting of a combination of call options and futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the index credits due to policyholders under the FIA Contracts. The majority of all such call options are one-year options purchased to match the funding requirements underlying the FIA Contracts. On the respective anniversary dates of the applicable FIA Contracts, the market index used to compute the annual index credit under the applicable FIA Contract is reset. At such time, FGL purchases new one-, two- or three-year call options to fund the next index credit. FGL attempts to manage the cost of these purchases through the terms of its FIA Contracts, which permit FGL to change caps or participation rates, subject to certain guaranteed minimums that must be

maintained. The change in the fair value of the call options and futures contracts is generally designed to offset the equity market related change in the fair value of the FIA Contract s embedded derivative. 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 (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments terms or upon early termination and the changes in fair value of open positions.

FGL is exposed to credit loss in the event of nonperformance by its counterparties on the call options. FGL seeks to reduce the credit risk associated with such agreements by purchasing such options from large, well-established financial institutions, but there can be no assurance that we will not suffer losses in the event of counterparty nonperformance.

Marketing and Distribution

FGL offers its products through a network of approximately 200 IMOs, representing approximately 19,000 agents, and identifies its most important 37 IMOs as Power Partners. FGL s Power Partners are currently comprised of 23 annuity IMOs and 14 life insurance IMOs. During Fiscal 2012, these Power Partners accounted for approximately 83% of FGL s annual sales volume. FGL believes that its relationships with these IMOs are strong. The average tenure of the top ten Power Partners is approximately 7 years.

FGL s Power Partners play an important role in the development of FGL s products. Over the last ten years, the majority of FGL s best-selling products have been developed in conjunction with its Power Partners. FGL intends to continue to have the Power Partners play an important role in the development of its products in the future, which it believes provides it with integral feedback throughout the development process and assists it with competing for shelf space for new design launches.

In 2003 FGL introduced a rewards program, the Power Agent Incentive Rewards (PAIR) Program, to incentivize annuity product sales and strengthen distributor relationships. The PAIR Program is structured as a non-contributory deferred compensation program that allows select producers to share in profitability of new product sales. FGL believes the PAIR Program drives loyalty amongst top producers and incentivizes them to focus on profitable sales. Over the past five years, PAIR agents have produced nearly 34% of FGL s total deferred annuity sales. As of September 30, 2012, there was approximately $15.4 million in PAIR vested account balances.

A PAIR Program for life insurance products was introduced in 2009 and operates substantially in the same manner as the PAIR Program for annuities.

Outsourcing

In addition to services provided by third-party asset managers, FGL outsources the following functions to third-party service providers:

- new business administration,
- hosting of financial systems,
- service of existing policies,
- investment accounting and custody,
- call centers, and
- underwriting administration of life insurance applications.

FGL closely manages its outsourcing partners and integrates their services into its operations. FGL believes that outsourcing such functions allows it to focus capital and personnel resources on its core business operations and

perform differentiating functions, such as actuarial, product development and risk management functions. In addition, FGL believes an outsourcing model provides predictable pricing, service levels and volume capabilities and allows it to benefit from technological developments that enhance its customer self-service and sales processes that it would not otherwise be able to take advantage of without deploying more of its own capital.

FGL outsources its new business and existing policy administration for fixed indexed annuity and life products to Transaction Applications Group, Inc., a subsidiary at Dell Inc. (Transaction Group). Under this arrangement, Transaction Group manages all of FGL s call center and processing requirements. FGL and Transaction Group have entered into a seven-year relationship, which is subject to renewal in June 2014.

FGL has partnered with Hooper Holmes, Inc. (Hooper Holmes) to outsource its life insurance underwriting function. Under the terms of the arrangement Hooper Holmes has assigned FGL a team of five underwriters with Fellow Life Management Institute designations. FGL and Hooper Holmes have entered into a three-year relationship, which is subject to renewal in December 2012.

FGL believes that it has a good relationship with its principal outsource service providers.

Competition and Ratings

FGL s ability to compete is dependent upon many factors which include, among other things, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of adequate financial strength ratings from ratings agencies. As of September 30, 2012, Moody s, Fitch and A.M. Best had issued financial strength ratings and outlook statements regarding FGL Insurance and its wholly-owned subsidiary, FGL NY Insurance.

Financial strength ratings generally involve quantitative and qualitative evaluations by rating agencies of a company s financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors and are not recommendations to buy, sell or hold securities.

In addition to the financial strength ratings, rating agencies use an outlook statement to indicate a medium or long term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. Outlooks should not be confused with expected stability of the issuer s financial or economic performance. A rating may have a stable outlook to indicate that the rating is not expected to change, but a stable outlook does not preclude a rating agency from changing a rating at any time without notice.

A.M. Best Company, Fitch and Moody s review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. While the degree to which ratings adjustments will affect sales and persistency is unknown, we believe if FGL s ratings were to be negatively adjusted for any reason, it could experience a material decline in the sales of its products and the persistency of its existing business. See Part I. Item 1A. Risk Factors Risks Related to FGL s Business FGL operates in a highly competitive industry, which could limit its ability to gain or maintain its position in the industry and could materially adversely affect FGL s business, financial condition and results of operations; Part I. Item 1A. Risk Factors Risks Related to FGL s Business A continuation of our existing financial strength ratings, financial strength ratings downgrade or other negative action by a ratings organization could adversely affect FGL s financial condition and results of operations; and Part I. Item 1A. Risk Factors Risks Related to FGL s Business The amount of statutory capital that FGL s insurance subsidiaries have and the amount of statutory capital that they must hold to maintain its financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of FGL s control.

Table of Contents

Risk Management

Risk management is a critical part of FGL s business. FGL seeks to assess risk to its business through a formalized process involving (i) identifying short-term and long-term strategic and operational objectives, (ii) utilizing risk identification tools to examine events that may prevent FGL from achieving goals, (iii) assigning risk identification and mitigation responsibilities to individual team members within functional groups, (iv) analyzing the potential qualitative and quantitative impact of individual risks, (v) evaluating risks against risk tolerance levels to determine which risks should be mitigated, (vi) mitigating risks by appropriate actions and (vii) identifying, documenting and communicating key business risks in a timely fashion.

The responsibility for monitoring, evaluating and responding to risk is allocated first to FGL s management and employees, second to those occupying specialist functions, such as legal compliance and risk teams, and third to those occupying supervisory functions, such as internal audits and the board of directors.

Reinsurance

FGL, through its subsidiary FGL Insurance, both cedes reinsurance to other insurance companies and assumes reinsurance from other insurance companies. FGL uses reinsurance both to diversify its risks and to manage loss exposures. FGL Insurance seeks reinsurance coverage in order to limit its exposure to mortality losses and enhance capital management. The use of reinsurance permits FGL to write policies in amounts larger than the risk it is willing to retain, and also to write a larger volume of new business. The portion of risks exceeding the insurer s retention limit is reinsured with other insurers.

In instances where FGL Insurance is the ceding company, it pays a premium to the other company (the reinsurer) in exchange for the reinsurer assuming a portion of FGL Insurance s liabilities under the policies it has issued. Use of reinsurance does not discharge the liability of FGL Insurance as the ceding company because FGL Insurance remains directly liable to its policyholders and is required to pay the full amount of its policy obligations in the event that its reinsurers fail to satisfy their obligations. FGL Insurance collects reinsurance from its reinsurers when FGL Insurance pays claims on policies that are reinsured. In instances where FGL Insurance assumes reinsurance from another insurance company, it accepts, in exchange for a reinsurance premium, a portion of the liabilities of the other insurance company under the policies that the ceding company has issued to its policyholders.

Ceding Company

FGL Insurance is provided reinsurance as the ceding company by accredited or licensed reinsurers and unaccredited or unlicensed reinsurei See the section entitled Regulation Credit for Reinsurance Regulation below.

Reinsurance Provided by Unaccredited or Unlicensed Reinsurers. As of September 30, 2012, the total statutory reserves ceded by FGL Insurance to unaffiliated unauthorized reinsurers (OM Re) was approximately $282.0 million.

Reinsurance Provided by Accredited or Licensed Reinsurers. As of September 30, 2012, the total statutory reserves ceded by FGL Insurance to licensed or accredited unaffiliated reinsurers was approximately $2.6 billion.

As described above, following the consummation of the Fidelity & Guaranty Acquisition, the life insurance policies previously ceded to OM Ireland under certain reinsurance agreements were recaptured by FGL Insurance on April 7, 2011 and substantially all of FGL Insurance s in-force life insurance business issued prior to April 1, 2010 has been reinsured with third party reinsurers. The CARVM Treaty, under which OM Re previously reinsured certain annuity liabilities from FGL Insurance has been replaced by the Nomura Facility, under which FGL Insurance has ceded a quota share of its liability for the CARVM business to Raven Re, a wholly-owned subsidiary of FGL.

Table of Contents

Reinsurer

FGL Insurance provides reinsurance as the reinsurer to four non-affiliate insurance companies. As of September 30, 2012, FGL Insurance was the reinsurer of $171.6 million total statutory reserves assumed under policies issued by non-affiliate insurers.

Employees

As of September 30, 2012, FGL had 164 employees. FGL believes that it has a good relationship with its employees.

Regulation

Overview

FGL Insurance and FGL NY Insurance are subject to comprehensive regulation and supervision in their respective domiciles, Maryland and New York, and in each state in which they do business. FGL Insurance does business throughout the United States, except for New York. FGL NY Insurance does business only in New York. FGL Insurance s principal insurance regulatory authority is the MIA. State insurance departments throughout the United States also monitor FGL Insurance s insurance operations as a licensed insurer. The New York State Department of Financial Services regulates the operations of FGL NY Insurance, which is domiciled and licensed in New York. The purpose of these regulations is primarily to protect policyholders and beneficiaries and not general creditors of those insurers or creditors of HGI. Many of the laws and regulations to which FGL Insurance and FGL NY Insurance are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect their operations.

Generally, insurance products underwritten by FGL Insurance and FGL NY Insurance must be approved by the insurance regulators in each state in which they are sold. Those products are also substantially affected by federal and state tax laws. For example, changes in tax law could reduce or eliminate the tax-deferred accumulation of earnings on the deposits paid by the holders of annuities and life insurance products, which could make such products less attractive to potential purchasers. A shift away from life insurance and annuity products could reduce FGL Insurance s and FGL NY Insurance s income from the sale of such products, as well as the assets upon which FGL Insurance and FGL NY Insurance earn investment income. In addition, insurance products may also be subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA).

State insurance authorities have broad administrative powers over FGL Insurance and FGL NY Insurance with respect to all aspects of the insurance business including:

- licensing to transact business;
- licensing agents;
- prescribing which assets and liabilities are to be considered in determining statutory surplus;
- regulating premium rates for certain insurance products;
- approving policy forms and certain related materials;
- whether a reasonable basis exists as to the suitability of the annuity purchase recommendations producers make;

regulating unfair trade and claims practices;

establishing reserve requirements and solvency standards;

the amount of dividends that may be paid in any year;

regulating the availability of reinsurance or other substitute financing solutions, the terms thereof and the ability of an insurer to take credit on its financial statements for insurance ceded to reinsurers or other substitute financing solutions;

fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; and

regulating the type, amounts and valuations of investments permitted, transactions with affiliates and other matters.

Financial Regulation

State insurance laws and regulations require FGL Insurance and FGL NY Insurance to file reports, including financial statements, with state insurance departments in each state in which they do business, and their operations and accounts are subject to examination by those departments at any time. FGL Insurance and FGL NY Insurance prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

The National Association of Insurance Commissioners (NAIC) has approved a series of statutory accounting principles that have been adopted, in some cases with certain modifications, by all state insurance departments. These statutory principles are subject to ongoing change and modification. For instance, the NAIC adopted, effective with the annual reporting period ending December 31, 2010, revisions to the Annual Financial Reporting Model Regulation (or the Model Audit Rule) related to auditor independence, corporate governance and internal control over financial reporting. These revisions require that insurance companies, such as FGL Insurance and FGL NY Insurance, file reports with state insurance departments regarding their assessments of internal control over financial reporting. Moreover, compliance with any particular regulator s interpretation of a legal or accounting issue may not result in compliance with another regulator s interpretation of the same issue, particularly when compliance is judged in hindsight. Any particular regulator s interpretation of a legal or accounting issue may change over time to FGL Insurance s and/or FGL NY Insurance s detriment, or changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL Insurance and FGL NY Insurance to change their views regarding the actions they need to take from a legal risk management perspective, which could necessitate changes to FGL Insurance s and/or FGL NY Insurance s practices that may, in some cases, limit their ability to grow and improve profitability.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. The MIA completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2009, and found no material deficiencies or proposed any adjustments to the financial statements as filed. The New York State Department of Financial Services is completing a routine financial examination of FGL NY Insurance for the three year period ended December 31, 2009.

Dividend and Other Distribution Payment Limitations

The Maryland Insurance Code and the New York Insurance Law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. Each year FGL Insurance and FGL NY Insurance may pay a certain amount of dividends or other distributions without being required to obtain the prior consent of the MIA or the New York State Department of Financial Services, respectively. However, in order to pay any dividends or distributions (including the payment of any dividends or distributions for which prior written consent is not required), FGL Insurance and FGL NY Insurance must provide advance written notice to the MIA or the New York State Department of Financial Services, respectively. Upon receipt of such notice, the MIA or the New York State Department of Financial Services may impose restrictions or prohibit the payment of such dividends or other distributions based on their assessment of various factors, including the statutory surplus levels and risk-based capital (RBC) ratios of FGL Insurance and FGL NY Insurance, respectively.

Without first obtaining the prior written approval of the MIA, FGL Insurance may not pay dividends or make other distributions, if such payments, together with all other such payments within the preceding twelve months, exceed the lesser of (i) 10% of FGL Insurance s statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains for the 12-month period ending December 31 of the preceding year and pro rata distributions made on any class of FGL Insurance s own securities). Other dividends and distributions require prior notice to or approval of the MIA, which will consider the effect of the dividend or distribution on FGL Insurance s surplus and financial condition generally. In making this determination, the MIA will consider whether the payment of the dividend or distribution will cause the company to fail to meet its required risk based capital ratio. On December 20, 2010, FGL Insurance paid a dividend to OM Group in the amount of $59 million with respect to its 2009 results. On September 29, 2011 and December 22, 2011, FGL Insurance paid dividends of $20 million and $20 million, respectively, to HFG, with respect to its 2010 and 2011 results. On September 26, 2012, FGL Insurance paid a dividend to FGL in the amount of $20 million, with respect to its 2011 results. Based on its 2011 fiscal year results, FGL Insurance is able to declare an ordinary dividend up to $44.6 million through December 22, 2012 (taking into account the September 26, 2012 and December 22, 2011 dividend payments of $20 million and $20 million, respectively). In addition, between December 23, 2012 and December 31, 2012, FGL Insurance may be able to declare an additional ordinary dividend in the amount of 2012 eligible dividends of $64.6 million (taking into account the September 26, 2012 dividend payment of $20 million). Any additional amount beyond $64.6 million would be an extraordinary dividend requiring notice to and approval from the MIA. The foregoing discussion of dividends that may be paid by FGL Insurance is included for illustrative purposes only. Any payment of dividends by FGL Insurance is subject to the regulatory restrictions described above and the approval of such payment by the board of directors of FGL Insurance, which must consider various factors, including general economic and business conditions, tax considerations, FGL Insurance s strategic plans, financial results and condition, FGL Insurance s expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends and its effect on RBC, and such other factors the board of directors of FGL Insurance considers relevant. For example, payments of dividends could reduce FGL Insurance s RBC and financial condition (including its RBC ratio) and lead to reduction in FGL Insurance s financial strength rating. See Risk Factors Risk Factors relating to FGL s Business A continuation of our existing financial strength ratings, financial strength ratings downgrade or other negative action by a ratings organization could adversely affect FGL s financial condition and results of operations.

Surplus and Capital

FGL Insurance and FGL NY Insurance are subject to the supervision of the regulators in which they are licensed to transact business. Regulators have discretionary authority in connection with the continuing licensing of these entities to limit or prohibit sales to policyholders if, in their judgment, the regulators determine that such entities have not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders.

Risk-Based Capital

In order to enhance the regulation of insurers solvency, the NAIC adopted a model law to implement RBC requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC s model law or a substantially similar law. RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk, (iv) market risk and (v) business risk. In general, RBC is calculated by applying factors to various asset, premium, claim, expense and reserve items, taking into account the risk characteristics of the insurer. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. The RBC formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. As of the

Table of Contents

most recent annual statutory financial statement filed with insurance regulators on February 28, 2012, the RBC ratios for each of FGL Insurance and FGL NY Insurance each exceeded the minimum RBC requirements. Nevertheless, it may be desirable to maintain an RBC ratio in excess of the minimum requirements in order to maintain or improve our financial strength ratings. See Risk Factors Risk Factors relating to FGL s Business A continuation of our existing financial strength ratings, financial strength ratings downgrade or other negative action by a ratings organization could adversely affect FGL s financial condition and results of operations.

Insurance Regulatory Information System Tests

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined usual ranges. Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. Neither FGL Insurance nor FGL NY Insurance is currently subject to regulatory restrictions based on these ratios.

Insurance Reserves

State insurance laws require insurers to analyze the adequacy of reserves annually. The respective appointed independent actuaries for FGL Insurance and FGL NY Insurance must each submit an opinion that their respective reserves, when considered in light of the respective assets FGL Insurance and FGL NY Insurance hold with respect to those reserves, make adequate provision for the contractual obligations and related expenses of FGL Insurance and FGL NY Insurance. FGL Insurance and FGL NY Insurance have filed all of the required opinions with the insurance departments in the states in which they do business.

Credit for Reinsurance Regulation

States regulate the extent to which insurers are permitted to take credit on their financial statements for the financial obligations that the insurers cede to reinsurers. Where an insurer cedes obligations to a reinsurer which is neither licensed nor accredited by the state insurance department, the ceding insurer is not permitted to take such financial statement credit unless the unlicensed or unaccredited reinsurer secures the liabilities it will owe under the reinsurance contract. Under the laws regulating credit for reinsurance, the permissible means of securing such liabilities are (i) the establishment of a trust account by the reinsurer in a qualified U.S. financial institution, such as a member of the Federal Reserve, with the ceding insurer as the exclusive beneficiary of such trust account with the unconditional right to demand, without notice to the reinsurer, that the trustee pay over to it the assets in the trust account equal to the liabilities owed by the reinsurer; (ii) the posting of an unconditional and irrevocable letter of credit by a qualified U.S. financial institution in favor of the ceding company allowing the ceding company to draw upon the letter of credit up to the amount of the unpaid liabilities of the reinsurer; and (iii) a funds withheld arrangement by which the ceding company withholds transfer to the reinsurer of the reserves which support the liabilities to be owed by the reinsurer, with the ceding insurer retaining title to and exclusive control over such reserves. Both FGL Insurance and FGL NY Insurance are subject to such credit for reinsurance rules in Maryland and New York, respectively, insofar as they enter into any reinsurance contracts with reinsurers which are neither licensed nor accredited in Maryland and New York.

Insurance Holding Company Regulation

As the indirect parent company of FGL Insurance and FGL NY Insurance, HFG and entities affiliated for purposes of insurance regulation are subject to the insurance holding company laws in Maryland and New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by its domiciliary insurance regulator.

Most states, including Maryland and New York, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer s holding company. Such laws prevent any person from acquiring control, directly or indirectly, of HGI, HFG, FGL, FGL Insurance or FGL NY Insurance unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. Under most states statutes, including those of Maryland and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of HGI, HFG, FGL, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Maryland and New York will be in violation of those states laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator.

In connection with the Fidelity & Guaranty Acquisition, HFG made filings with the MIA and the New York Insurance Department for approval to acquire control over FGL NY Insurance. On March 31, 2011, the MIA approved HFG s application to acquire control over FGL Insurance. On April 1, 2011, the New York Insurance Department approved HFG s application to acquire control over FGL NY Insurance.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which member insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent or rehabilitated insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer s proportionate share of the business written by all member insurers in the state. Although no prediction can be made as to the amount and timing of any future assessments under these laws, FGL Insurance and FGL NY Insurance have established reserves that they believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales and complaint process practices. State regulatory authorities generally enforce these provisions through periodic market conduct examinations. In addition, FGL Insurance and FGL NY Insurance must file, and in many jurisdictions and for some lines of business obtain regulatory approval for, rates and forms relating to the insurance written in the jurisdictions in which they operate. FGL Insurance is currently the subject of nine ongoing market conduct examinations in various states, including a review by the New York State Department of Financial Services related to the possible unauthorized sale of insurance by FGL Insurance within the State of New York. Market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business.

Regulation of Investments

FGL Insurance and FGL NY Insurance are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments. We believe that the investment portfolios of FGL Insurance and FGL NY Insurance as of September 30, 2012 complied in all material respects with such regulations.

Privacy Regulation

FGL s operations are subject to certain federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of such information. These laws and regulations require notice to affected individuals, law enforcement agencies, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. FGL s operations are also subject to certain federal regulations that require financial institutions and creditors to implement effective programs to detect, prevent and mitigate identity theft. In addition, FGL s ability to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers or uses of certain personal information, including consumer report information, is regulated. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

Fixed Indexed Annuities

In recent years, the Commission and state securities regulators have questioned whether fixed indexed annuities, such as those sold by FGL Insurance and FGL NY Insurance, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause FGL Insurance and FGL NY Insurance to seek additional marketing relationships for these products, any of which may impose significant restrictions on the ability of FGL Insurance and FGL NY Insurance to conduct operations as currently operated. On December 17, 2008, the Commission voted to approve Rule 151A under the Securities Act of 1933, as amended (Rule 151A), and apply federal securities oversight to fixed index annuities issued on or after January 12, 2011. On July 12, 2010, however, the District of Columbia Circuit Court of Appeals vacated Rule 151A. In addition, under the Dodd-Frank Wall Street and Consumer Protection Act (the Dodd-Frank Act), annuities that meet specific requirements, including requirements relating to certain state suitability rules, are specifically exempted from being treated as securities by the Commission. FGL Insurance and FGL NY Insurance expect that the types of fixed indexed annuities they sell will meet these requirements and therefore are exempt from being treated as securities by the Commission and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on fixed indexed annuities.

The Dodd-Frank Act

The Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to FGL, its competitors or those entities with which FGL does business. These changes include the establishment of federal regulatory authority over derivatives, the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation of broker dealers and investment advisors, the implementation of an exemption of FIAs from Commission regulation if certain suitability practices are implemented as noted above, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareholders, the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Numerous provisions of the Dodd-Frank Act

Table of Contents

require the adoption of implementing rules and/or regulations. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, FGL, its competitors or the entities with which FGL does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact FGL in many ways, including but not limited to: placing FGL at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for FGL to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, or otherwise have a material adverse effect on the overall business climate as well as FGL s financial condition and results of operations.

Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on investments, investment activities and insurance and annuity products of FGL Insurance and FGL NY Insurance remain unclear.

Front Street

Front Street is a Bermuda company that was formed in March 2010 to act as a long-term reinsurer and to provide reinsurance to the specialty insurance sectors of fixed, deferred and payout annuities. In addition Front Street Re (Cayman) Ltd. (Front Street Cayman) has been formed in the Cayman Islands and on October 24, 2012 received from the Cayman Islands Monetary Authority a license to carry on business as an Unrestricted Class B Insurer that permits Front Street Cayman to conduct offshore direct and reinsurance business. Front Street and Front Street Cayman intend to enter into long-term reinsurance transactions with insurance companies, existing reinsurers, and pension arrangements, and may also pursue acquisitions in the same sector.

Front Street intends to focus on life and annuity reinsurance products including:

- reinsurance solutions that improve the financial position of Front Street s clients by increasing their capital base and reducing leverage ratios through the assumption of reserves; and

- providing clients with exit strategies for discontinued lines, closed blocks in run-off, or lines not providing a good fit for a company s growth strategies. With Front Street s ability to manage these contracts, its clients will be able to concentrate their efforts and resources on core strategies.

To date, neither Front Street nor Front Street Cayman has entered into any reinsurance contracts.

Salus

Salus, an indirectly wholly owned subsidiary of HGI, is 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 September 30, 2012, Salus has funded loans totaling $181 million aggregate principal amount outstanding. The Salus loans are funded through capital commitments from HGI and funds committed by FGL as co-lender.

For detailed information about revenues, operating income and total assets of Salus, which currently comprises our Other financial services segment, see Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements beginning on page F-1 in this Annual Report on Form 10-K.

Products

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 a 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 September 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.

Item 1A. ***Risk Factors***

The following risk factors and the forward-looking statements elsewhere herein should be read carefully in connection with evaluating the business of the Company and its subsidiaries. These risks and uncertainties could cause actual results and events to differ materially from those anticipated. Many of the risk factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together which all of the other information presented herein, in evaluating the business of the Company and its subsidiaries.

Risks Related to HGI

We are a holding company and our only material assets are our equity interests in our operating subsidiaries and our other investments; as a result, our principal source of revenue and cash flow is distributions from our subsidiaries; our subsidiaries may be limited by law and by contract in making distributions to us.

As a holding company, our only material assets are our cash on hand, the equity interests in our subsidiaries and other investments. As of September 30, 2012, excluding cash, equivalents and short-term investments held by FGL and Spectrum Brands, we had approximately $433 million in cash, cash equivalents and short-term investments, which includes $156 million held by our wholly-owned subsidiary, HGI Funding LLC. Our principal source of revenue and cash flow is distributions from our subsidiaries. Thus, our ability to service our debt, finance acquisitions and pay dividends to our stockholders in the future is dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to us. Our subsidiaries are and will be separate legal entities, and although they may be wholly-owned or controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, distributions or otherwise. The ability of our subsidiaries to distribute cash to us will also be subject to, among other things, restrictions that are contained in our subsidiaries financing agreements, availability of sufficient funds in such subsidiaries and applicable state laws and regulatory restrictions. Claims of creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us could be limited in any way, our ability to grow, pursue business opportunities or make acquisitions that could be beneficial to our businesses, or otherwise fund and conduct our business could be materially limited.

As an example, our subsidiary Spectrum Brands is a holding company with limited business operations of its own and its main assets are the capital stock of its subsidiaries, principally SBI. SBI s senior secured term loan due June 17, 2016 (the Term Loan), of which $370 million remained outstanding as of September 30, 2012, $950 million of 9.5% Senior Secured Notes maturing June 15, 2018 (the 9.5% Notes), and a $300 million asset based revolving loan facility expiring May 3, 2016, under which no amount was outstanding as of September 30, 2012 (the ABL Facility and together with the Term Loan and the 9.5% Notes, the Senior Secured Facilities) and SBI s $300 million of 6.75% Senior Notes due 2020 (the 6.75% Notes) and other agreements substantially limit or prohibit certain payments of dividends or other distributions to Spectrum Brands. In addition, Spectrum expects to increase its total indebtedness by approximately $1.5 billion in connection with the HHI Acquisition. Such additional financing will have similar terms.

Specifically, (i) each indenture of SBI generally prohibits the payment of dividends to shareholders except out of a cumulative basket based on an amount equal to the excess of (a) 50% of the cumulative consolidated net income of SBI adjusted for certain items plus (b) 100% of the aggregate cash proceeds from the sale of equity by SBI (or less 100% of the net losses) plus (c) any repayments to SBI of certain investments plus (d) in the case of the indenture governing SBI s 6.75% Notes (the 2020 Indenture), $80 million, (e) in the case of the indenture governing SBI s 9.5% Notes (the 2018 Indenture), $75 million, subject to certain other tests and certain exceptions and (ii) SBI s term loan facility limits payment of dividends to stockholders to $40 million per year plus a cumulative basket based on the annual portion of excess cash flow not required to be paid to the lenders while dividend payments under SBI s asset-based revolving facility are subject to satisfying certain minimum availability and fixed charge coverage rate tests. We expect that future debt of SBI and Spectrum Brands will contain similar restrictions.

Table of Contents

FGL is also a holding company with limited business operations of its own. Its main assets are the capital stock of its subsidiaries, which are principally regulated insurance companies, whose ability to pay dividends is limited by applicable insurance laws. See Item 1 FGL Regulation Dividend and Other Distribution Payment Limitations in this Form 10-K.

We may not be successful in identifying and consummating any additional suitable acquisition or business opportunities.

The successful implementation of our business strategy depends on our ability to identify and consummate suitable acquisitions or other business opportunities. However, to date we have only identified a limited number of such opportunities. There is no assurance that we will be successful in identifying or consummating any additional suitable acquisitions and certain acquisition opportunities may be limited or prohibited by applicable regulatory regimes. Even if we do acquire other businesses, there is no assurance that we will be successful in enhancing our business or our financial condition. Any such acquisition or business may require a substantial amount of our management time and may be difficult for us to integrate, which could adversely affect management s ability to identify and consummate other acquisition or business opportunities. The failure to identify or successfully integrate future acquisitions and business opportunities could have a material adverse effect on our results of operations and financial condition and our ability to service our debt.

We are dependent on certain key personnel and our affiliation with Harbinger Capital; Harbinger Capital and certain key personnel exercise significant influence over us and our business activities; and business activities, legal matters and other matters that affect Harbinger Capital and certain key personnel could adversely affect our ability to execute our business strategy.

We are dependent upon the skills, experience and efforts of Philip A. Falcone, Omar M. Asali and Thomas A. Williams, the Chairman of our board and our Chief Executive Officer, our President and one of our directors and our Chief Financial Officer and Executive Vice President, respectively. As a result of their positions with our Company, Mr. Falcone, Mr. Asali and Mr. Williams have significant influence over our business strategy and make most of the significant policy and managerial decisions of our Company. Mr. Falcone is also the Chief Executive Officer and Chief Investment Officer of Harbinger Capital and may be deemed to be an indirect beneficial owner of the shares of our common stock owned by the Principal Stockholders. Accordingly, Mr. Falcone may exert significant influence over all matters requiring approval by our stockholders, including the election or removal of directors and stockholder approval of acquisitions or other significant transactions. The loss of Mr. Falcone, Mr. Asali or Mr. Williams or other key personnel could have a material adverse effect on our business or operating results.

Harbinger Capital assists us in identifying potential acquisitions. Mr. Falcone s and Harbinger Capital s reputation and access to acquisition candidates is therefore important to our strategy of identifying acquisition opportunities. While we expect that Mr. Falcone and other Harbinger Capital personnel will devote a portion of their time to our business, they are not required to commit their full time to our affairs and will allocate their time between our operations and their other commitments in their discretion.

On June 27, 2012, the SEC filed two civil actions in the United States District Court for the Southern District of New York, asserting claims against Harbinger Capital, Harbinger Capital Partners Offshore Manager, L.L.C., and certain of their current and former affiliated entities and persons, including Mr. Falcone. One civil action alleges that the defendants violated the anti-fraud provisions of the federal securities laws by engaging in market manipulation in connection with the trading of the debt securities of a particular issuer from 2006 to 2008. The other civil action alleges that the defendants violated the anti-fraud provisions of the federal securities laws in connection with a loan made by Harbinger Capital Partners Special Situations Fund, L.P. to Mr. Falcone in October 2009 and alleges further violations in connection with the circumstances and disclosure regarding alleged preferential treatment of, and agreements with, certain fund investors. As previously disclosed, Harbinger Capital and certain of its affiliates received Wells Notices in December 2011 with respect to the matters addressed by these actions.

We understand that Harbinger Capital and its affiliates deny the charges in the SEC s complaints and intend to vigorously defend against them. It is not possible at this time to predict the outcome of these actions, including whether the matters will result in settlements on any or all of the issues involved. However, in these actions the SEC is seeking a range of remedies, including permanent injunctive relief, disgorgement, civil penalties and pre-judgment interest and an order prohibiting Mr. Falcone from serving as an officer and director of any public company.

If Mr. Falcone s and Harbinger Capital s other business interests or legal matters require them to devote more substantial amounts of time to those businesses or legal matters, it could limit their ability to devote time to our affairs and could have a negative effect on our ability to execute our business strategy. In addition, under the terms of an agreement with CF Turul LLC, an affiliate of Fortress Investment Group LLC (the Fortress Purchaser), subject to meeting certain ownership thresholds and receipt of regulatory approvals, in the event that Mr. Falcone ceases to have principal responsibility for our investments for a period of more than 90 consecutive days, other than as a result of temporary disability, and the Fortress Purchaser does not approve our proposed business continuity plan, the Fortress Purchaser may appoint such number of our directors that, when the total number of directors appointed by the Fortress Purchaser is added to the number of independent directors, that number of directors is equal to the number of directors employed by or affiliated with us or Harbinger Capital.

Because we face significant competition for acquisition and business opportunities, including from numerous companies with a business plan similar to ours, it may be difficult for us to fully execute our business strategy.

We expect to encounter intense competition for acquisition and business opportunities from both strategic investors and other entities having a business objective similar to ours, such as private investors (which may be individuals or investment partnerships), blank check companies, and other entities, domestic and international, competing for the type of businesses that we may intend to acquire. Many of these competitors possess greater technical, human and other resources, or more local industry knowledge, or greater access to capital, than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. These factors may place us at a competitive disadvantage in successfully completing future acquisitions and investments.

In addition, while we believe that there are numerous target businesses that we could potentially acquire or invest in, our ability to compete with respect to the acquisition of certain target businesses that are sizable will be limited by our available financial resources. We may need to obtain additional financing in order to consummate future acquisitions and investment opportunities. We cannot assure you that any additional financing will be available to us on acceptable terms, if at all. This inherent competitive limitation gives others an advantage in pursuing acquisition and investment opportunities.

Future acquisitions or business opportunities could involve unknown risks that could harm our business and adversely affect our financial condition.

We are a diversified holding company that holds all of the equity interests of FGL and a majority of the equity interests of Spectrum Brands and Salus, and interests in other businesses. In the future we may acquire other businesses or make other acquisitions, including the HHI Business and the EXCO/HGI Partnership, that involve unknown risks, some of which will be particular to the industry in which the business or acquisition targets operate. Although we intend to conduct extensive business, financial and legal due diligence in connection with the evaluation of future business or acquisition opportunities, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. We may be unable to adequately address the financial, legal and operational risks raised by such businesses or acquisitions, especially if we are unfamiliar with the relevant industry. The realization of any unknown risks could expose us to unanticipated costs and liabilities and prevent or limit us from realizing the projected benefits of the businesses or acquisitions, which could adversely affect our financial condition and liquidity. In addition, our financial condition, results of operations and the ability to service our debt (including the 10.625% Notes and dividend payments on our outstanding shares of preferred stock) will be subject to the specific risks applicable to any business or company we acquire.

Table of Contents

Any potential acquisition or investment in a foreign business or a company with significant foreign operations may subject us to additional risks.

Acquisitions or investments by us in a foreign business or other companies with significant foreign operations, such as Spectrum Brands, subjects us to risks inherent in business operations outside of the United States. These risks include, for example, currency fluctuations, complex foreign regulatory regimes, punitive tariffs, unstable local tax policies, trade embargoes, risks related to shipment of raw materials and finished goods across national borders, restrictions on the movement of funds across national borders and cultural and language differences. If realized, some of these risks may have a material adverse effect on our business, results of operations and liquidity, and can have an adverse effect on our ability to service our debt. For risks related to Spectrum Brands, see Risks Related to Spectrum Brands below.

Our participation in any future joint investment could be adversely affected by our lack of sole decision-making authority, our reliance on a partner s financial condition and disputes between us and our partners.

We have entered into an agreement to form a joint venture with EXCO Parent, and in the future we may make similar acquisition or otherwise acquire businesses jointly with third parties. In such circumstances, we may not be in a position to exercise significant decision-making authority regarding a target business, partnership or other entity if we do not own a substantial majority of the equity interests of the target. These investments may involve risks not present were a third party not involved, including the possibility that partners might become insolvent or fail to fund their share of required capital contributions. In addition, partners may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such partners may also seek similar acquisition targets as us and we may be in competition with them for such business combination targets. Disputes between us and partners may result in litigation or arbitration that would increase our costs and expenses and divert a substantial amount of our management s time and effort away from our business. Consequently, actions by, or disputes with, partners might result in subjecting assets owned by the partnership to additional risk. We may also, in certain circumstances, be liable for the actions of our third-party partners. For example, in the future we may agree to guarantee indebtedness incurred by a partnership or other entity. Such a guarantee may be on a joint and several basis with our partner in which case we may be liable in the event such partner defaults on its guarantee obligation.

We could consume resources in researching acquisitions, business opportunities or financings and capital market transactions that are not consummated, which could materially adversely affect subsequent attempts to locate and acquire or invest in another business.

We anticipate that the investigation of each specific acquisition or business opportunity and the negotiation, drafting, and execution of relevant agreements, disclosure documents, and other instruments, with respect to such transaction, will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific acquisition, business opportunities or financings and capital market transactions investment or financing, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition, investment target or financing, we may fail to consummate the investment or acquisition for any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our ability to consummate other acquisitions and investments.

The consummation of the acquisition of the EXCO/HGI Partnership is subject to certain conditions, some of which are out of our control; failure to close the acquisition of the EXCO/HGI Partnership could, under certain circumstances, result in payment of a termination fee to EXCO Parent.

The closing of the acquisition of the EXCO/HGI Partnership is subject to certain conditions some of which are out of our control including, among others, obtaining required regulatory approvals, obtaining certain third party consents and other customary closing conditions. In addition, under the EXCO/HGI Purchase Agreement, each of

Table of Contents

EXCO and HGI Energy may terminate the EXCO/HGI Purchase Agreement in the event that the adjustments to the aggregate value of the EXCO Contributed Properties resulting from title defects, environmental defects or the failure to obtain required third party consents, waivers of applicable preferential purchase rights or waivers of maintenance of uniform interest provisions exceed $70 million. There is no guarantee that these conditions will be satisfied, the acquisition of the EXCO/HGI Partnership will not be delayed or will occur on terms materially different than those expected, including, as a result of title and environmental diligence of properties to be acquired, commodity price risks, drilling and production risks, risks related to transaction financing plans and reserve estimates and values and potential reserves and production levels.

EXCO Parent has certain termination rights under the EXCO/HGI Purchase Agreement that, if exercised by EXCO Parent (subject to the satisfaction of certain specified requirements in the EXCO/HGI Purchase Agreement), may result in the payment by HGI Energy to EXCO Parent of a termination fee of $60 million. Upon the satisfaction of certain conditions, HGI has guaranteed the obligation of HGI Energy to pay such termination fee to EXCO Parent.

Covenants in the Indenture and the Certificate of Designation limit, and other future financing agreements may limit, our ability to operate our business.

The Indenture and the Certificate of Designation contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our business. The Indenture requires us to satisfy certain financial tests, including minimum liquidity and collateral coverage ratios. If we fail to meet or satisfy any of these covenants (after applicable cure periods), we would be in default and noteholders (through the trustee or collateral agent, as applicable) could elect to declare all amounts outstanding to be immediately due and payable, enforce their interests in the collateral pledged and restrict our ability to make additional borrowings. These agreements may also contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under the other agreements could also declare a default. The covenants and restrictions in the Indenture, subject to specified exceptions, restrict our, and in certain cases, our subsidiaries ability to, among other things:

- incur additional indebtedness;
- create liens or engage in sale and leaseback transactions;
- pay dividends or make distributions in respect of capital stock;
- make certain restricted payments;
- sell assets;
- engage in transactions with affiliates, except on an arms-length basis; or
- consolidate or merge with, or sell substantially all of our assets to, another person.

The terms of our Preferred Stock provide the holders of the Preferred Stock with consent and voting rights with respect to certain of the matters referred to above and certain corporate governance rights.

These restrictions may interfere with our ability to obtain financings or to engage in other business activities, which could have a material adverse effect on our business, financial condition, liquidity and results of operations. Moreover, a default under one of our financing agreements may cause a default on the debt and other financing arrangements of our subsidiaries.

Financing covenants could adversely affect our financial health and prevent us from fulfilling our obligations.

We have a significant amount of indebtedness and preferred stock. As of September 30, 2012, our total outstanding indebtedness and preferred stock (excluding the indebtedness of our subsidiaries) was $917 million. As of September 30, 2012, the total liabilities of Spectrum Brands were approximately $2.8 billion, including trade payables. As of September 30, 2012, the total liabilities of FGL were approximately $19.7 billion, including approximately $15.3 billion in annuity contractholder funds and approximately $3.6 billion in future policy benefits. Our directly held subsidiaries significant indebtedness and other financing arrangements could have material consequences. For example, they could:

- make it difficult for us to satisfy our obligations with respect to our outstanding and other future debt obligations;

- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- impair our ability to obtain additional financing in the future for working capital, investments, acquisitions and other general corporate purposes;
- require us to dedicate a substantial portion of our cash flows to the payment to our financing sources, thereby reducing the availability of our cash flows to fund working capital, investments, acquisitions and other general corporate purposes; and
- place us at a disadvantage compared to our competitors.

Any of these risks could impact our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Our ability to make payments on our financial obligations may depend upon the future performance of our operating subsidiaries and their ability to generate cash flow in the future, which are subject to general economic, industry, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that we will generate sufficient cash flow from our operating subsidiaries, or that future borrowings will be available to us, in an amount sufficient to enable us to pay our financial obligations or to fund our other liquidity needs. If the cash flow from our operating subsidiaries is insufficient, we may take actions, such as delaying or reducing investments or acquisitions, attempting to restructure or refinance our financial obligations prior to maturity, selling assets or operations or seeking additional equity capital to supplement cash flow. However, we may be unable to take any of these actions on commercially reasonable terms, or at all.

Future financing activities may adversely affect our leverage and financial condition.

Subject to the limitations set forth in the Indenture and the Certificate of Designation, we and our subsidiaries may incur additional indebtedness and issue dividend-bearing redeemable equity interests. We expect to incur substantial additional financial obligations to enable us to consummate future acquisitions and investment opportunities. These obligations could result in:

- default and foreclosure on our assets if our operating revenues after an investment or acquisition are insufficient to repay our financial obligations;
- acceleration of our obligations to repay the financial obligations even if we make all required payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all amounts owed, if any, if such financial obligations are payable on demand;
- our inability to obtain necessary additional financing if such financial obligations contain covenants restricting our ability to obtain such financing while the financial obligations remain outstanding;
- our inability to pay dividends on our capital stock;
- using a substantial portion of our cash flow to pay principal and interest or dividends on our financial obligations, which will reduce the funds available for dividends on our common stock if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;

limitations on our flexibility in planning for and reacting to changes in our business and in the industries in which we operate;

an event of default that triggers a cross default with respect to other financial obligations, including the notes and our Preferred Stock;

Table of Contents

- increased vulnerability to adverse changes in general economic, industry, financial, competitive legislative, regulatory and other conditions and adverse changes in government regulation; and

- limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors.

We may issue additional shares of common stock or preferred stock which would dilute the interests of our stockholders and could present other risks.

Our amended and restated certificate of incorporation authorizes the issuance of up to 500,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of November 22, 2012, we have 140,186,935 shares of our common stock outstanding, and we have issued 400,000 shares of Preferred Stock which are convertible into approximately 62,838,862 shares of our common stock. The holders of our Preferred Stock have certain rights that are senior to those afforded to the holders of our common stock. In addition, we have reserved 17,000,000 shares of common stock pursuant to the Harbinger Group Inc. 2011 Omnibus Equity Award Plan (the 2011 Plan) and we have reserved 10,000 shares of common stock pursuant to previous employee incentive plans under which unexercised awards are outstanding but under which no new awards are being made.

On October 26, 2011, we filed a shelf registration statement on Form S-3 (the Form S-3) which registered the sale of up to 60,989,269 shares of our common stock from time to time in secondary offerings by the stockholders listed therein. On March 13, 2012, we filed a separate Form S-3, which registered a maximum aggregate offering price of $75 million composed of our common stock, preferred stock, warrants and units to be issued from time to time in primary offerings by us and up to 25,000,000 shares of our common stock from time to time in secondary offerings by the stockholders listed therein.

We may issue additional shares of common stock or preferred stock to raise additional capital, to raise funds, complete a business combination or as consideration of an acquisition of an operating business or other acquisition, to capitalize new businesses or new or existing businesses of our operating subsidiaries or other employee incentive plans, each of which would dilute the interests of our stockholders and could present other risks.

The issuance of additional shares of common or preferred stock may, among other things:

- significantly dilute the equity interest and voting power of all other stockholders;

- further subordinate the rights of holders of our common stock if further preferred stock is issued with rights senior to those afforded our common stock;

- call for us to make dividend or other payments not available to the holders of our common stock;

- may adversely affect the prevailing market price of our common stock; and

- could cause a change in control of our company if a substantial number of shares of our common stock is issued and/or if the Purchase Price of the Preferred Stock continues to accrete, which may affect, among other things, our ability to use our net operating loss carryforwards, if any; and our ability to retain our status as a controlled company , which may cause a change in control under the Indenture or Certificate of Designation.

In addition to the Spectrum Brands Acquisition, we have made and may continue to make other significant investments in publicly traded companies. Changes in the market prices of the securities we own, particularly during times of volatility in security prices, can have a material impact on the value of our company portfolio.

In addition to the Spectrum Brands Acquisition, we have made and may continue to make other significant investments in publicly traded companies, both as long-term acquisition targets and as shorter-term investments.

Table of Contents

We will either consolidate our investments and subsidiaries or report such investments under the equity method of accounting. Changes in the market prices of the publicly traded securities of these entities could have a material impact on an investor s perception of the aggregate value of our company portfolio and on the value of the assets we can pledge to creditors for debt financing, which in turn could adversely affect our ability to incur additional debt or finance future acquisitions.

We have incurred and expect to continue to incur substantial costs associated with the Spectrum Brands Acquisition, the Fidelity & Guaranty Acquisition, and any other transaction we complete in the future which will reduce the amount of cash otherwise available for other corporate purposes, and such costs and the costs of future investments could adversely affect our financial results and liquidity.

We have incurred and expect to continue to incur substantial costs in connection with the Spectrum Brands Acquisition, the Fidelity & Guaranty Acquisition and any other transaction we complete in the future. These costs will reduce the amount of cash otherwise available to us for acquisitions, business opportunities and other corporate purposes. There is no assurance that the actual costs will not exceed our estimates. We may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of our acquisitions including, the Hardware Acquisition and the acquisition of the EXCO/HGI Partnership, in fiscal quarters subsequent to the quarter in which the relevant acquisition was consummated.

The Principal Stockholders hold a majority of our outstanding common stock and have interests which may conflict with interests of our other stockholders and noteholders. As a result of this ownership, we are a controlled company within the meaning of the NYSE rules and are exempt from certain corporate governance requirements.

The Principal Stockholders beneficially own shares of our outstanding common stock that collectively constitute a substantial majority of our total voting power. Because of this, the Principal Stockholders, subject to the rights of the holders of Preferred Stock, exercise a controlling influence over our business and affairs and have the power to determine all matters submitted to a vote of our stockholders, including the election of directors, the removal of directors, and approval of significant corporate transactions such as amendments to our amended and restated certificate of incorporation, mergers and the sale of all or substantially all of our assets, subject to the consent and board representation rights of our Preferred Stock. Moreover, a majority of the members of our Board were nominated by and are affiliated with or are or were previously employed by the Principal Stockholders or their affiliates. This influence and actual control may have the effect of discouraging offers to acquire HGI because any such transaction would likely require the consent of the Principal Stockholders. In addition, the Principal Stockholders could cause corporate actions to be taken even if the interests of these entities conflict with or are not aligned with the interests of our other stockholders. Matters not directly related to us can nevertheless affect Harbinger Capital s decisions regarding its investment in us. We are one investment in Harbinger Capital s portfolio. Numerous considerations regarding Harbinger Capital, including investor contributions and redemptions, portfolio performance, mix and concentration, and portfolio financing arrangements, could influence Harbinger Capital s decisions whether to maintain, decrease or increase its investment in us.

We have been informed that the Master Fund, one of the Principal Stockholders, has pledged all of the shares of our common stock that it owns, together with securities of other issuers, to secure a certain portfolio financing. We have also been informed, that in connection with the financing, the Master Fund has also granted to the pledgee the right to purchase an aggregate of up to $50 million in value of HGI common stock owned by the Master Fund and the securities of certain other issuers that the Master Fund owns, which with regards to the HGI common stock may be exercised at any time at a price of $6.50 per share until June 14, 2013 and $7.00 per share until June 14, 2014. As of the date hereof, the Master Fund beneficially owns a majority of the outstanding shares of our common stock. As a result, the sale or other disposition of the shares of our common stock (including any foreclosure on or sale of our common stock pledged as collateral) by the Master Fund to non-affiliates of a sufficient amount of our common stock could cause the Company and its subsidiaries to experience a change of control, which may accelerate certain of the Company s and its subsidiaries equity awards and other obligations and/or allow certain counterparties to terminate their agreements. Among other things, such a change of control could result in a change of control under the terms of our 10.625% Notes and our preferred stock, requiring us to offer to repurchase our 10.625% Notes and redeem our preferred stock from the holders thereof. In addition, such a change of control may cause an event of default under Spectrum Brands senior secured term loan and asset based revolving loan facility, allowing their lenders to accelerate the maturities of these loans unless Spectrum Brands is able to obtain an amendment to avoid a default. Furthermore, under the indentures governing Spectrum Brands 9.5% Notes, such a disposition may cause Spectrum Brands to be required to offer to repurchase such notes from the holders thereof. No assurance can be provided that upon the occurrence of such an event, the Company or its subsidiaries will able to obtain the required waivers, repay their indebtedness or secure alternative arrangements.

Because of our ownership structure, we qualify for, and rely upon, the controlled company exception to the Board and committee composition requirements under the NYSE rules. Pursuant to this exception, we are exempt from rules that would otherwise require that our Board be comprised of a majority of independent directors (as defined under the NYSE rules), and that any compensation committee and corporate governance and nominating committee be comprised solely of independent directors, so long as the Principal Stockholders continue to own more than 50% of our combined voting power.

Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.

We have not adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or in any transaction to which we are a party or have an interest. Nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. We have engaged in transactions in which such persons have an interest and, subject to the terms of the Indenture and other applicable covenants in other financing arrangements or other agreements, may in the future enter into additional transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we are involved, and may also compete with us.

In the course of their other business activities, our officers and directors may become aware of investment and acquisition opportunities that may be appropriate for presentation to our company as well as the other entities with which they are affiliated. Our officers and directors may have conflicts of interest in determining to which entity a particular business opportunity should be presented.

Our officers and directors may become aware of business opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to our officers and directors existing affiliations with other entities, they may have fiduciary obligations to present potential business opportunities to those entities in addition to presenting them to us, which could cause additional conflicts of interest. For instance, Mr. Falcone may be required to present investment opportunities to the Principal Stockholders. Accordingly, he may have conflicts of interest in determining to which entity a particular business opportunity should be presented. To the extent that our officers and directors identify business combination opportunities that may be suitable for entities to which they have pre-existing fiduciary obligations, or are presented with such opportunities in their capacities as fiduciaries to such entities, they may be required to honor their pre-existing fiduciary obligations to such entities. Accordingly, they may not present business combination opportunities to us that otherwise may be attractive to such entities unless the other entities have declined to accept such opportunities. Although the Principal Stockholders have agreed, pursuant to the terms of a letter agreement with certain holders of our Preferred Stock and subject to certain exceptions, to present to us certain business opportunities in the consumer product, insurance and financial products, agriculture, power generation and water and mineral resources industries, we cannot assure you that the terms of this agreement will be enforced because we are not a party to this agreement and have no ability to enforce its terms.

Future acquisitions and dispositions may not require a stockholder vote and may be material to us.

Any future acquisitions could be material in size and scope, and our stockholders and potential investors may have virtually no substantive information about any new business upon which to base a decision whether to invest in our common stock. In any event, depending upon the size and structure of any acquisitions, stockholders may not have the opportunity to vote on the transaction, and may not have access to any information about any new business until the transaction is completed and we file a report with the Commission disclosing the nature of such transaction and/or business. Similarly, we may effect material dispositions in the future. Even if a stockholder vote is required for any of our future acquisitions, under our amended and restated certificate of incorporation and our bylaws, the Principal Stockholders (as long as they continue to own a majority of our outstanding common stock) may approve such transactions by written consent without our other stockholders having an opportunity to vote on such transactions.

Provisions in our organizational documents and applicable regulations may discourage the takeover of our company, may make removal of our management more difficult and may depress our stock price.

Our organizational documents contain provisions that may have an anti-takeover effect and inhibit a change in our management. They could also have the effect of discouraging others from making tender offers for our common stock. As a result, these provisions could prevent our stockholders from receiving a premium for their shares of common stock above the prevailing market prices. These provisions include:

- the authority of our Board to issue, without stockholder approval, up to 10,000,000 shares of our preferred stock with such terms as our Board may determine;

- special meetings of our stockholders may be called only by the Chairman of our Board or by our Secretary upon delivery of a written request executed by three directors (or, if there are fewer than three directors in office at that time, by all incumbent directors);

- a staggered Board as a result of which only one of the three classes of directors is elected each year;

- advance notice requirements for nominations for election to our Board or for proposing matters that can be acted on by stockholders at stockholder meetings;

- the absence of cumulative voting rights; and

- subject to any special rights of the holders of the holders of our Preferred Stock to elect directors, removal of incumbent directors only for cause.

In addition, our amended and restated certificate of incorporation contains provisions that restrict mergers and other business combinations with an Interested Stockholder (as defined) or that may otherwise have the effect of preventing or delaying a change of control of our company. The term Interested Stockholder excludes Harbinger Holdings LLC and any affiliates, including the Principal Stockholders and any other entity controlled or managed, directly or indirectly, by Philip A. Falcone. Also, the prior approvals of the MIA and the New York State Department of Financial Services are required for any person to acquire 10% or more of our voting stock.

The nature of certain of our assets are volatile and their value may fluctuate or change over short periods of time.

We have established HGI Funding LLC as a vehicle for managing a portion of our excess cash or for acquiring positions in possible acquisition targets while we search for additional acquisition opportunities. HGI Funding obtains holdings in various securities and debt instruments. Investments in such securities and debt instruments involves significant risk, including the risk of partial or total loss of value of such investments, particularly in light of uncertain domestic and global political, credit and financial market conditions. Any such loss may have a material adverse effect on our liquidity and results of operations, and can adversely affect our ability to service our debt and carry out our business strategy.

In addition, some of our subsidiaries are privately-held companies and some of our assets are illiquid securities, the fair value of which are not readily determinable. We value these securities for various purposes based on a number of factors, including, without limitation, third-party independent valuations. Because valuations, and particularly valuations of securities of private securities and illiquid securities, are inherently uncertain, such valuations may fluctuate significantly over short periods of time and may differ materially from the values that would have been obtained if an active market existed for these securities.

We will need to increase the size of our organization, and may experience difficulties in managing growth.

At HGI, the parent company, we do not have significant operating assets and have only 19 employees as of September 30, 2012. In connection with the completion of the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition, and particularly so we may proceed with other acquisitions or investments, we expect to require additional personnel and enhanced information technology systems. Future growth will increase corporate operating costs and impose significant added responsibilities on members of our management, including the need to identify, recruit, maintain and integrate additional employees and implement enhanced informational technology systems. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively. Future growth will also increase our costs and expenses and limit our liquidity.

Our ability to dispose of securities and debt interests may be limited by restrictive stockholder agreements, by the federal securities laws and by other regulations or market conditions.

When we acquire securities or debt instruments directly or indirectly through HGI Funding LLC or any of our other subsidiaries, we acquire securities or debt instruments that are illiquid and, when we acquire less than 100% of the equity interests of a company, we may be subject to restrictive terms of agreements with other equityholders. For instance, our investment in Spectrum Brands is subject to the Spectrum Brands Holdings Stockholder Agreement, which may adversely affect our flexibility in managing our investment in Spectrum Brands. In addition, the shares of Spectrum Brands we received in the Spectrum Brands Acquisition, the shares of FGL we acquired in the Fidelity & Guaranty Acquisition and the shares of certain other entities that we have acquired are not registered under the Securities Act and are, and any other securities we acquire may be, restricted securities under the Securities Act. Our ability to sell such securities and debt instruments could be limited by market conditions and the illiquid nature of such securities and debt instruments and could be limited to sales pursuant to: (i) an effective registration statement under the Securities Act covering the resale of those securities, (ii) Rule 144 under the Securities Act, which, among other things, requires a specified holding period and limits the manner and volume of sales, (iii) another applicable exemption under the Securities Act or (iv) approval of certain regulators. The inability to sell such securities or debt instruments when desired or necessary may have a material adverse effect on our financial condition and liquidity, which could adversely affect our ability to service our debt and our ability to carry out our business strategy.

We may suffer adverse consequences if we are deemed an investment company under the Investment Company Act and we may be required to incur significant costs to avoid investment company status and our activities may be restricted.

We believe that we are not an investment company under the Investment Company Act of 1940 (the Investment Company Act) and we intend to continue to make acquisitions and other investments in a manner so as not to be an investment company. The Investment Company Act contains substantive legal requirements that regulate the manner in which investment companies are permitted to conduct their business activities. If the Commission or a court were to disagree with us, we could be required to register as an investment company. This would negatively affect our ability to consummate acquisitions, subject us to disclosure and accounting guidance geared toward investment, rather than operating, companies; limit our ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and require us to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which we would be subject as a registered investment company. In order not to be regulated as an investment company under the Investment Company Act, unless we can qualify for an exemption, we must ensure that we are engaged primarily in a business other than investing, reinvesting, owning, holding or trading in securities (as defined in the Investment Company Act) and that we do not own or acquire investment securities having a value exceeding 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. To ensure that majority-owned investments, such as Spectrum Brands, do not become categorized as investment securities, we may need to make additional investments in these subsidiaries to offset any dilution of our interest that would otherwise cause such a subsidiary to cease to be majority-owned. We may also need to forego acquisitions that we would otherwise make or retain, or dispose of investments that we might otherwise sell or hold.

Agreements and transactions involving former subsidiaries may give rise to future claims that could materially adversely impact our capital resources.

Throughout our history, we have entered into numerous transactions relating to the sale, disposal or spinoff of partially and wholly owned subsidiaries. We may have continuing obligations pursuant to certain of these transactions, including obligations to indemnify other parties to agreements, and may be subject to risks resulting from these transactions. See Item 3, Legal Proceedings.

From time to time we may be subject to litigation for which we may be unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

We and our subsidiaries are or may become parties to legal proceedings that are considered to be either ordinary or routine litigation incidental to our or their current or prior businesses or not material to our consolidated financial position or liquidity. There can be no assurance that we will prevail in any litigation in which we or our subsidiaries may become involved, or that our or their insurance coverage will be adequate to cover any potential losses. To the extent that we or our subsidiaries sustain losses from any pending litigation which are not reserved or otherwise provided for or insured against, our business, results of operations, cash flows and/or financial condition could be materially adversely affected.

HGI is a nominal defendant, and the members of our Board 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. We believe the allegations are without merit and intend to vigorously defend this matter.

There may be tax consequences associated with our acquisition, investment, holding and disposition of target companies and assets.

We may incur significant taxes in connection with effecting acquisitions or investments, holding, receiving payments from, and operating target companies and assets and disposing of target companies or their assets. Our decisions to make a particular acquisition, sell a particular asset or increase or decrease a particular investment may be based on considerations other than the timing and amount of taxes owed as a result.

HGI and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforwards.

As of September 30, 2012, HGI and Spectrum Brands had U.S. Federal net operating loss (NOL) carryforwards of approximately $122 million and $1,305 million, respectively, that, if unused, will expire through year 2032. Spectrum Brands also had state and local NOL carryforwards of approximately $1,341 million at September 30, 2012, that if unused, will expire through year 2032 and had foreign loss carryforwards of approximately $119 million which will expire beginning in 2016. As of September 30, 2012, FGL had U.S.

Federal NOL carryforwards of approximately $87 million that, if unused, will expire in years 2026 through 2032 and had capital loss carryforwards of approximately $552 million that, if unused, will expire through year 2017. In addition, any future subsidiary that HGI or its subsidiaries may acquire may also have significant Federal, state, local and foreign NOL carryforwards. Both HGI and Spectrum Brands have established full valuation allowances for these deferred tax assets, and FGL has established a partial valuation allowance, based on their assessments of the amounts of deferred tax assets that are more-likely-than-not realizable.

The ability of HGI and its subsidiaries, including Spectrum Brands, FGL and any future subsidiary, to utilize their NOL and other tax carryforwards to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOL carryforwards prior to their expiration. Additionally, the ability of HGI and its subsidiaries (including Spectrum Brands, FGL and any future subsidiary) to fully use these tax assets could also be adversely affected if the respective companies were deemed to have an ownership change within the meaning of Sections 382 and 383 of the U.S. Internal Revenue Code of 1986, as amended (the Code). An ownership change is generally defined as a greater than 50% increase in equity ownership by 5% shareholders (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three-year period. HGI and its subsidiaries (including Spectrum Brands and FGL) have experienced ownership changes that have limited the utilization of a portion of their NOL carryforwards and other carryforward tax attributes. Future ownership changes, including transfers or dispositions of our stock by the Principal Stockholders or other stockholders and conversions or redemptions of our preferred stock, could, depending on their magnitude, result in ownership changes that would trigger the imposition of additional limitations on their utilization under Sections 382 and 383. Accordingly, there can be no assurance that, in the future, HGI and/or its subsidiaries (including Spectrum Brands, FGL and any future subsidiary) will not experience additional limitations on utilizing the tax benefits of their NOL and other tax carryforwards. Such limitations could have a material adverse effect on HGI and/or its subsidiaries results of operations, cash flows or financial condition.

We may be subject to an additional tax as a personal holding company on future undistributed personal holding company income if we generate passive income in excess of operating expenses.

Section 541 of the Code, subjects a corporation that is a personal holding company (PHC), as defined in the Code, to a 15% tax on undistributed personal holding company income in addition to the corporation s normal income tax. Generally, undistributed personal holding company income is based on taxable income, subject to certain adjustments, most notably a deduction for federal income taxes and a modification of the usual net operating loss deduction. Personal holding company income (PHC Income) is comprised primarily of passive investment income plus, under certain circumstances, personal service income. A corporation generally is considered to be a PHC if (i) at least 60% of its adjusted ordinary gross income is PHC Income and (ii) more than 50% in value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals (including, for this purpose, certain organizations and trusts) at any time during the last half of the taxable year.

We did not incur a PHC tax for the 2009 through 2011 fiscal years, because we had a sufficiently large tax net operating losses for each year. We also expect to report a tax net operating loss for fiscal 2012. However, so long as the Principal Stockholders and their affiliates hold more than 50% in value of our outstanding common stock at any time during any future tax year, it is possible that we will be a PHC if at least 60% of our adjusted ordinary gross income consists of PHC Income as discussed above. Thus, there can be no assurance that we will not be subject to this tax in the future, which, in turn, may materially and adversely impact our financial position, results of operations, cash flows and liquidity. In addition, if we are subject to this tax during future periods, statutory tax rate increases could significantly increase tax expense and adversely affect operating results and cash flows. Specifically, the current 15% tax rate on undistributed PHC Income is scheduled to expire at the end of 2012, so that, absent a statutory change, the rate will revert back to the highest individual ordinary income rate of 39.6% for taxable years beginning after December 31, 2012.

Table of Contents

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting and to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements or negative reports concerning our internal controls could adversely affect our future results of operations and financial condition.

We may in the future discover areas of our internal controls that need improvement, particularly with respect to our existing acquired businesses, businesses that we may acquire in the future, and newly formed businesses or entities. We cannot be certain that any remedial measures we take will ensure that we implement and maintain adequate internal controls over our financial reporting processes and reporting in the future.

In addition, when we acquire a company that was not previously subject to U.S. public company requirements or did not previously prepare financial statements in accordance with US GAAP such as FGL, we may incur significant additional costs in order to ensure that after such acquisition we continue to comply with the requirements of the Sarbanes-Oxley Act of 2002 and other public company requirements, which in turn would reduce our earnings and negatively affect our liquidity or cause us to fail to meet our reporting obligations. A target business may not be in compliance with the provisions of the Sarbanes-Oxley Act of 2002 regarding adequacy of their internal controls and may not be otherwise set up for public company reporting. The development of an adequate financial reporting system and the internal controls of any such entity to achieve compliance with the Sarbanes-Oxley Act of 2002 may increase the time and costs necessary to complete any such acquisition or cause us to fail to meet our reporting obligations.

Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal controls over financial reporting, or if our independent registered public accounting firm is unable to provide us with an unqualified report regarding the effectiveness of our internal controls over financial reporting to the extent required by Section 404 of the Sarbanes-Oxley Act of 2002, investors could lose confidence in the reliability of our financial statements. Failure to comply with Section 404 of the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the Commission, or other regulatory authorities. In addition, failure to comply with our reporting obligations with the Commission may cause an event of default to occur under the Indenture, or similar instruments governing any debt we incur in the future.

Limitations on liability and indemnification matters.

As permitted by Delaware law, we have included in our amended and restated certificate of incorporation a provision to eliminate the personal liability of our directors for monetary damages for breach or alleged breach of their fiduciary duties as directors, subject to certain exceptions. Our bylaws also provide that we are required to indemnify our directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary, and we will be required to advance expenses to our directors as incurred in connection with proceedings against them for which they may be indemnified. In addition, we may, by action of our Board, provide indemnification and advance expenses to our officers, employees and agents (other than directors), to directors, officers, employees or agents of a subsidiary of our company, and to each person serving as a director, officer, partner, member, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, at our request, with the same scope and effect as the indemnification of our directors provided in our bylaws.

Price fluctuations in our common stock could result from general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly held subsidiaries.

The trading price of our common stock may be highly volatile and could be subject to fluctuations in response to a number of factors beyond our control, including:

- actual or anticipated fluctuations in our results of operations and the performance of our subsidiaries and their competitors;

Table of Contents

reaction of the market to our announcement of any future acquisitions or investments;

the public s reaction to our press releases, our other public announcements and our filings with the Commission;

changes in general economic conditions;

the U.S. federal government not achieving a resolution that would mitigate the impact of the significant mandated tax increases and government spending cuts beginning in January 2013 (the Fiscal Cliff);

actions of our historical equity investors, including sales of common stock by our the Principal Stockholders, our directors and our executive officers; and

actions by institutional investors trading in our stock.

In addition, the trading price of our common stock could be subject to fluctuations in response to a number of factors that affect the volatility of the common stock of any of our subsidiaries, such as Spectrum Brands, that are publicly traded.

Future sales of substantial amounts of our common stock may adversely affect our market price.

In connection with the Spectrum Brands Acquisition, we have granted registration rights to the Principal Stockholders under a registration rights agreement to facilitate the resale of their shares of our common stock. Under this registration rights agreement, the Principal Stockholders have the right, subject to certain conditions, to require us to register the sale of their shares under the federal securities laws. By exercising their registration rights, and selling all or a portion of their shares, the Principal Stockholders could cause the prevailing market price of our common stock to decline. We have filed a shelf registration statement with respect to the resale by the Principal Stockholders from time to time of up to 25,000,000 shares of our common stock. In addition, the shares of our common stock owned by the Principal Stockholders may also be sold in the public market under Rule 144 of the Securities Act after the applicable holding period and manner and volume of sales requirements have been met, subject to the restrictions and limitations of that Rule.

Furthermore, the holders of our outstanding Preferred Stock have certain rights to convert their Preferred Stock into an aggregate amount of 62,838,862 shares of our common stock. If these rights are exercised in full, it might also adversely affect the market price of our common stock.

Future sales of substantial amounts of our common stock into the public market, or perceptions in the market that such sales could occur, may adversely affect the prevailing market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

The market liquidity for our common stock is relatively low and may make it difficult to purchase or sell our stock.

The average daily trading volume in our stock during the twelve month periods ended September 30, 2011 and September 30, 2012 was approximately 44,000 and 106,000 shares, respectively. Although a more active trading market may develop in the future, there can be no assurance as to the liquidity of any markets that may develop for our common stock or the prices at which holders may be able to sell our common stock and the limited market liquidity for our stock could affect a stockholder s ability to sell at a price satisfactory to that stockholder.

Table of Contents

Risks Related to Spectrum Brands

Spectrum Brands is a parent company and its primary source of cash is and will be distributions from its subsidiaries.

Spectrum Brands is a parent company with limited business operations of its own. Its main asset is the capital stock of its subsidiaries, including SBI. SBI conducts most of its business operations through its direct and indirect subsidiaries. Accordingly, SBI s primary sources of cash are dividends and distributions with respect to its ownership interests in its subsidiaries that are derived from their earnings and cash flow. Spectrum Brands and SBI s subsidiaries might not generate sufficient earnings and cash flow to pay dividends or distributions in the future. Spectrum Brands and SBI s subsidiaries payments to their respective parent will be contingent upon their earnings and upon other business considerations. In addition, SBI s senior credit facilities, the indentures governing its senior and subordinated notes and other agreements limit or prohibit certain payments of dividends or other distributions to Spectrum Brands. Spectrum Brands expects that future credit facilities and financing arrangements of SBI will contain similar restrictions.

SBI s substantial indebtedness may limit its financial and operating flexibility, and it may incur additional debt, which could increase the risks associated with its substantial indebtedness.

SBI has, and expects to continue to have, a significant amount of indebtedness. SBI s substantial indebtedness has had, and could continue to have, material adverse consequences for its business, and may:

- require it to dedicate a large portion of its cash flow to pay principal and interest on its indebtedness, which will reduce the availability of its cash flow to fund working capital, capital expenditures, research and development expenditures and other business activities;
- increase its vulnerability to general adverse economic and industry conditions;
- limit its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;
- restrict its ability to make strategic acquisitions, dispositions or exploit business opportunities;
- place it at a competitive disadvantage compared to its competitors that have less debt; and
- limit its ability to borrow additional funds (even when necessary to maintain adequate liquidity) or dispose of assets.

The terms of SBI s current indebtedness permit SBI to incur additional indebtedness. If new debt is added to its existing debt levels, the related risks that it now faces would increase.

Furthermore, a substantial portion of SBI s debt bears interest at variable rates. If market interest rates increase, the interest rate on SBI s variable rate debt will increase and will create higher debt service requirements, which would adversely affect SBI s cash flow and could adversely impact SBI s results of operations. While SBI may enter into agreements limiting SBI s exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

Restrictive covenants in SBI s Senior Secured Facilities and the 2020 Indenture may restrict SBI s ability to pursue its business strategies.

SBI s Senior Secured Facilities and the 2020 Indenture each restrict, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions, other restricted payments, indebtedness and preferred stock, loans and investments, liens and affiliate transactions. SBI s Senior Secured Facilities and the 2020 Indenture also contain customary events of default. These covenants, among other things, limit SBI s ability to fund future working capital and capital expenditures, engage in future acquisitions or development activities, or otherwise realize the value of its assets and opportunities fully because of the need to dedicate a

portion of cash flow from operations to payments on debt. In addition, SBI s Senior Secured Facilities contain financial covenants relating to maximum leverage and minimum interest coverage. Such covenants could limit the flexibility of SBI s restricted entities in planning for, or reacting to, changes in the industries in which they operate. SBI s ability to comply with these covenants is subject to certain events outside of its control. If SBI is unable to comply with these covenants, the lenders under the SBI s Senior Secured Facilities or SBI s 6.75% Notes could terminate their commitments and the lenders under SBI s Senior Secured Facilities or SBI s 6.75% Notes could accelerate repayment of its outstanding borrowings, and, in either case, SBI may be unable to obtain adequate refinancing of outstanding borrowings on favorable terms. If SBI is unable to repay outstanding borrowings when due, the lenders under SBI s Senior Secured Facilities or SBI s 6.75% Notes will also have the right to proceed against the collateral granted to them to secure the indebtedness owed to them. If SBI s obligations under the its Senior Secured Facilities or its 6.75% Notes are accelerated, it cannot assure you that its assets would be sufficient to repay in full such indebtedness.

The sale or other disposition by HGI, the holder of a majority of the outstanding shares of Spectrum Brands common stock, to non-affiliates of a sufficient amount of the common stock of Spectrum Brands would constitute a change of control under the agreements governing SBI s debt.

HGI owns a majority of the outstanding shares of the common stock of Spectrum Brands. The sale or other disposition by HGI to non-affiliates of a sufficient amount of the common stock of Spectrum Brands could constitute a change of control under certain of the agreements governing SBI s debt, including any foreclosure on or sale of Spectrum Brands common stock pledged as collateral by HGI pursuant to the Indenture. Under the SBI Term Loan and the SBI ABL Facility, a change of control is an event of default and, if a change of control were to occur, SBI would be required to get an amendment to these agreements to avoid a default. If SBI was unable to get such an amendment, the lenders could accelerate the maturity of each of the SBI Term Loan and the SBI ABL Facility. In addition, under the indenture governing the 9.5% Notes and the 2020 Indenture, upon a change of control of Spectrum Brands, SBI is required to offer to repurchase such notes from the holders at a price equal to 101% of the principal amount of the notes plus accrued interest or obtain a waiver of default from the holders of such notes. If SBI was unable to make the change of control offer or to obtain a waiver of default, it would be an event of default under the indentures that could allow holders of such notes to accelerate the maturity of the notes.

Spectrum Brands faces risks related to the current economic environment.

The current economic environment and related turmoil in the global financial system has had and may continue to have an impact on Spectrum Brands business and financial condition. Global economic conditions have significantly impacted economic markets within certain sectors, with financial services and retail businesses being particularly impacted. Spectrum Brands ability to generate revenue depends significantly on discretionary consumer spending. It is difficult to predict new general economic conditions that could impact consumer and customer demand for Spectrum Brands products or its ability to manage normal commercial relationships with its customers, suppliers and creditors. The recent continuation of a number of negative economic factors, including constraints on the supply of credit to households, uncertainty and weakness in the labor market and general consumer fears of a continuing economic downturn could have a negative impact on discretionary consumer spending. If the economy continues to deteriorate or fails to improve, Spectrum Brands business could be negatively impacted, including as a result of reduced demand for its products or supplier or customer disruptions. Any weakness in discretionary consumer spending could have a material adverse effect on its revenues, results of operations and financial condition. In addition, Spectrum Brands ability to access the capital markets may be restricted at a time when it could be necessary or beneficial to do so, which could have an impact on its flexibility to react to changing economic and business conditions.

In 2011 and 2012, concern over sovereign debt in Greece, Spain, Italy and certain other European Union countries caused significant fluctuations of the Euro relative to other currencies, such as the U.S. Dollar. Criticism of excessive national debt among certain European Union countries has led to credit downgrades of the sovereign debt of several countries in the region, and uncertainty about the future status of the Euro.

Table of Contents

Destabilization of the European economy could lead to a decrease in consumer confidence, which could cause reductions in discretionary spending and demand for Spectrum Brands products. Furthermore, sovereign debt issues could also lead to further significant, and potentially longer-term, economic issues such as reduced economic growth and devaluation of the Euro against the U.S. Dollar, any of which could adversely affect Spectrum Brands business, financial conditions and operating results.

Spectrum Brands depends on key personnel and may not be able to retain those employees or recruit additional qualified personnel.

Spectrum Brands is highly dependent on the continuing efforts of its senior management team and other key personnel. Spectrum Brands business, financial condition and results of operations could be materially adversely affected if it loses any of these persons and are unable to attract and retain qualified replacements.

Spectrum Brands participates in very competitive markets and it may not be able to compete successfully, causing it to lose market share and sales.

The markets in which Spectrum Brands participates are very competitive. In the consumer battery market, its primary competitors are Duracell (a brand of The Procter & Gamble Company), Energizer and Panasonic (a brand of Matsushita Electrical Industrial Co., Ltd.). In the electric shaving and grooming and electric personal care product markets, its primary competitors are Braun (a brand of Procter & Gamble), Norelco (a brand of Koninklijke Philips Electronics NV), and Vidal Sassoon and Revlon (brands of Helen of Troy Limited). In the pet supplies market, its primary competitors are Mars Corporation, The Hartz Mountain Corporation and Central Garden & Pet Company. In the Home and Garden Business, its principal national competitors are The Scotts Miracle-Gro Company, Central Garden & Pet and S.C. Johnson & Son, Inc. Spectrum Brands principal national competitors within the small appliances segment include Jarden Corporation, DeLonghi America, Euro-Pro Operating LLC, Metro Thebe, Inc., d/b/a HWI Breville, NACCO Industries, Inc. (Hamilton Beach) and SEB S.A. In each of these markets, Spectrum Brands also faces competition from numerous other companies. In addition, in a number of its product lines, Spectrum Brands competes with its retail customers, who use their own private label brands, and with distributors and foreign manufacturers of unbranded products. Significant new competitors or increased competition from existing competitors may adversely affect the business, financial condition and results of its operations.

Spectrum Brands competes with its competitors for consumer acceptance and limited shelf space based upon brand name recognition, perceived product quality, price, performance, product features and enhancements, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies, and new product introductions. Spectrum Brands ability to compete in these consumer product markets may be adversely affected by a number of factors, including, but not limited to, the following:

- Spectrum Brands competes against many well-established companies that may have substantially greater financial and other resources, including personnel and research and development, and greater overall market share than Spectrum Brands.

- In some key product lines, Spectrum Brands competitors may have lower production costs and higher profit margins than it, which may enable them to compete more aggressively in offering retail discounts, rebates and other promotional incentives.

- Product improvements or effective advertising campaigns by competitors may weaken consumer demand for Spectrum Brands products.

- Consumer purchasing behavior may shift to distribution channels where Spectrum Brands does not have a strong presence.

- Consumer preferences may change to lower margin products or products other than those Spectrum Brands markets.

Spectrum Brands may not be successful in the introduction, marketing and manufacture of any new products or product innovations or be able to develop and introduce, in a timely manner, innovations to its existing products that satisfy customer needs or achieve market acceptance.

Some competitors may be willing to reduce prices and accept lower profit margins to compete with Spectrum Brands. As a result of this competition, Spectrum Brands could lose market share and sales, or be forced to reduce its prices to meet competition. If its product offerings are unable to compete successfully, its sales, results of operations and financial condition could be materially and adversely affected.

Spectrum Brands may not be able to realize expected benefits and synergies from future acquisitions of businesses or product lines.

Spectrum Brands may acquire partial or full ownership in businesses or may acquire rights to market and distribute particular products or lines of products. The acquisition of a business or the rights to market specific products or use specific product names may involve a financial commitment by Spectrum Brands, either in the form of cash or equity consideration. In the case of a new license, such commitments are usually in the form of prepaid royalties and future minimum royalty payments. There is no guarantee that Spectrum Brands will acquire businesses or product distribution rights that will contribute positively to its earnings. Anticipated synergies may not materialize, cost savings may be less than expected, sales of products may not meet expectations, and acquired businesses may carry unexpected liabilities.

Sales of certain of Spectrum Brands products are seasonal and may cause Spectrum Brands operating results and working capital requirements to fluctuate.

On a consolidated basis, Spectrum Brands financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum Brands first fiscal quarter). Demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products typically peaks during the first six months of the calendar year (Spectrum Brands second and third fiscal quarters). Small appliances peaks from July through December primarily due to the increased demand by customers in the late summer for back-to-school sales and in the fall for the holiday season. As a result of this seasonality, Spectrum Brands inventory and working capital needs fluctuate significantly. In addition, orders from retailers are often made late in the period preceding the applicable peak season, making forecasting of production schedules and inventory purchases difficult. If Spectrum Brands is unable to accurately forecast and prepare for customer orders or its working capital needs, or there is a general downturn in business or economic conditions during these periods, its business, financial condition and results of operations could be materially and adversely affected.

Spectrum Brands is subject to significant international business risks that could hurt its business and cause its results of operations to fluctuate.

Approximately 46% of Spectrum Brands net sales for the Fiscal Year 2012 were from customers outside of the U.S. Spectrum Brands pursuit of international growth opportunities may require significant investments for an extended period before returns on these investments, if any, are realized. Its international operations are subject to risks including, among others:

- currency fluctuations, including, without limitation, fluctuations in the foreign exchange rate of the Euro;
- changes in the economic conditions or consumer preferences or demand for its products in these markets;
- the risk that because its brand names may not be locally recognized, Spectrum Brands must spend significant amounts of time and money to build brand recognition without certainty that it will be successful;
- labor unrest;

- political and economic instability, as a result of terrorist attacks, natural disasters or otherwise;
- lack of developed infrastructure;
- longer payment cycles and greater difficulty in collecting accounts;
- restrictions on transfers of funds;
- import and export duties and quotas, as well as general transportation costs;
- changes in domestic and international customs and tariffs;
- changes in foreign labor laws and regulations affecting its ability to hire and retain employees;
- inadequate protection of intellectual property in foreign countries;
- unexpected changes in regulatory environments;
- difficulty in complying with foreign law;
- difficulty in obtaining distribution and support; and
- adverse tax consequences.

The foregoing factors may have a material adverse effect on Spectrum Brands ability to increase or maintain its supply of products, financial condition or results of operations.

Adverse weather conditions during its peak selling season for Spectrum Brands home and garden control products could have a material adverse effect on its home and garden business.

Weather conditions in the U.S. have a significant impact on the timing and volume of sales of certain of Spectrum Brands lawn and garden and household insecticide and repellent products. For example, periods of dry, hot weather can decrease insecticide sales, while periods of cold and wet weather can slow sales of herbicides.

Spectrum Brands products utilize certain key raw materials; any increase in the price of, or change in supply and demand for, these raw materials could have a material and adverse effect on its business, financial condition and profits.

The principal raw materials used to produce Spectrum Brands products including zinc powder, electrolytic manganese dioxide powder, petroleum-based plastic materials, steel, aluminum, copper and corrugated materials (for packaging) are sourced either on a global or regional basis by Spectrum Brands or its suppliers, and the prices of those raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. In particular, during 2011 and 2012, Spectrum Brands experienced extraordinary price increases for raw materials, particularly as a result of strong demand from China. Although Spectrum Brands may increase the prices of certain of its goods to its customers, it may not be able to pass all of these cost increases on to its customers. As a result, its margins may be adversely impacted by such cost increases. Spectrum Brands cannot provide any assurance that its sources of supply will not be interrupted due to changes in worldwide supply of or demand for raw materials or other events that interrupt material flow, which may have an adverse effect on its profitability and results of operations.

Spectrum Brands regularly engages in forward purchase and hedging derivative transactions in an attempt to effectively manage and stabilize some of the raw material costs it expects to incur over the next 12 to 24 months. However, Spectrum Brands hedging positions may not be effective, or may not anticipate beneficial trends, in a particular raw material market or may, as a result of changes in its business, no longer be useful for it. In addition, for certain of the principal raw materials Spectrum Brands uses to produce its products, such as electrolytic manganese dioxide powder, there are no available effective hedging markets. If these efforts are not effective or expose Spectrum Brands to above average costs for an extended period of time, and Spectrum Brands is unable to pass its raw materials costs on to its customers, its future profitability may be materially and adversely affected. Furthermore, with respect to transportation costs, certain modes of delivery are subject to fuel surcharges which are determined based upon the current cost of diesel fuel in relation to pre-established agreed upon costs. Spectrum Brands may be unable to pass these fuel surcharges on to its customers, which may have an adverse effect on its profitability and results of operations.

In addition, Spectrum Brands has exclusivity arrangements and minimum purchase requirements with certain of its suppliers for the home and garden business, which increase its dependence upon and exposure to those suppliers. Some of those agreements include caps on the price Spectrum Brands pays for its supplies and in certain instances, these caps have allowed Spectrum Brands to purchase materials at below market prices. When Spectrum Brands attempts to renew those contracts, the other parties to the contracts may not be willing to include or may limit the effect of those caps and could even attempt to impose above market prices in an effort to make up for any below market prices paid by Spectrum Brands prior to the renewal of the agreement. Any failure to timely obtain suitable supplies at competitive prices could materially adversely affect Spectrum Brands business, financial condition and results of operations.

Spectrum Brands may not be able to fully utilize its U.S. net operating loss carryforwards.

As of September 30, 2012, Spectrum Brands had U.S. federal and state net operating loss carryforwards of approximately $1,305 million and $1,341 million, respectively. These net operating loss carryforwards expire through years ending in 2032. As of September 30, 2012, Spectrum Brands management determined that it continues to be more likely than not that its U.S. net deferred tax assets, excluding certain indefinite lived assets, will not be realized in the future and as such recorded a full valuation allowance to offset its net U.S. deferred tax assets, including its net operating loss carryforwards. In addition, Spectrum Brands has had changes of ownership, as defined under Section 382 of the Code, that continue to subject a significant amount of Spectrum Brands U.S. net operating losses and other tax attributes to certain limitations.

As a consequence of the merger of Salton, Inc. and Applica Incorporated in December 2007 (which created Russell Hobbs), as well as earlier business combinations and issuances of common stock consummated by both companies, use of the tax benefits from Russell Hobbs U.S. loss carryforwards is also subject to limitations imposed by Section 382 of the Code. Spectrum Brands expects that a significant portion of these carryforwards will not be available to offset future taxable income, if any. In addition, use of Russell Hobbs net operating loss and tax credit carryforwards is dependent upon both Russell Hobbs and Spectrum Brands achieving profitable results in the future. The Russell Hobbs U.S. net operating loss carryforwards are subject to a full valuation allowance at September 30, 2012.

Spectrum Brands estimates that approximately $301 million of the SBI and Russell Hobbs U.S. federal net operating losses and $385 million of the SBI and Russell Hobbs state net operating losses would expire unused even if it generates sufficient income to otherwise use all its net operating losses, due to the limitation in Section 382 of the Code.

If Spectrum Brands is unable to fully utilize its net operating losses, other than those restricted under Section 382 of the Code, as discussed above, to offset taxable income generated in the future, its results of operations could be materially and negatively impacted.

Consolidation of retailers and Spectrum Brands dependence on a small number of key customers for a significant percentage of its sales may negatively affect its business, financial condition and results of operations.

As a result of consolidation of retailers and consumer trends toward national mass merchandisers, a significant percentage of Spectrum Brands sales are attributable to a very limited group of customers. Spectrum Brands largest customer accounted for approximately 23% of its consolidated net sales for Fiscal Year 2012. As these mass merchandisers and retailers grow larger and become more sophisticated, they may demand lower pricing, special packaging, or impose other requirements on product suppliers. These business demands may relate to inventory practices, logistics, or other aspects of the customer-supplier relationship. Because of the importance of these key customers, demands for price reductions or promotions, reductions in their purchases, changes in their financial condition or loss of their accounts could have a material adverse effect on Spectrum Brands business, financial condition and results of operations.

Although Spectrum Brands has long-established relationships with many of its customers, it does not have long-term agreements with them and purchases are generally made through the use of individual purchase orders. Any significant reduction in purchases, failure to obtain anticipated orders or delays or cancellations of orders by any of these major customers, or significant pressure to reduce prices from any of these major customers, could have a material adverse effect on Spectrum Brands business, financial condition and results of operations. Additionally, a significant deterioration in the financial condition of the retail industry in general could have a material adverse effect on its sales and profitability.

In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among them to purchase products on a just-in-time basis. Due to a number of factors, including (i) manufacturing lead-times, (ii) seasonal purchasing patterns and (iii) the potential for material price increases, Spectrum Brands may be required to shorten its lead-time for production and more closely anticipate its retailers and customers demands, which could in the future require it to carry additional inventories and increase its working capital and related financing requirements. This may increase the cost of warehousing inventory or result in excess inventory becoming difficult to manage, unusable or obsolete. In addition, if Spectrum Brands retailers significantly change their inventory management strategies, Spectrum Brands may encounter difficulties in filling customer orders or in liquidating excess inventories, or may find that customers are cancelling orders or returning products, which may have a material adverse effect on its business.

Furthermore, Spectrum Brands primarily sells branded products and a move by one or more of its large customers to sell significant quantities of private label products that Spectrum Brands does not produce on their behalf and which directly compete with Spectrum Brands products, could have a material adverse effect on Spectrum Brands business, financial condition and results of operations.

As a result of its international operations, Spectrum Brands faces a number of risks related to exchange rates and foreign currencies.

Spectrum Brands international sales and certain of its expenses are transacted in foreign currencies. During the Fiscal Year, 2012, approximately 46% of Spectrum Brands net sales and 46% of its operating expenses were denominated in foreign currencies. Spectrum Brands expects that the amount of its revenues and expenses transacted in foreign currencies will increase as its Latin American, European and Asian operations grow and, as a result, its exposure to risks associated with foreign currencies could increase accordingly. Significant changes in the value of the U.S. dollar in relation to foreign currencies will affect its cost of goods sold and its operating margins and could result in exchange losses or otherwise have a material effect on its business, financial condition and results of operations. Changes in currency exchange rates may also affect Spectrum Brands sales to, purchases from and loans to its subsidiaries as well as sales to, purchases from and bank lines of credit with its customers, suppliers and creditors that are denominated in foreign currencies.

Spectrum Brands sources many products from China and other Asian countries. To the extent the Chinese Renminbi (RMB) or other currencies appreciate with respect to the U.S. dollar, it may experience fluctuations in its results of operations. Since 2005, the RMB has no longer been pegged to the U.S. dollar at a constant exchange rate and instead fluctuates versus a basket of currencies. Although the People s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate within a flexible peg range against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Table of Contents

While Spectrum Brands may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and it may not be able to successfully hedge its exposure to currency fluctuations.

Further, Spectrum Brands may not be successful in implementing customer pricing or other actions in an effort to mitigate the impact of currency fluctuations and, thus, its results of operations may be adversely impacted.

A deterioration in trade relations with China could lead to a substantial increase in tariffs imposed on goods of Chinese origin, which potentially could reduce demand for and sales of Spectrum Brands products.

Spectrum Brands purchases a number of its products and supplies from suppliers located in China. China gained Permanent Normal Trade Relations (PNTR) with the U.S. when it acceded to the World Trade Organization (WTO), effective January 2002. The U.S. imposes the lowest applicable tariffs on exports from PNTR countries to the U.S. In order to maintain its WTO membership, China has agreed to several requirements, including the elimination of caps on foreign ownership of Chinese companies, lowering tariffs and publicizing its laws. China may not meet these requirements and, as a result, it may not remain a member of the WTO, and its PNTR trading status may not be maintained. If China s WTO membership is withdrawn or if PNTR status for goods produced in China were removed, there could be a substantial increase in tariffs imposed on goods of Chinese origin entering the U.S. which could have a material adverse effect on its sales and gross margin. Furthermore, on October 11, 2011, the U.S. Senate approved a bill to impose sanctions against China for its currency valuation, although the future status of this bill is uncertain. If this bill is enacted into law, the U.S. government may impose duties on products from China and other countries found to be subsidizing their exports by undervaluing their currencies, which may increase the costs of goods produced in China, or prompt China to retaliate with other tariffs or other actions. Any such series of events could have a material negative adverse effect on Spectrum Brands sales and gross margin.

Spectrum Brands international operations may expose it to risks related to compliance with the laws and regulations of foreign countries.

Spectrum Brands is subject to three EU Directives that may have a material impact on its business: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, Waste of Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed below. Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment requires Spectrum Brands to eliminate specified hazardous materials from products it sells in EU member states. Waste of Electrical and Electronic Equipment requires Spectrum Brands to collect and treat, dispose of or recycle certain products it manufactures or imports into the EU at its own expense. The EU Directive on Batteries and Accumulators and Waste Batteries bans heavy metals in batteries by establishing maximum quantities of heavy metals in batteries and mandates waste management of these batteries, including collection, recycling and disposal systems, with the costs imposed upon producers and importers such as Spectrum Brands. The costs associated with maintaining compliance or failing to comply with the EU Directives may harm Spectrum Brands business. For example:

- Although contracts with its suppliers address related compliance issues, Spectrum Brands may be unable to procure appropriate Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment compliant material in sufficient quantity and quality and/or be able to incorporate it into Spectrum Brands product procurement processes without compromising quality and/or harming its cost structure.

- Spectrum Brands may face excess and obsolete inventory risk related to non-compliant inventory that it may continue to hold for which there is reduced demand, and it may need to write down the carrying value of such inventories.

- Spectrum Brands may be unable to sell certain existing inventories of its batteries in Europe.

Many of the developing countries in which Spectrum Brands operates do not have significant governmental regulation relating to environmental safety, occupational safety, employment practices or other business matters routinely regulated in the U.S. or may not rigorously enforce such regulation. As these countries and their economies develop, it is possible that new regulations or increased enforcement of existing regulations may increase the expense of doing business in these countries. In addition, social legislation in many countries in which Spectrum Brands operates may result in significantly higher expenses associated with labor costs, terminating employees or distributors and closing manufacturing facilities. Increases in Spectrum Brands costs as a result of increased regulation, legislation or enforcement could materially and adversely affect its business, results of operations and financial condition.

Spectrum Brands may not be able to adequately establish and protect its intellectual property rights, and the infringement or loss of its intellectual property rights could harm its business.

To establish and protect its intellectual property rights, Spectrum Brands relies upon a combination of national, foreign and multi-national patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual arrangements. The measures that Spectrum Brands takes to protect its intellectual property rights may prove inadequate to prevent third parties from infringing or misappropriating its intellectual property. Spectrum Brands may need to resort to litigation to enforce or defend its intellectual property rights. If a competitor or collaborator files a patent application claiming technology also claimed by Spectrum Brands, or a trademark application claiming a trademark, service mark or trade dress also used by Spectrum Brands, in order to protect its rights, it may have to participate in expensive and time consuming opposition or interference proceedings before the U.S. Patent and Trademark Office or a similar foreign agency. Similarly, its intellectual property rights may be challenged by third parties or invalidated through administrative process or litigation. The costs associated with protecting intellectual property rights, including litigation costs, may be material. Furthermore, even if Spectrum Brands intellectual property rights are not directly challenged, disputes among third parties could lead to the weakening or invalidation of its intellectual property rights, or its competitors may independently develop technologies that are substantially equivalent or superior to its technology. Obtaining, protecting and defending intellectual property rights can be time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the time and resources of management and technical personnel.

Moreover, the laws of certain foreign countries in which Spectrum Brands operates or may operate in the future do not protect, and the governments of certain foreign countries do not enforce, intellectual property rights to the same extent as do the laws and government of the U.S., which may negate Spectrum Brands competitive or technological advantages in such markets. Also, some of the technology underlying Spectrum Brands products is the subject of nonexclusive licenses from third parties. As a result, this technology could be made available to Spectrum Brands competitors at any time. If Spectrum Brands is unable to establish and then adequately protect its intellectual property rights, its business, financial condition and results of operations could be materially and adversely affected. Spectrum Brands licenses various trademarks, trade names and patents from third parties for certain of its products. These licenses generally place marketing obligations on Spectrum Brands and require Spectrum Brands to pay fees and royalties based on net sales or profits. Typically, these licenses may be terminated if Spectrum Brands fails to satisfy certain minimum sales obligations or if it breaches the terms of the license. The termination of these licensing arrangements could adversely affect Spectrum Brands business, financial condition and results of operations.

Spectrum Brands Global Batteries & Appliances segment licenses the use of the Black & Decker brand for marketing in certain small household appliances in North America, South America (excluding Brazil) and the Caribbean. In July 2011, BDC extended the license agreement through December 2015. The failure to renew the license agreement with BDC or to enter into a new agreement on acceptable terms could have a material adverse effect on Spectrum Brands financial condition, liquidity and results of operations.

Table of Contents

Claims by third parties that Spectrum Brands is infringing their intellectual property and other litigation could adversely affect its business.

From time to time in the past, Spectrum Brands has been subject to claims that it is infringing the intellectual property of others. Spectrum Brands currently is the subject of such claims and it is possible that third parties will assert infringement claims against Spectrum Brands in the future. An adverse finding against Spectrum Brands in these or similar trademark or other intellectual property litigations may have a material adverse effect on Spectrum Brands business, financial condition and results of operations. Any such claims, with or without merit, could be time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the resources of management and technical personnel, cause product delays or require Spectrum Brands to enter into licensing or other agreements in order to secure continued access to necessary or desirable intellectual property. If Spectrum Brands is deemed to be infringing a third party s intellectual property and is unable to continue using that intellectual property as it had been, its business and results of operations could be harmed if it is unable to successfully develop non-infringing alternative intellectual property on a timely basis or license non-infringing alternatives or substitutes, if any exist, on commercially reasonable terms. In addition, an unfavorable ruling in intellectual property litigation could subject Spectrum Brands to significant liability, as well as require Spectrum Brands to cease developing, manufacturing or selling the affected products or using the affected processes or trademarks. Any significant restriction on Spectrum Brands proprietary or licensed intellectual property that impedes its ability to develop and commercialize its products could have a material adverse effect on its business, financial condition and results of operations.

Spectrum Brands dependence on a few suppliers and one of its U.S. facilities for certain of its products makes it vulnerable to a disruption in the supply of its products.

Although Spectrum Brands has long-standing relationships with many of its suppliers, it generally does not have long-term contracts with them. An adverse change in any of the following could have a material adverse effect on its business, financial condition and results of operations:

- its ability to identify and develop relationships with qualified suppliers;
- the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport costs and other costs, its suppliers willingness to extend credit to it to finance its inventory purchases and other factors beyond its control;
- financial condition of its suppliers;
- political instability in the countries in which its suppliers are located;
- its ability to import outsourced products;
- its suppliers noncompliance with applicable laws, trade restrictions and tariffs; or
- its suppliers ability to manufacture and deliver outsourced products according to its standards of quality on a timely and efficient basis.

If Spectrum Brands relationship with one of its key suppliers is adversely affected, Spectrum Brands may not be able to quickly or effectively replace such supplier and may not be able to retrieve tooling, molds or other specialized production equipment or processes used by such supplier in the manufacture of its products.

In addition, Spectrum Brands manufactures the majority of its foil cutting systems for its shaving product lines, using specially designed machines and proprietary cutting technology, at its Portage, Wisconsin facility. Damage to this facility, or prolonged interruption in the operations of this facility for repairs, as a result of labor difficulties or for other reasons, could have a material adverse effect on its ability to manufacture and sell its foil shaving products which could in turn harm its business, financial condition and results of operations.

Table of Contents

Spectrum Brands faces risks related to its sales of products obtained from third-party suppliers.

Spectrum Brands sells a significant number of products that are manufactured by third party suppliers over which it has no direct control. While Spectrum Brands has implemented processes and procedures to try to ensure that the suppliers it uses are complying with all applicable regulations, there can be no assurances that such suppliers in all instances will comply with such processes and procedures or otherwise with applicable regulations. Noncompliance could result in Spectrum Brands marketing and distribution of contaminated, defective or dangerous products which could subject it to liabilities and could result in the imposition by governmental authorities of procedures or penalties that could restrict or eliminate its ability to purchase products from non-compliant suppliers. Any or all of these effects could adversely affect Spectrum Brands business, financial condition and results of operations.

Class action and derivative action lawsuits and other investigations, regardless of their merits, could have an adverse effect on Spectrum Brands business, financial condition and results of operations.

Spectrum Brands and certain of its officers and directors have been named in the past, and may be named in the future, as defendants of class action and derivative action lawsuits. In the past, Spectrum Brands has also received requests for information from government authorities. Regardless of their subject matter or merits, class action lawsuits and other government investigations may result in significant cost to Spectrum Brands, which may not be covered by insurance, may divert the attention of management or may otherwise have an adverse effect on its business, financial condition and results of operations.

Spectrum Brands may be exposed to significant product liability claims which its insurance may not cover and which could harm its reputation.

In the ordinary course of its business, Spectrum Brands may be named as a defendant in lawsuits involving product liability claims. In any such proceeding, plaintiffs may seek to recover large and sometimes unspecified amounts of damages and the matters may remain unresolved for several years. Any such matters could have a material adverse effect on Spectrum Brands business, results of operations and financial condition if it is unable to successfully defend against or settle these matters or if its insurance coverage is insufficient to satisfy any judgments against Spectrum Brands or settlements relating to these matters. Although Spectrum Brands has product liability insurance coverage and an excess umbrella policy, its insurance policies may not provide coverage for certain, or any, claims against Spectrum Brands or may not be sufficient to cover all possible liabilities. Additionally, Spectrum Brands does not maintain product recall insurance. Spectrum Brands may not be able to maintain such insurance on acceptable terms, if at all, in the future. Moreover, any adverse publicity arising from claims made against Spectrum Brands, even if the claims were not successful, could adversely affect the reputation and sales of its products. In particular, product recalls or product liability claims challenging the safety of Spectrum Brands products may result in a decline in sales for a particular product. This could be true even if the claims themselves are ultimately settled for immaterial amounts. This type of adverse publicity could occur and product liability claims could be made in the future.

Spectrum Brands may incur material capital and other costs due to environmental liabilities.

Spectrum Brands is subject to a broad range of federal, state, local, foreign and multi-national laws and regulations relating to the environment. These include laws and regulations that govern:

- discharges to the air, water and land;
- the handling and disposal of solid and hazardous substances and wastes; and
- remediation of contamination associated with release of hazardous substances at its facilities and at off-site disposal locations.

Risk of environmental liability is inherent in Spectrum Brands business. As a result, material environmental costs may arise in the future. In particular, it may incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies, such as the EU Directives: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, Waste of Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed above. Moreover, there are proposed international accords and treaties, as well as federal, state and local laws and regulations that would attempt to control or limit the causes of climate change, including the effect of greenhouse gas emissions on the environment. In the event that the U.S. government or foreign governments enact new climate change laws or regulations or make changes to existing laws or regulations, compliance with applicable laws or regulations may result in increased manufacturing costs for Spectrum Brands products, such as by requiring investment in new pollution control equipment or changing the ways in which certain of its products are made. Spectrum Brands may incur some of these costs directly and others may be passed on to it from its third-party suppliers. Although Spectrum Brands believes that it is substantially in compliance with applicable environmental laws and regulations at its facilities, it may not always be in compliance with such laws and regulations or any new laws and regulations in the future, which could have a material adverse effect on Spectrum Brands business, financial condition and results of operations.

From time to time, Spectrum Brands has been required to address the effect of historic activities on the environmental condition of its properties or former properties. Spectrum Brands has not conducted invasive testing at all of its facilities to identify all potential environmental liability risks. Given the age of its facilities and the nature of its operations, material liabilities may arise in the future in connection with its current or former facilities. If previously unknown contamination of property underlying or in the vicinity of its manufacturing facilities is discovered, Spectrum Brands could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on Spectrum Brands business, financial condition and results of operations. Spectrum Brands is currently engaged in investigative or remedial projects at a few of its facilities and any liabilities arising from such investigative or remedial projects at such facilities may have a material effect on Spectrum Brands business, financial condition and results of operations.

Spectrum Brands is also subject to proceedings related to its disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which it is responsible as a result of its relationship with such other parties. These proceedings are under CERCLA or similar state or foreign jurisdiction laws that hold persons who arranged for the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all of the costs incurred in investigating and remediating contamination at a site. Spectrum Brands occasionally is identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where Spectrum Brands has been notified of its status as a potentially responsible party, it is either premature to determine if Spectrum Brands potential liability, if any, will be material or it does not believe that its liability, if any, will be material. Spectrum Brands may be named as a potentially responsible party under CERCLA or similar state or foreign jurisdiction laws in the future for other sites not currently known to Spectrum Brands, and the costs and liabilities associated with these sites may have a material adverse effect on Spectrum Brands business, financial condition and results of operations.

Compliance with various public health, consumer protection and other regulations applicable to Spectrum Brands products and facilities could increase its cost of doing business and expose Spectrum Brands to additional requirements with which Spectrum Brands may be unable to comply.

Certain of Spectrum Brands products sold through, and facilities operated under, each of its business segments are regulated by the EPA, the FDA or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Spectrum Brands inability to obtain, or the cancellation of, any registration could have an adverse effect on its business, financial condition and results of operations. The severity of the effect would depend on which products were involved,

Table of Contents

whether another product could be substituted and whether its competitors were similarly affected. Spectrum Brands attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients, but it may not always be able to avoid or minimize these risks.

As a distributor of consumer products in the U.S., certain of Spectrum Brands products are also subject to the Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (the Consumer Commission) to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Commission could require Spectrum Brands to repair, replace or refund the purchase price of one or more of its products, or it may voluntarily do so. For example, Russell Hobbs, in cooperation with the Consumer Commission, voluntarily recalled approximately 9,800 units of a thermal coffeemaker sold under the Black & Decker brand in August 2009 and approximately 584,000 coffeemakers in June 2009. Any additional repurchases or recalls of Spectrum Brands products could be costly to it and could damage the reputation or the value of its brands. If Spectrum Brands is required to remove, or it voluntarily removes its products from the market, its reputation or brands could be tarnished and it may have large quantities of finished products that could not be sold. Furthermore, failure to timely notify the Consumer Commission of a potential safety hazard can result in significant fines being assessed against Spectrum Brands. Additionally, laws regulating certain consumer products exist in some states, as well as in other countries in which Spectrum Brands sells its products, and more restrictive laws and regulations may be adopted in the future.

The FQPA established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of Spectrum Brands products that are sold through the Home and Garden Business continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide Spectrum Brands uses in its products will be limited or made unavailable to Spectrum Brands. Spectrum Brands cannot predict the outcome or the severity of the effect of the EPA s continuing evaluations of active ingredients used in its products.

In addition, the use of certain pesticide products that are sold through Spectrum Brands home and garden business may, among other things, be regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may require that only certified or professional users apply the product, that users post notices on properties where products have been or will be applied or that certain ingredients may not be used. Compliance with such public health regulations could increase Spectrum Brands cost of doing business and expose Spectrum Brands to additional requirements with which it may be unable to comply.

Any failure to comply with these laws or regulations, or the terms of applicable environmental permits, could result in Spectrum Brands incurring substantial costs, including fines, penalties and other civil and criminal sanctions or the prohibition of sales of its pest control products. Environmental law requirements, and the enforcement thereof, change frequently, have tended to become more stringent over time and could require Spectrum Brands to incur significant expenses.

Most federal, state and local authorities require certification by Underwriters Laboratory, Inc., an independent, not-for-profit corporation engaged in the testing of products for compliance with certain public safety standards, or other safety regulation certification prior to marketing electrical appliances. Foreign jurisdictions also have regulatory authorities overseeing the safety of consumer products. Spectrum Brands products may not meet the specifications required by these authorities. A determination that any of Spectrum Brands products are not in compliance with these rules and regulations could result in the imposition of fines or an award of damages to private litigants.

Table of Contents

Public perceptions that some of the products Spectrum Brands produces and markets are not safe could adversely affect Spectrum Brands.

On occasion, customers and some current or former employees have alleged that some products failed to perform up to expectations or have caused damage or injury to individuals or property. Public perception that any of its products are not safe, whether justified or not, could impair Spectrum Brands reputation, damage its brand names and have a material adverse effect on its business, financial condition and results of operations.

If Spectrum Brands is unable to negotiate satisfactory terms to continue existing or enter into additional collective bargaining agreements, it may experience an increased risk of labor disruptions and its results of operations and financial condition may suffer.

Approximately 33% of Spectrum Brands total labor force is covered by collective bargaining agreements. There are three collective bargaining agreements that will expire during Fiscal 2013, which cover approximately 64% of the labor force under collective bargaining agreements, or approximately 21% of Spectrum Brands total labor force. While Spectrum Brands currently expects to negotiate continuations to the terms of these agreements, there can be no assurances that it will be able to obtain terms that are satisfactory to it or otherwise to reach agreement at all with the applicable parties. In addition, in the course of its business, Spectrum Brands may also become subject to additional collective bargaining agreements. These agreements may be on terms that are less favorable than those under its current collective bargaining agreements. Increased exposure to collective bargaining agreements, whether on terms more or less favorable than existing collective bargaining agreements, could adversely affect the operation of Spectrum Brands business, including through increased labor expenses. While it intends to comply with all collective bargaining agreements to which it is subject, there can be no assurances that Spectrum Brands will be able to do so and any noncompliance could subject it to disruptions in its operations and materially and adversely affect its results of operations and financial condition.

Significant changes in actual investment return on pension assets, discount rates and other factors could affect Spectrum Brands results of operations, equity and pension contributions in future periods.

Spectrum Brands results of operations may be positively or negatively affected by the amount of income or expense it records for its defined benefit pension plans. US GAAP requires that Spectrum Brands calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial market and other economic conditions, which may change based on changes in key economic indicators. The most significant year-end assumptions Spectrum Brands used to estimate pension income or expense are the discount rate and the expected long-term rate of return on plan assets. In addition, Spectrum Brands is required to make an annual measurement of plan assets and liabilities, which may result in a significant change to equity. Although pension expense and pension funding contributions are not directly related, key economic factors that affect pension expense would also likely affect the amount of cash Spectrum Brands would contribute to pension plans as required under ERISA.

If Spectrum Brands goodwill, indefinite-lived intangible assets or other long-term assets become impaired, Spectrum Brands will be required to record additional impairment charges, which may be significant.

A significant portion of Spectrum Brands long-term assets consist of goodwill, other indefinite-lived intangible assets and finite-lived intangible assets recorded as a result of past acquisitions as well as through fresh start reporting. Spectrum Brands does not amortize goodwill and indefinite-lived intangible assets, but rather reviews them for impairment on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Spectrum Brands considers whether circumstances or conditions exist which suggest that the carrying value of its goodwill and other long-lived intangible assets might be impaired. If such circumstances or conditions exist, further steps are required in order to determine whether the carrying value of each of the individual assets exceeds its fair value. If analysis indicates that an individual asset s carrying value does exceed its fair value, the next step is to record a loss equal to the excess of the individual asset s carrying value over its fair value.

Table of Contents

The steps required by US GAAP entail significant amounts of judgment and subjectivity. Events and changes in circumstances that may indicate that there may be an impairment and which may indicate that interim impairment testing is necessary include, but are not limited to: strategic decisions to exit a business or dispose of an asset made in response to changes in economic; political and competitive conditions; the impact of the economic environment on the customer base and on broad market conditions that drive valuation considerations by market participants; Spectrum Brands internal expectations with regard to future revenue growth and the assumptions it makes when performing impairment reviews; a significant decrease in the market price of its assets; a significant adverse change in the extent or manner in which its assets are used; a significant adverse change in legal factors or the business climate that could affect its assets; an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset; and significant changes in the cash flows associated with an asset. As a result of such circumstances, Spectrum Brands may be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on Spectrum Brands business, financial condition and operating results.

If Spectrum Brands is unable to protect the confidentiality of its proprietary information and know-how, the value of its technology, products and services could be harmed significantly.

Spectrum Brands relies on trade secrets, know-how and other proprietary information in operating its business. If this information is not adequately protected, then it may be disclosed or used in an unauthorized manner. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to Spectrum Brands proposed products, disputes may arise as to the proprietary rights to such information, which may not be resolved in Spectrum Brands favor. The risk that other parties may breach confidentiality agreements or that Spectrum Brands trade secrets become known or independently discovered by competitors, could harm Spectrum Brands by enabling its competitors, who may have greater experience and financial resources, to copy or use Spectrum Brands trade secrets and other proprietary information in the advancement of their products, methods or technologies. The disclosure of Spectrum Brands trade secrets would impair its competitive position, thereby weakening demand for its products or services and harming its ability to maintain or increase its customer base.

Disruption or failures of Spectrum Brands information technology systems could have a material adverse effect on its business.

Spectrum Brands information technology systems are susceptible to security breaches, operational data loss, general disruptions in functionality, and may not be compatible with new technology. Spectrum Brands depends on its information technology systems for the effectiveness of our operations and to interface with its customers, as well as to maintain financial records and accuracy. Disruption or failures of Spectrum Brands information technology systems could impair its ability to effectively and timely provide its services and products and maintain its financial records, which could damage its reputation and have a material adverse effect on its business.

The consummation of the Hardware Acquisition is subject to certain conditions including, among others, required regulatory approvals, obtaining certain third party consents and other customary closing conditions, some of which are out of Spectrum Brands control.

The closing of the Hardware Acquisition is subject to certain conditions including, among others, obtaining required regulatory approvals, obtaining certain third party consents and other customary closing conditions, some of which are out of Spectrum Brands control. The Second Closing will take place after the completion of the first closing and is subject to certain additional conditions, including among others, obtaining required regulatory approvals, the consummation of the acquisition by Stanley Black & Decker of all of the issued and outstanding shares of TLM Taiwan (with which we have no involvement) and other customary closing conditions, some of which are out of Spectrum Brands control. There is no guarantee that these conditions will be satisfied or that the Hardware Acquisition will be consummated.

Table of Contents

Failure to complete the Hardware Acquisition could, under certain circumstances, result in Spectrum Brands being required to pay a termination fee to Stanley Black & Decker.

Stanley Black & Decker has certain termination rights under the Acquisition Agreement that, if exercised by Stanley Black & Decker (subject to the satisfaction of certain specified requirements in the Acquisition Agreement), may result in the payment by Spectrum Brands to Stanley Black & Decker of a termination fee. In the event that the debt financing required to consummate the Hardware Acquisition is not funded at the time the First Closing would otherwise occur pursuant to the Acquisition Agreement, Spectrum Brands may be required (subject to the satisfaction of certain specified requirements in the Acquisition Agreement) to pay to Stanley Black & Decker a termination fee of $56 million. In the event that the Hardware Acquisition is not consummated due to certain material breaches of the Acquisition Agreement by Spectrum Brands, Spectrum Brands may be required (subject to the satisfaction of certain specified requirements in the Acquisition Agreement) to pay to Stanley Black & Decker a termination fee of $78 million.

Risks Related to FGL s Business

A continuation of our existing financial strength ratings, financial strength ratings downgrade or other negative action by a ratings organization could adversely affect FGL s financial condition and results of operations.

Various nationally recognized statistical rating organizations (rating organizations) review the financial performance and condition of insurers, including FGL s insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer s ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in FGL s products, its ability to market its products, and its competitive position. Any downgrade or other negative action by a ratings organization with respect to the financial strength ratings of FGL s insurance subsidiaries could materially adversely affect FGL in many ways, including the following: reducing new sales of insurance and investment products; adversely affecting relationships with distributors, IMOs and sales agents; increasing the number or amount of policy surrenders and withdrawals of funds; requiring a reduction in prices for FGL s insurance products and services in order to remain competitive; or adversely affecting FGL s ability to obtain reinsurance at a reasonable price, on reasonable terms, or at all. A downgrade of sufficient magnitude could result in FGL s insurance subsidiaries being required to collateralize reserves, balances, or obligations under reinsurance, and securitization agreements.

Additionally, under some of its derivative contracts, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels could result in termination of the contracts, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. Downgrades of FGL s insurance subsidiaries have given 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.

Rating organizations assign ratings based upon several factors. While most of these factors relate to the rated company, some factors relate to the views of the rating organization, general economic conditions, and circumstances outside the rated company s control. In addition, rating organizations use various models and formulas to assess the strength of a rated company, and from time to time rating organizations have, in their discretion, altered the models. Changes to the models could impact the rating organizations judgment of the rating to be assigned to the rated company.

If our financial strength ratings are further downgraded, we anticipate that our sales of new policies will be adversely impacted and that we could experience substantial surrenders of existing policies. In order to improve or maintain their financial strength ratings, FGL s insurance subsidiaries may limit the amount of dividends that they would otherwise pay to us. In that regard, FGL may implement business strategies to improve its RBC ratio to a level anticipated by the rating agencies to maintain or improve its current rating. If FGL is unable to achieve this level, FGL may limit dividend payments from its major insurance subsidiary to the extent necessary for the major insurance subsidiary to sustain such a target RBC ratio. If it fails to maintain such a target RBC ratio its financial strength rating could suffer. FGL cannot predict what actions the rating organizations may take in the future, and FGL s insurance subsidiaries may not be able to improve its insurance subsidiaries current financial strength ratings, which could adversely affect FGL s financial condition and results of operations.

The amount of statutory capital that FGL s insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of FGL s control.

FGL s insurance subsidiaries are subject to regulations that provide minimum capitalization requirements based on RBC formulas for life insurance companies. The RBC formula for life insurance companies establishes capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the following: the amount of statutory income or losses generated by FGL s insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital FGL s insurance subsidiaries must hold to support business growth, changes in reserve requirements applicable to FGL s insurance subsidiaries, FGL s ability to secure capital market solutions to provide reserve relief, changes in equity market levels, the value of certain fixed-income and equity securities in its investment portfolio, changes in the credit ratings of investments held in its portfolio, the value of certain derivative instruments, changes in interest rates, credit market volatility, changes in consumer behavior, as well as changes to the NAIC s RBC formula. Most of these factors are outside of FGL s control. The financial strength and credit ratings of FGL s insurance subsidiaries are significantly influenced by their statutory surplus amounts and capital adequacy ratios. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital FGL s insurance subsidiaries must hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in FGL s portfolio, which could result in a reduction of FGL s capital and surplus and/or its RBC ratio.

In extreme equity market declines, the amount of additional statutory reserves FGL s insurance subsidiaries are required to hold for fixed indexed products may decrease at a rate less than the rate of change of the markets. This mismatch could result in a reduction of capital, surplus, and/or RBC ratio of FGL and its insurance subsidiaries.

FGL is highly regulated and subject to numerous legal restrictions and regulations.

FGL s business is subject to government regulation in each of the states in which it conducts business. Such regulation is vested in state agencies having broad administrative, and in some instances discretionary, authority with respect to many aspects of FGL s business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareowners. At any given time, a number of financial and/or market conduct examinations or inquiries of FGL and its insurance subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits of FGL and its insurance subsidiaries that could, if determined adversely, have a material impact on FGL.

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. FGL cannot predict the amount or timing of any such future assessments. Although FGL s business is subject to regulation in each state in which it conducts business, in many instances the state regulatory models emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on

FGL s business, operations and financial condition. FGL is also subject to the risk that compliance with any particular regulator s interpretation of a legal or accounting issue may not result in compliance with another regulator s interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator s interpretation of a legal or accounting issue may change over time to FGL s detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL to change its views regarding the actions it needs to take from a legal risk management perspective, which could necessitate changes to FGL s practices that may, in some cases, limit its ability to grow and improve profitability.

Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations, and interpretations may be applied with retroactive impact, particularly in areas such as accounting and reserve requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. The NAIC continues to work to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

Recently 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 regulations and unclaimed property or escheatment laws. The New York State Department of Financial Services 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. Other states, including the state of Maryland (FGL s state of domicile), have enacted regulation which will impose requirements on insurers to periodically compare their in-force life insurance and annuity policies against the Death Master File or similar databases, investigate any identified potential matches to confirm the death of the insured and determine whether benefits are due and attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. FGL has received notice of escheatment audits from several states. It is possible that these requirements would result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, and administrative expenses. While FGL believes that it has established sufficient reserves with respect to these matters, it is possible that third parties could dispute these amounts and additional payments or additional unreported claims or liabilities could be required or identified, the effects of which could be significant and could have a material adverse effect on FGL s financial condition and results of operations.

At the federal level, bills are routinely introduced in both chambers of the U.S. Congress which could affect insurance companies. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter for insurance companies or a federal presence in insurance regulation, pre-empting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection, solvency regulation and other matters. FGL cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect FGL or whether any effects will be material.

The Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to FGL, its competitors or those entities with which FGL does business, including but not limited to: the establishment of federal regulatory authority over derivatives, the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation of broker dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareholders, the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Numerous provisions of the Dodd-Frank Act require the adoption of implementing rules and/or regulations. In addition, the Dodd-Frank Act mandates multiple studies, which could

Table of Contents

result in additional legislation or regulation applicable to the insurance industry, FGL, its competitors or the entities with which FGL does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact FGL in many ways, including but not limited to: placing FGL at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for FGL to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, or otherwise have a material adverse effect on the overall business climate as well as FGL s financial condition and results of operations.

FGL may also be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans governed by ERISA. Severe penalties are imposed for breach of duties under ERISA.

Other types of regulation that could affect FGL include insurance company investment laws and regulations, state statutory accounting practices, antitrust laws, minimum solvency requirements, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws.

FGL cannot predict what form any future changes in these or other areas of regulation affecting the insurance industry might take or what effect, if any, such proposals might have on FGL if enacted into law. In addition, because FGL s activities are relatively concentrated in a small number of lines of business, any change in law or regulation affecting one of those lines of business could have a disproportionate impact on FGL compared to other insurance companies.

FGL s reinsurers, including Wilton Re, could fail to meet assumed obligations, increase rates, or be subject to adverse developments that could materially adversely affect FGL s business, financial condition and results of operations.

FGL, through its insurance subsidiaries, cedes material amounts of insurance and transfers related assets and certain liabilities to other insurance companies through reinsurance. Specifically, a material amount of liabilities were transferred to Wilton Re pursuant to the Wilton Re Transaction (See Business Our Operating Subsidiaries FGL The Fidelity & Guaranty Acquisition Wilton Re Transaction above). However, notwithstanding the transfer of related assets and certain liabilities, FGL remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Accordingly, FGL bears credit risk with respect to its reinsurers, including its reinsurance arrangements with Wilton Re. The failure, insolvency, inability or unwillingness to pay under the terms of reinsurance agreements with FGL could materially adversely affect FGL s business, financial condition and results of operations.

FGL s ability to compete is dependent on the availability of reinsurance or other substitute financing solutions. Premium rates charged by FGL are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges FGL for the reinsurance. Therefore, if the cost of reinsurance were to increase, if reinsurance were to become unavailable, if alternatives to reinsurance were not available to FGL, or if a reinsurer should fail to meet its obligations, FGL s business financial condition and results of operations could be materially adversely affected.

In recent years, access to reinsurance has become more costly for the insurance industry, including FGL. In addition, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market resulted in increased concentration of risk for insurers, including FGL. If the reinsurance market further contracts, FGL s ability to continue to offer its products on terms favorable to it could be adversely impacted resulting in adverse consequences to FGL s business, operations and financial condition.

Table of Contents

In addition, reinsurers are facing many challenges regarding illiquid credit and/or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions, and other factors negatively impacting the financial services industry generally. If such events cause a reinsurer to fail to meet its obligations, FGL s business, financial condition and results of operations could be materially adversely affected.

FGL s results of operations and financial condition may be negatively affected should actual experience differ from management s assumptions and estimates.

FGL makes certain assumptions and estimates regarding mortality, persistency, expenses and interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results. These assumptions and estimates are also used to estimate the amounts of value of business acquired (VOBA), policy liabilities and accruals, future earnings, and various components of FGL s consolidated balance sheet. These assumptions are also used in making decisions crucial to the operation of FGL s business, including the pricing of products and expense structures relating to products. These assumptions and estimates incorporate assumptions about many factors, none of which can be predicted with certainty. FGL s actual experiences, as well as changes in estimates, are used to prepare FGL s consolidated statement of operations. To the extent FGL s actual experience and changes in estimates differ from original estimates, FGL s business, operations and financial condition may be materially adversely affected.

The calculations FGL uses to estimate various components of its balance sheet and consolidated statement of operations are necessarily complex and involve analyzing and interpreting large quantities of data. FGL currently employs various techniques for such calculations and from time to time it will develop and implement more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates. However, assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. Furthermore, FGL uses third party consultants to prepare actuarial analyses of the financial and insurance products which it offers. The accuracy of these analyses is dependent upon the assumptions and estimates, discussed above, provided by management to the third parties, and by any limitations of the models used by the third parties. Accordingly, FGL s results may be adversely affected from time to time, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

FGL s financial condition or results of operations could be adversely impacted if its assumptions regarding the fair value and future performance of its investments differ from actual experience.

FGL makes assumptions regarding the fair value and expected future performance of its investments. Expectations that FGL s investments in residential and commercial mortgage-backed securities will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value and consider the performance of the underlying assets. It is possible that the underlying collateral of these investments will perform worse than current market expectations and that such reduced performance may lead to adverse changes in the cash flows on FGL s holdings of these types of securities. This could lead to potential future other-than-temporary impairments within FGL s portfolio of mortgage-backed and asset-backed securities. In addition, expectations that FGL s investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through its normal credit surveillance process. It is possible that issuers of corporate securities in which FGL has invested will perform worse than current expectations. Such events may lead FGL to recognize potential future other-than-temporary impairments within its portfolio of corporate securities. It is also possible that such unanticipated events would lead FGL to dispose of certain of those holdings and recognize the effects of any market movements in its financial statements.

It is possible that actual values will differ from FGL s assumptions. Such events could result in a material change in the value of FGL s investments, business, operations and financial condition.

FGL could be forced to sell investments at a loss to cover policyholder withdrawals.

Certain products offered by FGL allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, FGL manages its liabilities and configures its investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns, a certain portion of FGL s assets are relatively illiquid. There can be no assurance that withdrawal demands will match FGL s estimation of withdrawal demands. If FGL experiences unexpected withdrawal activity, whether as a result of financial strength downgrades or otherwise, it could exhaust its liquid assets and be forced to liquidate other less liquid assets, possibly at a loss or on other unfavorable terms. If FGL is forced to dispose of assets at a loss or on unfavorable terms, it could have a material adverse effect on FGL s business, financial condition and results of operations.

Interest rate fluctuations could negatively affect FGL s interest earnings and spread income, or otherwise impact its business.

Interest rates are subject to volatility and fluctuations. For the past several years interest rates have trended downwards to historically low levels. In order to meet its policy and contractual obligations, FGL must earn a sufficient return on its invested assets. A prolonged period of historically low rates or significant changes in interest rates could expose FGL to the risk of not earning anticipated interest earnings, or of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect FGL s interest earnings and spread income (the difference between the returns FGL earns on its investments and the amounts it must credit to policyholders and contract holders). While FGL develops and maintains asset/liability management programs and procedures designed to mitigate the effect on interest earnings and spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not materially adversely affect FGL s business, financial condition and results of operations.

Additionally, FGL s asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates and relationships between risk-adjusted and risk-free interest rates, market liquidity, and other factors. The effectiveness of FGL s asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.

Changes in interest rates may also impact FGL s business in other ways, including affecting the attractiveness of certain of FGL s products. Lower interest rates may result in lower sales of certain of FGL s insurance and investment products. However, during periods of declining interest rates, certain life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible premium features, repayment of policy loans and increased persistency, or a higher percentage of insurance policies remaining in force from year to year during a period when FGL s investments carry lower returns, and FGL could become unable to earn its spread income.

FGL s expectation for future interest earnings and spreads is an important component in amortization of VOBA and significantly lower interest earnings or spreads that may cause FGL to accelerate amortization, thereby reducing net income in the affected reporting period.

Higher interest rates may increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of other products. During periods of increasing market interest rates, FGL may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and it may increase crediting rates on in-force products to keep these products competitive. A rise in interest rates, in the absence of other countervailing changes, will increase the net unrealized loss position of FGL s investment portfolio and, if long-term interest rates rise dramatically within a six- to twelve-month time period, certain of FGL s products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring FGL to liquidate assets in an unrealized loss position. This risk is mitigated to some extent by the high level of surrender charge protection provided by FGL s products. Increases in crediting rates, as well as surrenders and withdrawals, could have a material adverse effect on FGL s business, financial condition and results of operations.

FGL s investments are subject to market, credit, legal, and regulatory risks. These risks could be heightened during periods of extreme volatility or disruption in financial and credit markets.

FGL s invested assets and derivative financial instruments are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks. Underlying factors relating to volatility affecting the financial and credit markets could lead to other-than-temporary impairments of assets in FGL s investment portfolio.

The value of FGL s mortgage-backed investments depends in part on the financial condition of the borrowers and tenants for the properties underlying those investments, as well as general and specific circumstances affecting the overall default rate.

Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments, and declines in general economic conditions, either alone or in combination, could have a material adverse impact on FGL s results of operations, financial condition, or cash flows through realized losses, other-than-temporary impairments, changes in unrealized loss positions, and increased demands on capital. In addition, market volatility can make it difficult for FGL to value certain of its assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on FGL s results of operations or financial condition.

Equity market volatility could negatively impact FGL s business.

Equity market volatility can affect FGL s profitability in various ways, in particular as a result of guaranteed minimum withdrawal or surrender benefits in its products. The estimated cost of providing guaranteed minimum withdrawal benefits incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in FGL s net income. The rate of amortization of VOBA costs relating to fixed indexed annuity products and the cost of providing guaranteed minimum withdrawal or surrender benefits could also increase if equity market performance is worse than assumed.

Credit market volatility or disruption could adversely impact FGL s financial condition or results from operations.

Significant volatility or disruption in credit markets could have a material adverse effect on FGL s business, financial condition and results of operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in FGL s investment portfolio. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in FGL s investment portfolio to default on either principal or interest payments on these securities. Additionally, market price valuations may not accurately reflect the underlying expected cash flows of securities within FGL s investment portfolio.

Changes in federal income taxation laws, including any reduction in individual income tax rates, may affect sales of our products and profitability.

The annuity and life insurance products that FGL markets generally provide the policyholder with certain federal income tax advantages. For example, federal income taxation on any increases in non-qualified annuity contract values (i.e., the inside build-up) is deferred until it is received by the policyholder. With other savings investments, such as certificates of deposit and taxable bonds, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on FGL s business, including the elimination of all or a portion of the income tax advantages described above for annuities and life insurance. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have a material adverse effect on FGL s ability to sell non-qualified annuities. Non-qualified annuities are annuities that are not sold to a qualified retirement plan.

Beginning in 2013, distributions from non-qualified annuity policies will be considered investment income for purposes of the newly enacted Medicare tax on investment income contained in the Health Care and Education Reconciliation Act of 2010. As a result, in certain circumstances a 3.8% tax (Medicare Tax) may be applied to some or all of the taxable portions of distributions from non-qualified annuities to individuals whose income exceeds certain threshold amounts. This new tax may have a material adverse effect on FGL s ability to sell nonqualified annuities to individuals whose income exceeds these threshold amounts and could accelerate withdrawals due to additional tax.

FGL may be required to increase its valuation allowance against its deferred tax assets, which could materially adversely affect FGL s capital position, business, operations and financial condition.

Deferred tax assets refer to assets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets in essence represent future savings of taxes that would otherwise be paid in cash. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income, including capital gains. If it is determined that the deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a corresponding charge to net income.

Based on FGL s current assessment of future taxable income, including available tax planning opportunities, FGL anticipates that it is more likely than not that it will not generate sufficient taxable income to realize all of its deferred tax assets. If future events differ from FGL s current forecasts, the valuation allowance may need to be increased from the current amount, which could have a material adverse effect on FGL s capital position, business, operations and financial condition.

Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.

FGL, like other financial services companies, is involved in litigation and arbitration in the ordinary course of business. Although FGL does not believe that the outcome of any such litigation or arbitration will have a material impact on its financial condition or results of operations, FGL cannot predict such outcome, and a judgment against FGL could be substantial. More generally, FGL operates in an industry in which various practices are subject to scrutiny and potential litigation, including class actions. In addition, FGL sells its products through IMO s, whose activities may be difficult to monitor. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent commissions, and other matters. Such lawsuits can result in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, financial services companies have made material settlement payments.

Companies in the financial services industry are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny.

The financial services industry, including insurance companies, is sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some financial services companies have been the subject of law enforcement or other actions resulting from such investigations. Resulting publicity about one company may generate inquiries into or litigation against other financial services companies, even those who do not engage in the business lines or practices at issue in the original action. It is impossible to predict the outcome of such investigations or actions, whether they will expand into other areas not yet contemplated, whether they will result in changes in insurance regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of such scrutiny on the financial services and insurance industry or FGL.

FGL is dependent on the performance of others.

FGL relies on various parties to provide services for its business operations. As such, FGL s results may be affected by the performance of those other parties. For example, FGL is dependent upon independent distribution channels to sell its products, third parties to perform underwriting functions, hires an outside consulting company to perform actuarial analyses and certain assets are managed by third parties. Additionally, FGL s operations are dependent on various service providers and on various technologies, some of which are provided and/or maintained by certain key outsourcing partners and other parties.

The other parties upon which FGL depends may default on their obligations to FGL due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, loss of key personnel or other reasons. Such defaults could have a material adverse effect on FGL s financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of FGL or represent FGL in various capacities. Consequently, FGL may be held responsible for obligations that arise from the acts or omissions of these other parties.

FGL s ability to conduct its business is dependent upon consumer confidence in the industry and its products. The conduct of competitors and financial difficulties of other companies in the industry could undermine consumer confidence and adversely affect retention of existing business and future sales of FGL s annuity and insurance products.

The occurrence of computer viruses, network security breaches, disasters, or other unanticipated events could affect the data processing systems of FGL or its business partners and could damage FGL s business and adversely affect its financial condition and results of operations.

FGL retains confidential information in its computer systems, and relies on sophisticated commercial technologies to maintain the security of those systems. Despite FGL s implementation of network security measures, its servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with its computer systems. Anyone who is able to circumvent FGL s security measures and penetrate FGL s computer systems could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information and proprietary business information. In addition, an increasing number of states require that customers be notified of unauthorized access, use, or disclosure of their information. Any compromise of the security of FGL s computer systems that results in inappropriate access, use or disclosure of personally identifiable customer information could damage FGL s reputation in the marketplace, deter people from purchasing FGL s products, subject FGL to significant civil and criminal liability and require FGL to incur significant technical, legal and other expenses.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, FGL s computer systems may be inaccessible to its employees, customers, or business partners for an extended period of time. Even if FGL s employees are able to report to work, they may be unable to perform their duties for an extended period of time if FGL s data or systems are disabled or destroyed. Any such occurrence could materially adversely affect FGL s business, operations and financial condition.

FGL s insurance subsidiaries ability to grow depends in large part upon the continued availability of capital.

FGL s insurance subsidiaries long-term strategic capital requirements will depend on many factors, including their accumulated statutory earnings and the relationship between their statutory capital and surplus and various elements of required capital. To support long-term capital requirements, FGL s insurance subsidiaries may need to increase or maintain their statutory capital and surplus through financings, which could include debt, equity, financing arrangements and/or other surplus relief transactions. Adverse market conditions have affected and continue to affect the availability and cost of capital from external sources and HGI is not obligated, and may choose or be unable, to provide financing or make any capital contribution to FGL s insurance subsidiaries. Consequently, financings, if available at all, may be available only on terms that are not favorable to FGL s insurance subsidiaries. If FGL s insurance subsidiaries cannot maintain adequate capital, they may be required to limit growth in sales of new policies, and such action could materially adversely affect FGL s business, operations and financial condition.

New accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact FGL.

Following the consummation of the Fidelity & Guaranty Acquisition, FGL is required to comply with US GAAP. A number of organizations are instrumental in the development and interpretation of US GAAP such as the Commission, the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. US GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. FGL can give no assurance that future changes to US GAAP will not have a negative impact on FGL. US GAAP includes the requirement to carry certain investments and insurance liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in FGL s financial statements.

In addition, FGL s insurance subsidiaries are required to comply with statutory accounting principles (SAP). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect FGL. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. FGL cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect FGL. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. FGL cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of FGL and its insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. FGL can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on FGL.

FGL s risk management policies and procedures could leave it exposed to unidentified or unanticipated risk, which could negatively affect its business or result in losses.

FGL has developed risk management policies and procedures and expects to continue to enhance these in the future. Nonetheless, FGL s policies and procedures to identify, monitor, and manage both internal and external risks may not effectively mitigate these risks or predict future exposures, which could be different or significantly greater than expected. These identified risks may not be the only risks facing FGL. Additional risks and uncertainties not currently known to FGL, or that it currently deems to be immaterial, may adversely affect FGL s business, financial condition and/or operating results.

Difficult conditions in the economy generally could adversely affect FGL s business, operations and financial condition.

A general economic slowdown could adversely affect FGL in the form of changes in consumer behavior and pressure on FGL s investment portfolios. Changes in consumer behavior could include decreased demand for FGL s products and elevated levels of policy lapses, policy loans, withdrawals, and surrenders. FGL s investments, including investments in mortgage-backed securities, could be adversely affected as a result of deteriorating financial and business conditions affecting the issuers of the securities in FGL s investment portfolio.

FGL may not be able to protect its intellectual property and may be subject to infringement claims.

FGL relies on a combination of contractual rights and copyright, trademark, and trade secret laws to establish and protect its intellectual property. Although FGL uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. FGL may have to litigate to enforce and protect its copyrights, trademarks, trade secrets, and knowhow or to determine their scope, validity, or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of FGL s intellectual property assets could adversely impact FGL s business and its ability to compete effectively.

FGL also may be subject to costly litigation in the event that another party alleges its operations or activities infringe upon that party s intellectual property rights. FGL may also be subject to claims by third parties for breach of copyright, trademark, trade secret, or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages or be enjoined from providing certain products or services to its customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets, or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on FGL s business, results of operations, and financial condition.

FGL s business could be interrupted or compromised if it experiences difficulties arising from outsourcing relationships.

In addition to services provided by third-party asset managers and actuarial consultants, FGL outsources the following functions to third-party service providers, and expects to do so in the future: (i) new business administration, (ii) hosting of financial systems, (iii) services of existing policies, (iv) call centers and (v) underwriting administration of life insurance applications. If FGL does not maintain an effective outsourcing strategy or third-party providers do not perform as contracted, FGL may experience operational difficulties, increased costs and a loss of business that could have a material adverse effect on its results of operations. In addition, FGL s reliance on third-party service providers that it does not control does not relieve FGL of its responsibilities and requirements. Any failure or negligence by such third party service providers in carrying out their contractual duties may result in FGL becoming subjected to liability to parties who are harmed and ensuing litigation. Any litigation relating to such matters could be costly, expensive and time-consuming, and the outcome of any such litigation may be uncertain.

Moreover, any adverse publicity arising from such litigation, even if the litigation is not successful, could adversely affect the reputation and sales of FGL and its products.

FGL is exposed to the risks of natural and man-made catastrophes, pandemics and malicious and terrorist acts that could materially adversely affect FGL s business, financial condition and results of operations.

Natural and man-made catastrophes, pandemics and malicious and terrorist acts present risks that could materially adversely affect FGL s operations and results. A natural or man-made catastrophe, pandemic or malicious or terrorist act could materially adversely affect the mortality or morbidity experience of FGL or its reinsurers. Such events could result in a substantial increase in mortality experience. Although FGL participates in a risk pooling arrangement that partially mitigates the impact of multiple deaths from a single event, claims arising from such events could have a material adverse effect on FGL s business, operations and financial condition, either directly or as a result of their effect on its reinsurers or other counterparties. Such events could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. While FGL has taken steps to identify and manage these risks, such risks cannot be predicted with certainty, nor fully protected against even if anticipated.

In addition, such events could result in a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of FGL s business within such geographic areas and/or the general economic climate, which in turn could have an adverse effect on FGL s business, operations and financial condition. The possible macroeconomic effects of such events could also adversely affect FGL s asset portfolio.

FGL operates in a highly competitive industry, which could limit its ability to gain or maintain its position in the industry and could materially adversely affect FGL s business, financial condition and results of operations.

FGL operates in a highly competitive industry. FGL encounters significant competition in all of its product lines from other insurance companies, many of which have greater financial resources and higher financial strength ratings than FGL and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have different profitability expectations than FGL. Competition could result in, among other things, lower sales or higher lapses of existing products.

FGL s annuity products compete with fixed index, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other retirement funding alternatives offered by asset managers, banks and broker-dealers. FGL s insurance products compete with those of other insurance companies, financial intermediaries and other institutions based on a number of factors, including premium rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and commission structures.

Consolidation in the insurance industry and in distribution channels may result in increasing competitive pressures on FGL. Larger, potentially more efficient organizations may emerge from consolidation. In addition, some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets and greater ability to compete. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of FGL s products by substantially increasing the number and financial strength of potential competitors. Consolidation and expansion among banks, insurance companies, and other financial service companies with which FGL does business could also have an adverse effect on FGL s business, operations and financial condition if they demand more favorable terms than FGL previously offered or if they elect not to continue to do business with FGL following consolidation or expansion.

FGL s ability to compete is dependent upon, among other things, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of adequate financial strength ratings from rating agencies. FGL s ability to compete is also dependent upon, among other things, its ability to attract and retain distribution channels to market its products, the competition for which is vigorous. FGL competes for marketers and agents primarily on the basis of FGL s financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than FGL offers. FGL s competitiveness for such marketers and agents also depends upon the long-term relationships it develops with them. If FGL is unable to attract and retain sufficient marketers and agents to sell its products, FGL s ability to compete and its revenues will suffer.

FGL s ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business.

FGL s ability to maintain competitive unit costs is dependent upon a number of factors, such as the level of new sales, persistency of existing business, and expense management. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher unit costs. FGL s business plan includes expense reductions, but there can be no assurance that such reductions will be achieved.

In addition, lower persistency may result in higher or more rapid amortization of VOBA costs, which would result in higher unit costs and lower reported earnings. Although many of FGL s products contain surrender charges, such charges decrease over time and may not be sufficient to cover the unamortized VOBA costs with respect to the insurance policy or annuity contract being surrendered.

There may be adverse consequences if the independent contractor status of FGL s IMOs is successfully challenged.

FGL sells its products through a network of approximately 200 IMOs representing approximately 19,000 independent agents and managing general agents. These IMOs are treated by FGL as independent contractors who own their own businesses. However, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status of FGL s IMOs are subject to change or interpretation by various authorities. If a federal or state authority or court enacts legislation (or adopts regulations) or adopts an interpretation that change the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of FGL s independent contractors, FGL could incur significant costs in complying with such laws, regulations or interpretations, including, in respect of tax withholding, social security payments and recordkeeping, or FGL could be held liable for the actions of such independent contractors or may be required to modify its business model, any of which could have a material adverse effect on FGL s business, financial condition and results of operations. In addition, there is the risk that FGL may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state, or provincial tax or employment laws. Further, if it were determined that FGL s IMOs should be treated as employees, FGL could possibly incur additional liabilities with respect to any applicable employee benefit plan.

Table of Contents

Risks Related to Front Street s Business

There can be no assurance that Front Street will be able to effectively implement its business strategy or that its business will be successful.

Front Street is a Bermuda company that was formed in March 2010 to act as a long-term reinsurer and to provide reinsurance to the specialty insurance sectors of fixed, deferred and payout annuities. In addition, Front Street Cayman was formed in October 2012 in the Cayman Islands to enter into long-term reinsurance transactions with insurance companies, existing reinsurers, and pension arrangements, and may also pursue acquisitions in the same sector. To date, neither Front Street nor Front Street Cayman have entered into any reinsurance contracts. Earlier this year, Front Street s previously disclosed proposed reinsurance transaction with FGL was not entered into because FGL s regulator, the MIA, did not approve this reinsurance transaction. There can be no assurance that Front Street or Front Street Cayman will be able to successfully enter into reinsurance transactions, that such transactions will be successful, or that Front Street or Front Street Cayman will be able to achieve its anticipated investment returns.

In order to operate its business, Front Street and Front Street Cayman will be subject to capital and other regulatory requirements and a highly competitive landscape. In addition, among other things, any of the following could negatively impact their ability to implement their respective business strategy successfully: (i) failure to accurately assess the risks associated with the businesses that they will reinsure, (ii) failure to obtain desirable financial strength ratings or any subsequent downgrade or withdrawal of any of their financial strength ratings, (iii) exposure to credit risk associated with brokers with whom they will conduct business, (iv) failure of the loss limitation methods that they employ to mitigate its loss exposure, (v) loss of key personnel, (vi) unfavorable changes in applicable laws or regulations, (vii) inability to provide collateral to ceding companies or otherwise comply with U.S. insurance regulations, (viii) inability to gain or obtain market position, (ix) exposure to litigation and (x) reputation of HGI and its management.

Risks Related to Salus Business

Salus may not recover all amounts that are contractually owed to it by its borrowers.

Salus business strategy primarily includes the provision of secured asset-based loans to borrowers. Under this financing structure, the decision to lend is primarily based on the value of the borrower s collateral, while the borrower s creditworthiness is viewed a secondary source of repayment. Accordingly, the accuracy of the valuation and ability of Salus to continuously monitor the value of the collateral that secures its loans, and Salus ability to seize the collateral securing its loans if the loan becomes non-performing has a significant impact on Salus business operations.

While Salus has developed a variety of processes to value and monitor the collateral related to its loans and maintain a first lien position in the collateral securing its loans, there can be no assurance that that it will not suffer a partial or complete loss if the loan becomes non-performing. Such loss may arise from a variety of reasons, including, the risk-profile of the borrower and the complex nature of the transaction; Salus may not be provided with complete and accurate disclosure of all material information concerning the borrower and its business or Salus may, even if it receives complete and accurate information, misinterpret or incorrectly analyzes such information; the failure of results or developments to materialize as anticipated or mistakes in interpreting data, assumptions, analyses, and financial forecasts prepared for Salus by its employees or third parties; or Salus inability to timely detect operational or financial problems of the borrower that could result in a substantial impairment or loss of the value of the collateral and Salus loan. Furthermore, while most of Salus loans are secured by a first lien on specified collateral, there is no assurance that Salus has obtained or properly perfected its liens or will be able to seize and liquidate the collateral prior to diminution in value. Any such losses, particularly recognizing that many of Salus loans individually represent a significant percentage of its total loans, could adversely affect the adequacy of Salus reserves for credit losses and have a material adverse effect on Salus business, results of operations, and financial position.

Table of Contents

In addition to borrower credit risk associated with loans, Salus is exposed to other forms of credit risk. If Salus credit underwriting processes or credit risk judgments fail to adequately identify or assess applicable risks, or if the credit quality of its derivative counterparties, customers, manufacturers, or other parties with which it conducts business materially deteriorates, it may be exposed to credit risk related losses that may negatively impact its financial condition, results of operations or cash flows.

Salus must continue to address a number of issues to implement its strategy and grow its business.

To implement its strategy and grow its business, Salus must continue to address a number of strategic issues that affect its business, including the availability of capital and liquidity and operational issues. If Salus is unable to obtain access to capital and liquidity on a cost-effective and sustainable basis, it may face significant challenges. For instance, many of Salus clients rely upon funding from Salus to provide them with the working capital necessary to operate their business or to fund capital improvements. In many instances, these funding requirements are time sensitive. If Salus clients are uncertain as to Salus ability to continue to provide them with funding on a timely basis or to provide the same breadth and quality of products, Salus may be unable to attract new clients and may experience lower business or a loss of business with its existing clients.

Among operational issues, Salus must continuously originate new business, service its existing portfolio, and upgrade its policies, procedures, and systems. There is no assurance that Salus will be able to implement its strategic decisions effectively, and it may be necessary to refine, supplement, or modify its business plan and strategy in significant ways. If Salus is unable to fully implement its business plan and strategy, such inability could have a material adverse effect on its business, results of operations and financial position.

Salus may be adversely affected by further deterioration in economic conditions.

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have begun to improve, certain sectors remain weak and unemployment remains high. Local governments and many businesses are in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets. A slowing of improvement or a return to deteriorating business and economic conditions could have one or more of the following adverse effects on Salus business: a decrease in the demand for loans and other products and services offered by Salus; a decrease in net interest income derived from Salus lending activities; a decrease in the value of Salus assets, including the value of assets pledged as collateral by Salus borrowers; an impairment of certain intangible assets, such as goodwill; and an increase in the number of borrowers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to Salus. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses and valuation adjustments on Salus loans.

Competition from both traditional competitors and new market entrants may adversely affect Salus market share, profitability, and returns.

Salus markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. Salus has a wide variety of competitors that include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, leasing companies, hedge funds, insurance companies, mortgage companies, manufacturers and vendors.

Salus competes primarily on the basis of pricing, terms and structure. If Salus is unable to match its competitors terms, it could lose market share. Should Salus match competitors terms, it is possible that it could experience lower returns and/or increased losses. Salus also may be unable to match competitors terms as a result of its current or future financial condition.

Table of Contents

Salus may not be able to attract and retain skilled people.

Salus success depends, in large part, on its ability to attract new employees, retain and motivate its existing employees, and continue to compensate employees competitively. Competition for the best people in most activities engaged in by Salus can be intense and it may not be able to hire these people or to retain them.

Salus is subject to a variety of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, operational errors, systems malfunctions, or cyber-security incidents, which may adversely affect its business and results of operations.

Salus is exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by borrowers, employees or outsiders, unauthorized transactions by employees, or operational errors, including clerical or record keeping errors or those resulting from faulty or disabled computer or telecommunications systems or disclosure of confidential proprietary information of its customers. Negative public opinion can result from Salus actual or alleged conduct in any number of activities, including lending practices, sales practices, customer treatment, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect Salus ability to attract and keep customers and can expose it to litigation and regulatory action. Actual or alleged conduct by Salus can result in negative public opinion about its other business.

Salus business is dependent on its ability to process a large number of increasingly complex transactions. If any of Salus financial, accounting, or other data processing systems fail or have other significant shortcomings, it could be materially adversely affected. Salus is similarly dependent on its employees. Salus could be materially adversely affected if one of its employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates its operations or systems.

Salus may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses or electrical or telecommunications outages, natural or man made disasters, such as earthquakes, hurricanes, floods, or tornados, disease pandemics, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to clients and loss or liability to Salus. In addition, there is the risk that Salus controls and procedures as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems Salus and others use could be vulnerable to unforeseen problems. These problems may arise in both Salus internally developed systems and the systems of third party service providers. In addition, Salus computer systems and network infrastructure present security risks, and could be susceptible to hacking or identity theft. Any such failure could affect Salus operations and could materially adversely affect its results of operations by requiring it to expend significant resources to correct the defect, as well as by exposing it to litigation or losses not covered by insurance. Although Salus has business continuity plans and other safeguards in place, its business operations may be adversely affected by significant and widespread disruption to its physical infrastructure or operating systems that support its businesses and clients.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of September 30, 2012, HGI s corporate headquarters are located in New York, New York where the Company leases approximately 2,350 square feet of office space which is adequate and suitable for our current level of operations.

Table of Contents

Spectrum Brands

The following table lists Spectrum Brands principal owned or leased manufacturing, packaging, and distribution facilities at September 30, 2012:

Facility	Function
Fennimore, Wisconsin (1)	Alkaline Battery Manufacturing
Portage, Wisconsin (1)	Zinc Air Button Cell and Lithium Coin Cell Battery, Foil Shaver Component Manufacturing
Deforest, Wisconsin(2)	Distribution/Returns Center
Dischingen, Germany (1)	Alkaline Battery Manufacturing
Washington, UK (2)	Zinc Air Button Cell Battery Manufacturing & Distribution
Guatemala City, Guatemala (1)	Zinc Carbon Battery Manufacturing
Jaboatao, Brazil (1)	Zinc Carbon Battery Manufacturing
Dixon, Illinois (2)	Battery & Lighting Device Packaging & Distribution
Ellwangen-Neunheim, Germany (2)	Battery & Lighting Device, Electric Shaver & Personal Care Product Distribution
Redlands, California (2)	Warehouse, Electric Shaver & Personal Care Product Distribution
Manchester, England (1)	Warehouse and Sales and administrative office
Wolverhampton, England(1)	Warehouse
Wolverhampton, England (2)	Warehouse
Noblesville, Indiana (1)	Pet Supply Manufacturing & Distribution
Bridgeton, Missouri (2)	Pet Supply Manufacturing
Blacksburg, Virginia (1)	Pet Supply Manufacturing
Melle, Germany (1)	Pet Supply Manufacturing
Melle, Germany (2)	Pet Supply Distribution
Edwardsville, Illinois (2)	Pet Supply Distribution
Grand Rapids, Michigan (2)	Pet Supply Manufacturing & Distribution
Roanoke, Virginia (2)	Pet Supply Distribution
Vinita Park, Missouri (2)	Household & Controls and Contract Manufacturing
Earth City, Missouri (2)	Household & Controls Manufacturing

(1) Facility is owned.
(2) Facility is leased.

Spectrum Brands also owns, operates or contracts with third parties to operate distribution centers, sales offices and administrative offices throughout the world in support of its business. Spectrum Brands leases its administrative headquarters and primary research and development facility located in Madison, Wisconsin.

Spectrum Brands believes that its existing facilities are suitable and adequate for its present purposes and that the productive capacity in such facilities is substantially being utilized or there exist plans to utilize it.

Fidelity & Guaranty Life

FGL leases its headquarters at 1001 Fleet Street, Baltimore, Maryland, and subleases a property in Lincoln, Nebraska for legal, claims and processing needs. FGL believes its existing facilities are suitable and adequate for its present purposes.

Salus Capital Partners

Salus leases its headquarters at 197 First Avenue, Needham Heights, Massachusetts. Salus believes its existing facilities are suitable and adequate for its present purposes.

Table of Contents

Item 3. ***Legal Proceedings***

We are a nominal defendant, and certain current and former members of our Board and Harbinger Capital 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. We believe the allegations are without merit and intend to vigorously defend this matter.

We are also involved in other litigation and claims incidental to our 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 our offshore drilling and bulk-shipping affiliates. Based on currently available information, including legal defenses available to us, and given our reserves and related insurance coverage, we do not believe that the outcome of these legal and environmental matters will have a material effect on our financial position, results of operations or cash flows.

Spectrum Brands

Spectrum Brands is a defendant in various matters of litigation generally arising out of the ordinary course of business. Spectrum Brands does not believe that any other matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

Spectrum Brands is subject to various federal, state and local environment laws and regulations. It believes that it and its subsidiaries are in substantial compliance with all such environmental laws that are applicable to our operations. See also the discussion captioned Our Operating Subsidiaries Spectrum Brands Governmental Regulation and Environmental Matters under Item 1. Business above. Spectrum Brands has provided 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 in excess of the amounts provided of approximately $5.4 million, will not have a material adverse effect on our financial condition, results of operations or cash flows.

FGL

HFG and OM Group are engaged in litigation regarding OM Group s obligation to pay the purchase price adjustment called for under the F&G Purchase Agreement and certain related matters. For more information, see Note 22 to HGI s Consolidated Financial Statements, Acquisitions FGL in Fiscal 2011 Contingent Purchase Price Reduction.

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 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 could be materially affected by an unfavorable outcome in any one annual period.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is listed on the NYSE and trades under the symbol HRG. The high and low sales prices for our common stock for each quarterly period for the last two years are shown in the following table.

	High	Low
Year Ended September 30, 2012		
First Quarter	$ 5.81	$ 2.75
Second Quarter	5.24	4.02
Third Quarter	8.33	4.50
Fourth Quarter	10.85	7.47
Year Ended September 30, 2011		
First Quarter	$ 6.34	$ 4.28
Second Quarter	6.41	4.93
Third Quarter	6.60	5.30
Fourth Quarter	6.22	4.01

We have not declared any dividends since our Board discontinued dividend payments in 1998 and we do not anticipate paying dividends on our common stock in the foreseeable future.

As of November 22, 2012, there were approximately 1,717 holders of record of our common stock. This number does not include the stockholders for whom shares are held in a nominee or street name.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information with respect to compensation plans under which our equity securities are authorized for issuance as of September 30, 2012:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (in thousands) (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by security holders	3,136	$ 3.61	13,865
Equity compensation plans not approved by security holders			
Total	3,136	$ 3.61	13,865

At the annual meeting of the stockholders of HGI held on September 15, 2011, our stockholders approved the adoption of the Harbinger Group Inc. 2011 Omnibus Equity Award Plan (the 2011 Plan) pursuant to which incentive compensation and performance compensation awards may be provided to employees, directors, officers and consultants of the Company or of its subsidiaries or their respective affiliates. The 2011 Plan authorizes the issuance of up to 17 million shares of common stock, par value $0.01 per share, of the Company. The description of the 2011 Plan above are qualified in their entirety by reference to the full text of the 2011 Plan.

Recent Sales of Unregistered Securities

All unregistered sales of equity securities during the period covered by this report were previously reported on either a Current Report on Form 8-K or a Quarterly Report on Form 10-Q.

Table of Contents

Item 6. ***Selected Financial Data***

The following table sets forth certain selected historic financial information for the periods and as of the dates presented and should be read in conjunction with our accompanying consolidated financial statements and the related notes thereto referenced in Item 8 of this report and with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this report. All amounts are in millions, except for per share amounts.

	Successor				Predecessor	
	2012	**2011 (1)**	**2010 (2)**	**Period from August 31, 2009 through September 30, 2009**	**Period from October 1, 2008 through August 30, 2009**	**2008**
Income Statement Data:						
Revenues	$ 4,480.7	$ 3,477.8	$ 2,567.0	$ 219.9	$ 2,010.6	$ 2,426.6
Operating income (loss) (3)	409.5	163.7	160.5	0.1	156.8	(684.6)
Income (loss) from continuing operations	110.7	7.4	(195.5)	(71.2)	1,100.7	(905.3)
(Loss) income from discontinued operations, net of tax (4)			(2.7)	0.4	(86.8)	(26.2)
Net income (loss) (5)(6)(7)(8)(9)	110.7	7.4	(198.2)	(70.8)	1,013.9	(931.5)
Net income (loss) attributable to common and participating preferred stockholders (5)(6)(7)(8)(9)	29.9	22.2	(151.9)	(70.8)	1,013.9	(931.5)
Restructuring and related charges						
Cost of goods sold (10)	$ 9.8	$ 7.8	$ 7.1	$ 0.2	$ 13.2	$ 16.5
Selling, general and administrative expenses (10)	9.8	20.8	17.0	1.6	30.9	22.8
Interest expense (11)	(251.0)	(249.3)	(277.0)	(17.0)	(172.9)	(229.0)
(Increase) decrease in fair value of equity conversion feature of preferred stock	(156.6)	27.9				
Bargain purchase gain from business acquisition		158.3				
Gain on contingent purchase price reduction	41.0					
Reorganization items (expense) income (12)			(3.6)	(4.0)	1,142.8	
Per Share Data:						
Net income (loss) per common share:						
Basic	$ 0.15	$ 0.11	$ (1.15)	$ (0.55)	$ 19.76	$ (18.29)
Diluted (13)	0.15	0.09	(1.15)	(0.55)	19.76	(18.29)
Weighted average common shares outstanding:						
Basic	139.4	139.2	132.4	129.6	51.3	50.9
Diluted (13)	139.8	158.4	132.4	129.6	51.3	50.9
Cash Flow and Related Data:						
Net cash provided by (used in) operating activities	$ 618.7	$ 153.1	$ 51.2	$ 75.0	$ 1.6	$ (10.2)
Capital expenditures (14)	53.5	38.2	40.4	2.7	8.1	(18.9)
Depreciation and amortization (excluding amortization of debt issuance costs)	299.5	125.9	117.5	8.6	58.5	85.0
Balance Sheet Data (at year end):						
Cash and cash equivalents	$ 1,470.7	$ 1,137.4	$ 256.8	$ 97.8		$ 104.8
Working capital (15)	864.8	982.2	673.7	323.7		371.5
Total assets	25,200.5	23,590.9	4,016.2	3,020.7		2,247.5
Total long-term debt, net of current portion	2,150.6	2,127.7	1,723.1	1,530.0		2,474.8
Total debt	2,167.0	2,143.8	1,743.8	1,583.5		2,523.4
Total stockholders equity (deficit)	1,177.6	895.4	701.7	660.9		(1,027.2)

(1) Fiscal 2011 includes the results of FGL s operations since April 6, 2011. FGL contributed $291 million in revenues and recorded an operating loss of $(18) million for the period from April 6, 2011 through September 30, 2011. Fiscal 2011 also includes $64 million of acquisition and integration related charges principally associated with the SB/RH Merger and the acquisition of FGL.

(2) Fiscal 2010 includes the results of Russell Hobbs operations since June 16, 2010. Russell Hobbs contributed $238 million in net sales and recorded operating income of $1 million for the period from June 16, 2010 through September 30, 2010, which includes $13 million of acquisition and integration related charges. Fiscal 2010 also includes $26 million of acquisition and integration related charges associated with the SB/RH Merger. In addition, the results of HGI s operations have been included since June 16, 2010, the date that common control was first established, which includes $8 million of operating expenses.

(3) Pursuant to the guidance in Financial Accounting Standards Board Codification Topic 350: *Intangibles-Goodwill and Other,* Spectrum Brands conducts its annual impairment testing of goodwill and indefinite-lived intangible assets. As a result of these analyses, Spectrum Brands recorded non-cash pretax impairment charges of approximately $32 million, $34 million and $861 million in Fiscal 2011, the period from October 1, 2008 through August 30, 2009 and Fiscal 2008, respectively. See Note 10, Goodwill and Intangibles, of Notes to Consolidated Financial Statements included elsewhere in this report for further details on impairment charges.

(4) Fiscal 2008 loss from discontinued operations, net of tax, includes a non-cash pretax impairment charge of approximately $8 million to reduce the carrying value of intangible assets relating to Spectrum Brands growing products business in order to reflect the estimated fair value of this business.

(5) Fiscal 2012 income tax benefit of $85 million includes a non-cash benefit of approximately $142 million resulting from a decrease in the valuation allowance against certain net deferred tax assets.

(6) Fiscal 2011 income tax expense of $51 million includes a non-cash charge of approximately $72 million resulting from an increase in the valuation allowance against certain net deferred tax assets.

(7) Fiscal 2010 income tax expense of $63 million includes a non-cash charge of approximately $93 million resulting from an increase in the valuation allowance against certain net deferred tax assets.

(8) Included in the period from August 31, 2009 through September 30, 2009 is a non-cash tax charge of $58 million related to the residual U.S. and foreign taxes on approximately $166 million of actual and deemed distributions of foreign earnings. Income tax expense for the Predecessor for the period from October 1, 2008 through August 30, 2009 includes a non-cash adjustment of approximately $52 million resulting from a reduction in the valuation allowance against certain deferred tax assets. Included in income tax expense for the period from October 1, 2008 through August 30, 2009 is a non-cash charge of $104 million related to the tax effects of the fresh start adjustments. In addition, income tax expense for the Predecessor for the period includes the tax effect of the gain on the cancellation of debt from the extinguishment of the senior subordinated notes as well as the modification of the senior term credit facility. The tax effect of these gains increased Spectrum Brands U.S. net deferred tax asset exclusive of indefinite lived intangibles by approximately $124 million. However due to Spectrum Brands full valuation allowance on the U.S. net deferred tax asset exclusive of indefinite lived intangibles as of August 30, 2009, the tax effect of the gain on the cancellation of debt and the modification of the senior secured credit facility was offset by a corresponding adjustment to increase the valuation allowance for deferred tax assets by $124 million. The tax effect of the fresh start adjustments, the gain on the cancellation of debt and the modification of the senior secured credit facility, net of corresponding adjustments to the valuation allowance, are netted against reorganization items.

(9) Fiscal 2008 income tax benefit of $10 million includes a non-cash charge of approximately $222 million resulting from an increase in the valuation allowance against certain net deferred tax assets.

(10) See Note 23, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included elsewhere in this report for further discussion.

(11) Fiscal 2012, 2011 and 2010 interest expense includes charges totaling $31 million, $37 million and $83 million, respectively, relating to the refinancing, prepayment and/or amendment of various senior debt of Spectrum Brands. Such charges include cash fees and expenses of $26 million, $6 million and $17 million, respectively, and non-cash charges for write-off and accelerated amortization of unamortized debt issuance costs and discount/premium of $5 million, $31 million and $66 million, respectively.

(12) Reorganization items (expense) income directly relates to Spectrum Brands voluntary reorganization under Chapter 11 of the Bankruptcy Code that commenced in February 2009 and concluded in August 2009. In addition to administrative costs related to the reorganization, it reflects during the eleven months ended August 30, 2009, a $1,088 million gain from fresh-start reporting adjustments and a $147 million gain on cancellation of debt.

(13) In Fiscal 2012, diluted weighted average common shares outstanding assumes only the exercise of dilutive common stock equivalents as the conversion effect of preferred stock would be antidilutive. For Fiscal 2011, diluted weighted average common shares outstanding reflect the dilutive effect of preferred stock of 19.1 million shares and stock options of 0.1 million shares. For other periods presented, diluted average shares outstanding does not reflect any effect of preferred stock, which was not issued until Fiscal 2011, nor does it assume the exercise of common stock equivalents as the impact would be antidilutive. See Note 18, Earnings Per Share, of Notes to Consolidated Financial Statements included elsewhere in this report for further details regarding the calculation of net income (loss) per common share.

(14) Amounts reflect the results of continuing operations only.

(15) Working capital is defined as current assets less current liabilities of the Consumer Products and Other sections of the consolidated balance sheets, where applicable.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operation***

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 Item 6, Selected Financial Data, and our accompanying consolidated financial statements and related notes (the Consolidated Financial Statements) referred to in Item 8 of this Annual Report on Form 10-K (the Form 10-K). Certain statements we make under this Item 7 constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. See Forward-Looking Statements at the beginning of Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-K and our other filings with the Securities and Exchange Commission (the SEC).

All references to Fiscal 2012, 2011 and 2010 refer to fiscal periods ended September 30, 2012, 2011 and 2010, respectively.

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 92.6% owned, 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 Series A Participating Convertible Preferred Stock or the Series A-2 Participating Convertible Preferred Stock (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 acquisitions in Fiscal 2011 of majority interests in Spectrum Brands Holdings, Inc. (Spectrum Brands) and Fidelity & Guaranty Life Holdings, Inc. (FGL, formerly Old Mutual U.S. Life Holdings, Inc.) as first steps in the implementation of that strategy. In addition to FGL s asset management activities, HGI has begun to expand its asset management business by forming Salus Capital Partners, LLC (Salus), a subsidiary engaged in providing secured asset-based loans to entities across a variety of industries.

We have identified the following five indicative sectors in which we intend to pursue business opportunities: consumer products/retail, insurance and financial services, energy, natural resources and agriculture. We may also pursue business opportunities in other indicative sectors. 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.

On November 5, 2012, we announced a joint venture with EXCO Resources Inc. (EXCO) to create a private oil and gas limited partnership (the Partnership) that will purchase and operate EXCO s producing U.S. conventional oil and gas assets, for a total consideration of $725 million (the EXCO/HGI Production Partners Acquisition.) The Partnership will constitute our initial operating business in the energy sector.

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 two major segments: consumer products through Spectrum Brands and insurance through FGL.

Consumer Products Segment

Through Spectrum Brands, we are a diversified global branded consumer products company with positions in six major product categories: consumer batteries; small appliances; pet supplies; home and garden control products; electric shaving and grooming products and electric personal care products. Spectrum Brands was created in connection with the combination of Spectrum Brands, Inc. (SBI) and Russell Hobbs, Inc. (Russell Hobbs) on June 16, 2010 (the SB/RH Merger .)

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 operations utilize manufacturing and product development facilities located in the United States, Europe, Latin America and Asia. Substantially, all of Spectrum Brands rechargeable batteries and chargers, shaving and grooming products, small household appliances, personal care products and portable lighting products are manufactured by third-party suppliers, primarily located in Asia.

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 and various other brands.

On October 8, 2012, Spectrum Brands entered into an agreement with Stanley Black & Decker, Inc. (Stanley Black and Decker) to acquire the residential hardware and home improvement business (the HHI Business) currently operated by Stanley Black & Decker and certain of its subsidiaries for $1.4 billion, consisting of (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 Hardware Acquisition will also include the purchase of shares and assets of certain subsidiaries of Stanley Black & Decker involved in the HHI Business. Furthermore, the Hardware Acquisition will also include 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).

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 200 independent marketing organizations (IMOs) representing approximately 19,000 independent agents and managing general agents. As of September 30, 2012, FGL had over 713,000 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 23 annuity IMOs and 14 life insurance IMOs. During Fiscal 2012, these Power Partners accounted for approximately 83% 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 7 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 intangibles including 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 net investment spreads earned on contractholder fund balances. Managing 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.

Fiscal 2012 Highlights

The following are the most significant developments in our respective businesses during Fiscal 2012:

Total revenues of $4,480 million for Fiscal 2012 increased $1,002 million, or 29%, from $3,478 million, for Fiscal 2011, primarily driven by growth in our Insurance segment, including the benefit of a full year of operations of FGL, which was acquired in April 2011.

HGI received total dividends of approximately $71 million from its operating subsidiaries in Fiscal 2012. In September, Spectrum Brands paid a special one-time dividend of $1.00 per share, of which HGI received approximately $30 million; FGL paid cumulative dividends of $40 million, and Salus paid an inaugural dividend of approximately $1 million in its first year of operation.

For Fiscal 2012, our Consumer Products segment recorded record net sales of $3,252 million, a $65 million, or 2%, increase from $3,187 million for Fiscal 2011; excluding negative foreign exchange impact, net sales grew 4% versus the prior year.

Consumer Products segment operating income grew by $74 million, or 32%, to $302 million, and adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) increased by $28 million, or 6%, to $485 million versus the prior year (or 10% excluding unfavorable foreign exchange impact) on higher sales, synergy benefits and cost reduction initiatives. Adjusted EBITDA margin on a full-year basis represented 15% of sales.

Insurance segment product sales for Fiscal 2012 were $1,884 million, led by the successful introduction of Prosperity EliteSM which resulted in FGL solidifying a top ten market position in the competitive fixed index annuity marketplace.

As of September 30, 2012, our Insurance segment had a net US GAAP book value of $1,208 million (including accumulated other comprehensive income (AOCI) of $434 million), almost double the book value of $667 million (including AOCI of $159 million) at the end of Fiscal 2011. Net unrealized gains on available for sale investments were $1,058 million on a U.S. GAAP basis ($1,245 million on a statutory basis). FGL s investment portfolio continues to be conservatively positioned, as it holds cash of $1,062 million, has shortened portfolio duration, and remains well matched against its liability profile.

Salus, in its first year of operation, originated $260 million of asset-backed loan commitments in Fiscal 2012, for which $181 million of loans were outstanding as of September 30, 2012, and contributed approximately $1 million to our consolidated earnings for Fiscal 2012.

HGI stock price appreciation of 66% from $5.07 to $8.43 per share during Fiscal 2012 resulted in a $157 million liability increase related to the fair value of the preferred stock equity conversion feature, which represents a non-cash charge to net income.

Net income attributable to common and participating preferred stockholders increased to $30 million, or $0.15 per common share attributable to controlling interest, compared to $22 million, or $0.11 per common share attributable to controlling interest, in Fiscal 2011.

The non-cash accretion rate on HGI s Preferred Stock decreased from 2% for the third and fourth fiscal quarters to 0% commencing in the first quarter of fiscal 2013 due to a 163% increase in HGI s net asset value since the issuance of its Preferred Stock in May 2011 as calculated in accordance with the terms of its certificates of designation.

HGI ended the year with corporate cash and short-term investments of approximately $433 million (primarily held at HGI and HGI Funding LLC), which supports its business strategy and growth of existing businesses.

Results of Operations

Fiscal 2012 includes the results of HGI, FGL, Spectrum Brands and Russell Hobbs for the full year, the results of Spectrum Brands acquisitions of Black Flag and FURminator commencing October 31, 2011 and December 22, 2011, respectively, and the results of Salus commencing December 1, 2011.

Fiscal 2011 includes the results of HGI, Spectrum Brands and Russell Hobbs for the full year and the results of FGL commencing April 6, 2011. Although the acquisition of Spectrum Brands (the Spectrum Brands Acquisition) was on January 7, 2011, its results of operations are included in the full Fiscal 2011 and 2010 years since the acquisition was considered a transaction between entities under common control and accounted for similar to the pooling of interest method.

Table of Contents

Fiscal 2010 includes the results of Spectrum Brands for the full year and the results of Russell Hobbs and HGI commencing June 16, 2010. As a result of the Spectrum Brands Acquisition being accounted for similar to the pooling of interest method, we have included the results of HGI from June 16, 2010, the date at which both HGI and Spectrum Brands were entities under common control, through the end of the period.

Presented below is a table that summarizes our results of operations and compares the amount of the change between the years ended September 30, 2012 and 2011 (the 2012 Change) and between the years ended September 30, 2011 and 2010 (the 2011 Change) (in millions):

	Year Ended September 30,			Increase/(Decrease)	
	2012	2011	2010	2012 Change	2011 Change
Revenues:					
Consumer Products and Other Net Sales	$ 3,252	$ 3,187	$ 2,567	$ 65	$ 620
Insurance and Financial Services	1,228	291		937	291
Total revenues	4,480	3,478	2,567	1,002	911
Operating costs and expenses:					
Consumer Products and Other:					
Cost of goods sold	2,137	2,058	1,646	79	412
Selling, general and administrative expenses	870	947	761	(77)	186
	3,007	3,005	2,407	2	598
Insurance and Financial Services:					
Benefits and other changes in policy reserves	777	248		529	248
Acquisition and operating expenses, net of deferrals	126	72		54	72
Amortization of intangibles	161	(11)		172	(11)
	1,064	309		755	309
Total operating costs and expenses	4,071	3,314	2,407	757	907
Operating income	409	164	160	245	4
Interest expense	(251)	(249)	(277)	(2)	28
(Increase) decrease in fair value of equity conversion feature of preferred stock	(157)	28		(185)	28
Bargain purchase gain from business acquisition		158		(158)	158
Gain on contingent purchase price reduction	41			41	
Other expense, net	(17)	(43)	(12)	26	(31)
Income (loss) from continuing operations before reorganization items and income taxes	25	58	(129)	(33)	187
Reorganization items expense			(3)		3
Income (loss) from continuing operations before income taxes	25	58	(132)	(33)	190
Income tax (benefit) expense	(85)	51	63	(136)	(12)
Income (loss) from continuing operations	110	7	(195)	103	202
Loss from discontinued operations, net of tax			(3)		3
Net income (loss)	110	7	(198)	103	205
Less: Net income (loss) attributable to noncontrolling interest	21	(35)	(46)	56	11
Net income (loss) attributable to controlling interest	89	42	(152)	47	194

Less: Preferred stock dividends and accretion		59		20				39		20
Net income (loss) attributable to common and participating preferred stockholders	$	30	$	22	$	(152)	$	8	$	174

97

Table of Contents

Fiscal Year Ended September 30, 2012 Compared to Fiscal Year Ended September 30, 2011

Revenues

Consumer Products and Other

Net sales increased $65 million, or 2%, to $3,252 million in Fiscal 2012 from $3,187 million in Fiscal 2011. Excluding negative foreign exchange impacts of $73 million, net sales increased $138 million, or 4%. Consolidated net sales by product line for Fiscal 2012 and 2011 are as follows (in millions):

	Fiscal Year		Increase /
	2012	2011	(Decrease)
Product line net sales			
Consumer batteries	$ 949	$ 954	$ (5)
Small appliances	772	778	(6)
Pet supplies	615	579	36
Home and garden control products	387	354	33
Electric shaving and grooming products	279	274	5
Electric personal care products	250	248	2
Total net sales to external customers	$ 3,252	$ 3,187	$ 65

Global consumer battery net sales decreased $5 million, or less than 1%, during Fiscal 2012 compared to Fiscal 2011. Excluding negative foreign exchange impacts of $36 million, global consumer battery sales increased $31 million, or 3%. The growth of global consumer battery sales on a constant currency basis was driven by new customer listings as well as increased shelf space at existing customers, coupled with price increases, primarily in Latin America, and geographic expansion.

Small appliance net sales decreased $6 million, or 1%, during Fiscal 2012 compared to Fiscal 2011. Excluding negative foreign exchange impacts of $14 million, small appliance sales increased $8 million, or 1%. Latin American and European constant currency sales increases of $16 million and $12 million, respectively, were tempered by a $19 million decrease in North American sales. Latin American sales gains resulted from distribution gains with existing customers as well as price increases. European sales increases were attributable to market share gains in the United Kingdom and expansion of the Russell Hobbs brand throughout Europe. Decreased North American sales were a result of a concerted effort to eliminate certain low margin promotions that occurred in Fiscal 2011.

Pet supply product net sales during Fiscal 2012 increased $36 million, or 6%, compared to Fiscal 2011, led by increases in companion animal and aquatics sales of $34 million and $11 million, respectively, tempered by $8 million in negative foreign currency impacts. Gains in companion animal sales were due to the FURminator acquisition, distributional gains and growth in the Nature s Miracle brand in the U.S. Aquatics sales gains resulted from increases in North American aquarium starter kits and pond related sales, including new distribution at major retailers, which were tempered by lower European aquatics sales

Home and garden control product net sales increased $33 million, or 9%, during Fiscal 2012 compared to Fiscal 2011, driven by increased household insect control sales of $30 million resulting from the Black Flag acquisition and strong retail distribution gains with existing customers. Lawn and garden control sales increased $3 million in Fiscal 2012 compared to Fiscal 2011 due to increased distribution with existing customers.

Electric shaving and grooming product net sales during Fiscal 2012 increased $5 million, or 2%, compared to Fiscal 2011 led by a $14 million increase in European sales and a $4 million increase in Latin American sales. These gains were tempered by a $6 million decline in North American sales and negative foreign exchange impacts of $7 million. European sales gains were driven by successful promotions for new product launches, while the increase in Latin American sales was due to distribution and customer gains. North American declines resulted from the elimination of lower margin promotions as well as distribution declines.

Electric personal care product net sales increased $2 million, or 1%, during Fiscal 2012 compared to Fiscal 2011, driven by gains in North America and Latin America of $11 million and $7 million, respectively, which were tempered by an $8 million decline in European sales and negative foreign exchange impacts of $8 million. The gains in North America and Latin America were attributable to the continued success in new product categories and distribution gains in Latin America, whereas the decrease in European sales was a result of declining women s hair straightener sales due to a shift in fashion trends combined with decreased promotions in the fourth quarter of Fiscal 2012.

Insurance and Financial Services

Insurance and financial services revenues consist of the following components (in millions):

	Fiscal Year		Increase /
	2012	**2011**	**(Decrease)**
Premiums	$ 55	$ 39	$ 16
Net investment income	723	370	353
Net investment gains (losses)	410	(167)	577
Insurance and investment product fees and other	40	49	(9)
Total insurance and financial services revenues	$ 1,228	$ 291	$ 937

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 reinsured to third party reinsurers. Upon the closing of the final acquisition-related reinsurance transaction on October 17, 2011, the term premiums which had been previously retained by FGL were prospectively ceded to Wilton Reassurance Company (Wilton Re). Premiums for Fiscal 2012 were $55 million and are not comparable to the Fiscal 2011 premiums of $39 million which reflect only the approximate six month period subsequent to the FGL acquisition on April 6, 2011.

For Fiscal 2012 and 2011, investment income (before deducting investment management fees of $12 million and $7 million, respectively) less $517 million and $264 million of interest credited and option costs on annuity deposits, respectively, resulted in an investment spread of $218 million and $113 million, or 1.28% and 1.24% (annualized), respectively. Changes in investment spread primarily result from the yield earned on FGL s investment portfolio as well as the aggregate interest credited and option costs on its FIA products which can be impacted by the costs of options purchased to fund the annual index credits on FIA contracts. Average cash and invested assets (on an amortized cost basis) at September 30, 2012 and 2011 were $16.3 billion and $16.7 billion, respectively, and the average yield earned on average cash and invested assets was 4.40% and 4.51% (annualized) for Fiscal 2012 and 2011, respectively, compared to interest credited and option costs of 3.12% and 3.27% (annualized), respectively. The lower average yield on average cash and invested assets was primarily due to the sale of bonds with longer durations at gains during the year to strategically re-position the portfolio to shorten the overall portfolio duration in anticipation of rising interest rates.

FGL s net investment spread is summarized as follows:

	Fiscal Year	
	2012	**2011**
Average yield on cash and invested assets	4.40%	4.51%
Interest credited and option cost	3.12%	3.27%
Net investment spread	1.28%	1.24%

Net investment gains, reduced by 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 Fiscal 2012 and 2011, fixed maturity available-for-sale securities and equity securities had net investment gains of $287 million and $22 million, respectively, related to security sales offset by other-than-temporary impairments of $23 million and $18 million, respectively, during the year. The other-than-temporary impairments for Fiscal 2012 included impairment losses of $17 million related to change of intent on securities held and $6 million of credit impairments. Realized gains for Fiscal 2012 also included $30 million of gains associated with the asset transfer on October 17, 2011 for the closing of the final acquisition-related reinsurance transaction with Wilton Re. The $30 million of gains were payable to Wilton Re as part of the initial asset transfer. For Fiscal 2012 and 2011, there were also net realized and unrealized gains (losses) of $146 million and $(171) million, respectively, on derivative instruments purchased to hedge the annual index credits for FIA contracts.

The components of the realized and unrealized gains (losses) on derivative instruments for the Fiscal 2012 and 2011 are as follows (in millions):

	Fiscal Year	
	2012	**2011**
Call options:		
Loss on option expiration	$ (53)	$ (24)
Change in unrealized gain (loss)	153	(119)
Futures contracts:		
Gain (loss) futures contracts expiration	43	(21)
Change in unrealized gain (loss)	3	(7)
	$ 146	$ (171)

Realized and unrealized gains and losses 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 and Poors (S&P) 500 Index with the remainder based upon other equity and bond market indices. Thus, the fair value of the derivatives will fluctuate from period to period primarily based upon changes in the S&P 500 index. Accordingly, the change in the unrealized gain (loss) on derivatives was primarily driven by the 31% increase and 15% decrease in the S&P 500 Index during Fiscal 2012 and 2011, respectively.

The average index credits to policyholders were as follows:

	Fiscal Year	
	2012	**2011**
S&P 500 Index:		
Point-to-point strategy	2.68%	4.63%
Monthly average strategy	0.45%	4.03%
Monthly point-to-point strategy	1.84%	2.69%
3 year high water mark	17.51%	0.04%

The average return to contractholders from index credits during Fiscal 2012 and 2011 was 1.81% and 3.61% (annualized), respectively. 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 us to manage the cost of the options purchased to fund the annual index credits. The level of realized and unrealized gains and losses on derivative instruments is also influenced by the aggregate cost 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 during Fiscal 2012 and 2011 was $131 million and $68 million, respectively.

Insurance and investment products fees and other for Fiscal 2012 and 2011 were $40 million and $49 million, respectively, and consist primarily of cost of insurance and surrender charges assessed against policy withdrawals in excess of the policyholders allowable penalty-free amounts (up to 10% of the prior year s value, subject to certain limitations). Withdrawals from annuity and indexed universal life policies subject to surrender charges were $1.2 billion and $572 million for the Fiscal 2012 and 2011, respectively, and the average surrender charges collected on annuity withdrawals were 1.89% and 3.49% for Fiscal 2012 and 2011, respectively. During the first quarter of Fiscal 2012, FGL executed the second acquisition-related reinsurance amendment with Wilton Re, in which it ceded the majority of its indexed universal life insurance block of business to Wilton Re. As a result, the cost of insurance and surrender fees associated with this line of business are now ceded to Wilton Re thus reducing the total amount retained by FGL in Fiscal 2012.

Operating Costs and Expenses

Consumer Products and Other

Costs of Goods Sold/Gross Profit. Gross profit, representing net sales minus cost of goods sold, for Fiscal 2012 was $1,115 million compared to $1,129 million during Fiscal 2011, representing a $14 million decrease. Our gross profit margin, representing gross profit as a percentage of net sales, for Fiscal 2012 decreased to 34.3% from 35.4% in Fiscal 2011. The decrease in gross profit and gross profit margin for Fiscal 2012 was driven by $36 million of negative foreign exchange impacts, a $17 million increase in commodity prices and higher costs for sourced goods, primarily from Asia, a $12 million increase in costs due to changes in product mix and a $2 million increase in restructuring and related charges. These factors contributing to the decline in gross profit were tempered by increased organic sales which contributed $31 million of gross profit and Fiscal 2012 acquisitions which contributed $23 million of gross profit.

Selling, General & Administrative Expenses. Selling, general and administrative expenses (SG&A) decreased $77 million, or 8%, to $870 million in Fiscal 2012 from $947 million in Fiscal 2011. The decrease is primarily due to synergies recognized subsequent to the SB/RH Merger of $25 million, decreased asset impairment charges of $32 million, decreased acquisition and integration charges of $29 million, positive foreign exchange impacts of $20 million and savings from Spectrum Brands cost reduction initiatives. These decreases were partially offset by a $34 million increase in HGI s general corporate expenses primarily due to the hiring of new personnel, bonus compensation accruals based on the 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 Consolidated below) and an allocation of overhead costs from Harbinger Capital Partners LLC, an affiliate of HGI and the Principal Stockholders.

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 $28 million, or 6%, to $485 million for Fiscal 2012 from $457 million for Fiscal 2011. The increase in Adjusted EBITDA was primarily a result of reductions in SG&A expenses at Spectrum

Table of Contents

Brands, attributable to cost synergies and positive foreign exchange impacts, partially offset by the slight decrease in gross profit resulting from commodity prices and increased costs from sourced goods.

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

	Fiscal Year	
	2012	2011
Reconciliation to reported operating income:		
Reported operating income consumer products segment	$ 302	$ 228
Add: Other expense not included above	(1)	(3)
Add back:		
Intangible asset impairment		32
Restructuring and related charges	19	29
Acquisition and integration related charges	31	37
Depreciation and amortization, net of accelerated depreciation	134	134
Adjusted EBITDA consumer products segment	$ 485	$ 457

Insurance

Benefits and Other Changes in Policy Reserves. Benefits and other changes in policy reserves of $777 million and $248 million for Fiscal 2012 and 2011, respectively, include 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. The market value option liability increased $178 million and decreased $264 million for Fiscal 2012 and 2011, respectively, primarily due to changes in the equity markets during those periods. The present value of future credits and guarantee liability increased $7 million and $121 million for Fiscal 2012 and 2011, respectively. The increase in Fiscal 2012 was primarily due to lower risk free rates during the year. Fair value accounting for derivative instruments and the embedded derivatives in the FIA contracts creates differences in the recognition of revenues and expenses from derivative instruments including the embedded derivative liability in our fixed index annuity contracts. The change in fair value of the embedded derivatives will not correspond to the change in fair value of the derivatives (purchased call options and futures contracts) because the purchased derivatives cover the next annual index period while the embedded derivative liability covers estimated credits over the expected life of the FIA contracts. Additionally, there were index credits, interest credits and bonuses of $382 million and $292 million, annuity payments of $242 million and $127 million and policy benefits and other reserve movements of $32 million and $28 million during Fiscal 2012 and 2011, respectively. 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.

Below is a summary of the major components included in benefits and other changes in policy reserves for each period (in millions):

	Fiscal Year	
	2012	2011
FIA market value option liability change	$ 178	$ (264)
FIA present value future credits and guarantee liability change	7	121
Index credits, interest credited and bonuses	382	292
Annuity payments	242	127
Other policy benefits and reserve movements	(32)	(28)
Total benefits and other changes in policy reserves	$ 777	$ 248

Acquisition and Operating Expenses, net of Deferrals. Acquisition and operating expenses, net of deferrals for Fiscal 2012 and 2011 were $126 million and $72 million, respectively, and includes costs and expenses related to the acquisition and ongoing maintenance of insurance and investment contracts, including commissions, policy issuance expenses and other underwriting and general operating costs of FGL and Salus. These costs and expenses are net of amounts that are capitalized and deferred, which are primarily costs and expenses that are directly related to the successful acquisition of new and renewal insurance and investment contracts, such as first-year commissions in excess of ultimate renewal commissions and other policy issuance expenses. Also included in acquisition and operating expense for Fiscal 2012 is a $31 million ceding commission paid to Wilton Re primarily related to $30 million of investment gains realized on the securities transferred to Wilton Re in October 2011 upon closing of the second acquisition-related reinsurance amendment. For Fiscal 2012 and 2011, acquisition and operating expenses included general operating expenses of $96 million and $41 million, respectively.

Amortization of Intangibles. For Fiscal 2012 and 2011, amortization of intangibles of $161 million and $(11) million, respectively, includes $174 million and $2 million of net VOBA amortization based on gross margins and $17 million and $1 million of DAC amortization. Partially offsetting these expenses was capitalized accrued interest of $30 million and $14 million, which increases the VOBA and DAC intangible assets. Strong gross margins during Fiscal 2012 resulted in significant amortization of intangibles. In general, 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. For example, during periods of gross losses, losses are floored at zero for purposes of determining 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.

Pretax Adjusted Operating Income Insurance. Pretax 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 Fiscal 2012 and 2011, pretax adjusted operating income was $62 million and $48 million, respectively. Pretax adjusted operating income for Fiscal 2012 was primarily affected by the impact of holding a larger cash balance during the year due to repositioning of the portfolio in advance of FIA surrenders which resulted in lower net investment income as well as the effect of realized gains on fixed maturity securities which are excluded. Additionally, FGL recorded an $11 million liability in Fiscal 2012, net of reinsurance, for estimated unreported death claims resulting from a search of the Social Security Administration database that produced a listing of deceased policyholders that died while their policy was in force (see Note 19 to our Consolidated Financial Statements for additional information regarding this charge).

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

	Year Ended September 30, 2012	For the Period April 6, 2011 to September 30, 2011
Reconciliation to reported operating income (loss):		
Reported operating income (loss) insurance segment	$ 164	$ (18)
Effect of investment gains, net of offsets	(132)	(1)
Effect of change in FIA embedded derivative, net of offsets	18	43
Effects of acquisition-related reinsurance	12	24
Pretax adjusted operating income	$ 62	$ 48

Table of Contents

Pretax adjusted operating income is calculated by adjusting the reported insurance segment operating income (loss) to eliminate the impact of net investment gains (losses), 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 pretax adjusted operating income enhances the understanding of underlying results and profitability which in turn provides a meaningful analysis tool for investors.

Non-US GAAP measures such as pretax adjusted operating income should not be used as a substitute for reported operating income (loss). We believe the adjustments made to the reported operating income (loss) in order to derive pretax adjusted operating income (loss) 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 effects of which are generally likely to reverse over time. The management and board of directors of FGL review pretax adjusted operating income (loss) and reported operating income (loss) 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 (loss). 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 (loss) 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.

Consolidated

Consolidated operating costs and expenses are expected to increase 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 subsidiaries.

During Fiscal 2012, HGI s Compensation Committee established 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. Consolidated operating costs increased by approximately $25 million for Fiscal 2012 as a result of the accrual for these new bonus compensation expenses. These amounts reflect the underlying performance and growth in the Compensation NAV, which has grown substantially in Fiscal 2012. Such growth in Fiscal 2012

Table of Contents

will result in a mix of cash and equity awards being paid over the next three years. We expect to recognize approximately $25 million of deferred bonus compensation expense as it vests over the next three fiscal years, subject to clawback provisions if the subsequent increase in Compensation NAV does not exceed specified threshold returns.

Interest Expense. Interest expense increased $2 million to $251 million for Fiscal 2012 from $249 million for Fiscal 2011. The nominal net change in interest expense was the result of an $18 million increase in interest expense due to the full period effect of the full amount of our 10.625% senior secured notes due 2015 (the 10.625% Notes), of which $350 million and $150 million were issued on November 15, 2010 and June 28, 2011, respectively. This increase was partially offset by a $16 million decrease in interest expense from the replacement of Spectrum Brands 12% senior subordinated toggle notes due 2019 (the 12% Notes) with its 6.75% senior notes due 2020 (the 6.75% Notes), lower principal balances and effective interest rates related to its senior secured term loan due June 17, 2016 (the Term Loan) and lower expenses for interest rate swaps and other fees and expenses, all partially offset by higher interest expense from increased principal related to Spectrum Brands 9.5% senior secured notes due 2018 (the 9.5% Notes). During Fiscal 2012 and 2011, Spectrum Brands recorded $31 million and $37 million, respectively, of charges related to debt refinancings, prepayments and amendments, consisting of $26 million and $6 million, respectively, of cash fees and expenses and $5 million and $31 million, respectively, of non-cash charges for the write-off and accelerated amortization of debt issuance costs and discount/premium.

(Increase) Decrease in Fair Value of Equity Conversion Feature of Preferred Stock. For Fiscal 2012, the fair value of equity conversion feature of Preferred Stock increased $157 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 increased significantly in Fiscal 2012 principally due to an increase in the market price of our common stock from $5.07 to $8.43 per share during Fiscal 2012. For Fiscal 2011, the fair value of the derivative liability decreased $28 million from the May and August 2011 issuance dates of our Preferred Stock.

Bargain Purchase Gain from Business Acquisition. Refer to the comparison of Fiscal 2011 with Fiscal 2010 below for a detailed discussion of the $158 million bargain purchase gain from the FGL acquisition in the prior year.

Gain on Contingent Purchase Price Reduction. During Fiscal 2012, we recorded a $41 million increase in the estimated fair value of a contingent purchase price reduction receivable related to the FGL acquisition due to the regulatory non-approval of a proposed reinsurance transaction that was the basis of the contingency. See Note 22 to our Consolidated Financial Statements for additional information.

Other Expense, net. Other expense, net in Fiscal 2012 and 2011 relates primarily to $17 million and $41 million, respectively, of net recognized losses on trading securities held principally for investing purposes of HGI.

Income Taxes. Our tax rates are affected by many factors, including our worldwide earnings from various countries, changes in legislation and the tax character of our income. For Fiscal 2012, we recorded an income tax benefit despite pretax income, representing an effective tax rate of (336)%, primarily as a result of (i) the net reversal of $142 million of valuation allowance principally related to our assessment of the amount of FGL s deferred tax assets that are more-likely-than-not realizable, (ii) pretax income in foreign jurisdictions that is subject to tax at rates that are lower than the U.S. Federal statutory income tax rate and (iii) a $41 million gain on a contingent purchase price reduction receivable, for which no tax provision is necessary. Partially offsetting these factors was (i) $157 million of expense for the increase in fair value of the equity conversion feature of preferred stock, for which no tax benefit is available, (ii) deferred income tax provision related to changes in the book versus tax bases of indefinite lived intangible assets that are amortized for tax purposes, but not for book purposes, and (iii) U.S. and foreign taxes on remitted and unremitted foreign income.

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 carryforwards of HGI, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code (IRC) Sections 382 and 383. Such limitations resulted from ownership changes of more than 50 percentage points over a three-year period.

For Fiscal 2011, our effective tax rate of 87% was higher than the United States Federal statutory rate of 35% principally due to (i) deferred income tax expense due to changes in the tax bases of indefinite lived intangible assets that are amortized for tax purposes, but not for book purposes, and (ii) U.S. and foreign tax expense on remitted income from certain foreign jurisdictions. Partially offsetting these factors was (i) a $158 million bargain purchase gain from the FGL acquisition, for which no tax provision is necessary, and (ii) the reversal of $30 million of valuation allowance based on our reassessment of the amount of FGL s deferred tax assets that we determined are more-likely-than-not realizable.

Noncontrolling Interest. The net income (loss) attributable to noncontrolling interest reflects the share of the net income (loss) of Spectrum Brands attributable to the noncontrolling interest not owned by HGI. Such amount varies in relation to Spectrum Brands net income or loss for the period and the percentage interest not owned by HGI, which was 42.6% and 46.9% as of September 30, 2012 and 2011, respectively.

Preferred Stock Dividends and Accretion. The Preferred Stock dividends and accretion consist of (i) an accruing 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 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 increase in the Preferred Stock dividends and accretion for Fiscal 2012 compared to Fiscal 2011 is due to the additional dividends and accretion related to the full period effect in Fiscal 2012 of our Series A-2 Preferred Stock issued in August 2011 and our Series A Preferred Stock issued in May 2011, partially offset by the decrease in the quarterly non-cash principal accretion rate from 4% to 2% midway through Fiscal 2012.

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, calculated in accordance with the certificates of designation, was approximately $1.5 billion. This calculation will result 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.

Table of Contents

Fiscal Year Ended September 30, 2011 Compared to Fiscal Year Ended September 30, 2010

Revenues

Consumer Products and Other

Net sales increased $620 million, or 24%, to $3,187 million in Fiscal 2011 from $2,567 million in Fiscal 2010. Consolidated net sales by product line for Fiscal 2011 and 2010 were as follows (in millions):

	Fiscal Year		Increase /
	2011	2010	(Decrease)
Product line net sales			
Consumer batteries	$ 954	$ 954	$
Small appliances	778	231	547
Pet supplies	579	566	13
Home and garden control products	354	343	11
Electric shaving and grooming products	274	257	17
Electric personal care products	248	216	32
Total net sales to external customers	$ 3,187	$ 2,567	$ 620

Global consumer battery net sales during Fiscal 2011 was flat compared to Fiscal 2010, primarily driven by decreased sales in Latin America of $41 million, which were tempered by increased sales in North America and Europe of $24 million and $5 million, respectively, coupled with favorable foreign exchange impacts of $12 million. Sales decreases in Latin America were driven by decreased alkaline battery sales of $11 million, zinc carbon battery sales of $26 million and portable lighting sales of $4 million primarily due to decreased volumes in Brazil as a result of competitive pressures in the region. North American sales increased as a result of strong holiday sales during our first fiscal quarter, distribution gains throughout the year, incremental sales due to strong weather patterns during Fiscal 2011 and a successful new product line launch at a major customer. The sales increases in Europe were primarily attributable to the successful promotion of our Varta value sub-brands as well as customer gains.

Small appliances contributed $778 million or 24% of total net sales for Fiscal 2011 compared to $231 million or 9% of sales in Fiscal 2010. This represents a full year of sales related to Russell Hobbs during Fiscal 2011 as compared to Fiscal 2010 in which we realized sales of the acquired business from the date of the SB/RH Merger, June 16, 2010, through September 30, 2010, the close of our Fiscal 2010.

Pet product net sales during Fiscal 2011 increased $13 million, or 2%, compared to Fiscal 2010. The increase of $13 million was attributable to increased companion animal product sales of $15 million, of which $7 million was a direct result of the SB/RH Merger with the remaining $8 million being driven by the acquisition of Birdola, successful product launches and continued expansion in Europe. Favorable foreign exchange impacted sales by $8 million. These gains were partially offset by decreased aquatics sales of $10 million resulting from overall macroeconomic conditions.

Home and garden control product net sales increased $11 million, or 3%, during Fiscal 2011 compared to Fiscal 2010. This increase was a result of increased household insect controls sales of $14 million, of which $4 million related to the SB/RH Merger. The remaining growth in household insect control sales was driven by increased distribution and product placements with major customers. These gains were partially offset by a $3 million decrease in lawn and garden control sales due to unseasonable weather conditions in the United States, which negatively impacted the lawn and garden season.

Electric shaving and grooming product net sales during Fiscal 2011 increased $17 million, or 7%, compared to Fiscal 2010 primarily due to increased sales within North America, Europe and Latin America of $6 million,

Table of Contents

$4 million and $3 million, respectively, coupled with favorable foreign exchange translation of $4 million. North American sales increases were driven by distribution and customer gains and increased online sales. Latin American sales increases were driven by distribution gains.

Electric personal care product net sales increased $32 million, or 15%, during Fiscal 2011 compared to Fiscal 2010. The increase of $32 million during Fiscal 2011 was attributable to increases in North America, Europe and Latin America of $12 million, $14 million and $2 million, respectively, coupled with favorable foreign exchange impacts of $4 million. The increases in North American and European sales were a result of successful product launches, distribution and customer gains and increased online sales while increases in Latin American sales were driven by distribution gains.

Insurance

Refer to the discussion of insurance revenues in the above comparison of Fiscal 2012 with Fiscal 2011 for details regarding the components in Fiscal 2011. There were no insurance revenues or expenses in Fiscal 2010, which was prior to the FGL acquisition.

Operating Costs and Expenses

Consumer Products and Other

Costs of Goods Sold/Gross Profit. Gross profit for Fiscal 2011 was $1,129 million compared to $921 million during Fiscal 2010, representing a $208 million increase. Our gross profit margin for Fiscal 2011 decreased slightly to 35.4% from 35.9% in Fiscal 2010. The increase in gross profit was primarily attributable to increased sales coupled with the non-recurrence of a $34 million increase in cost of goods sold that resulted from the sale of inventory that was revalued in connection with the adoption of fresh-start reporting upon SBI s emergence from Chapter 11 of the Bankruptcy Code which was recognized during the first quarter of Fiscal 2010. The increased sales due to the SB/RH Merger accounted for a gross profit increase of $152 million during Fiscal 2011 as compared to Fiscal 2010. The decrease in gross profit margin was attributable to the change in overall product mix as a result of the SB/RH Merger as well as increasing commodity prices during Fiscal 2011.

Selling, General & Administrative Expenses. SG&A increased $186 million, or 24%, to $947 million in Fiscal 2011 from $761 million in Fiscal 2010. The increase was primarily due to $111 million of SG&A for the addition of Russell Hobbs, an impairment charge on trade name intangible assets of $32 million principally in the small appliances and pet supplies product lines, an increase in stock compensation expense at Spectrum Brands of $14 million and an increase in corporate expenses at HGI of $38 million. The increase in corporate expenses at HGI was primarily due to a full year of corporate overhead in Fiscal 2011 compared to a partial year in Fiscal 2010 commencing June 16, 2010 (the date that common control was first established over Spectrum Brands and HGI), $4 million of start-up costs for Front Street and $20 million of higher acquisition related costs. The acquisition related costs at HGI were $27 million during Fiscal 2011 and included $23 million for the FGL acquisition, $1 million for the Spectrum Brands Acquisition and $3 million of other project related expenses. These increases were partially offset by savings from Spectrum Brands integration efforts, global cost reduction initiatives and favorable foreign exchange translations in Fiscal 2011.

Adjusted EBITDA. Adjusted EBITDA of the consumer products segment increased $25 million, or 6%, to $457 million for Fiscal 2011 from $432 million for Fiscal 2010 primarily as a result of increased sales, cost savings and foreign exchange impacts, tempered by decreased margins.

Table of Contents

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

	Fiscal Year 2011	Fiscal Year 2010
Reconciliation to reported operating income:		
Reported operating income consumer products segment	$ 228	$ 169
Add: Other expense not included above	(3)	(12)
Add back:		
Intangible asset impairment	32	
Pre-acquisition earnings of Russell Hobbs		66
Restructuring and related charges	29	24
Acquisition and integration related charges	37	38
Inventory fair value adjustments for fresh-start accounting and Russell Hobbs acquisition		37
Depreciation and amortization, net of accelerated depreciation	134	110
Adjusted EBITDA consumer products segment	$ 457	$ 432

Insurance

Refer to the discussion of insurance operating costs and expenses in the above comparison of Fiscal 2012 with Fiscal 2011 for details regarding the components in Fiscal 2011.

Consolidated

Interest Expense. Interest expense decreased $28 million to $249 million in Fiscal 2011 from $277 million in Fiscal 2010. The decrease in interest expense was the result of a $46 million decrease in charges related to debt refinancings and prepayments at Spectrum Brands from $83 million in Fiscal 2010 to $37 million in Fiscal 2011, a $23 million decrease in other interest expense at Spectrum Brands primarily due to a reduction in interest rates and average outstanding balances due to its debt refinancing and prepayments, partially offset by $39 million of interest expense related to our 10.625% Notes initially issued in November 2010. During Fiscal 2010, Spectrum Brands recorded $83 million of charges related to the refinancing of Spectrum Brands debt in connection with the SB/RH Merger consisting of (i) $66 million for the write-offs of the unamortized portion of the discounts, premiums and debt issuance costs related to Spectrum Brands debt that was refinanced, (ii) $9 million related to bridge commitment fees while Spectrum Brands was refinancing its debt, (iii) $5 million of prepayment penalties, and (iv) $3 million related to the termination of a Euro-denominated interest rate swap. During Fiscal 2011, Spectrum Brands recorded $37 million of charges related to term debt refinancings and prepayments consisting of (i) the accelerated amortization of debt issuance costs and original issue discount totaling $31 million and (ii) prepayment penalties of $6 million.

(Increase) Decrease in Fair Value of Equity Conversion Feature of Preferred Stock. For Fiscal 2011, there was a $28 million mark to market decrease in the fair value of the derivative liability for the bifurcated equity conversion feature of our Preferred Stock, which resulted primarily from a decline in the market price of our common stock since the Preferred Stock was issued in the second half of Fiscal 2011.

Bargain Purchase Gain from Business Acquisition. The FGL acquisition was accounted for under the acquisition method of accounting, which requires the total purchase price to be allocated to the assets acquired and liabilities assumed based on their estimated fair values, which resulted in a bargain purchase gain under US GAAP. We believe that the resulting bargain purchase gain of $158 million in Fiscal 2011 was reasonable based on the following circumstances: (a) the seller was highly motivated to sell FGL, as it had publicly announced its intention to do so approximately a year prior to the sale, (b) the fair value of FGL s investments and statutory capital increased between the date that the purchase price was initially negotiated and the date of the FGL acquisition, (c) as a further inducement to consummate the sale, the seller waived, among other requirements, any potential upward adjustment of the purchase price for an improvement in FGL s statutory capital between the date of the initially negotiated purchase price and the date of the FGL Acquisition and (d) an independent appraisal of FGL s business indicated that its fair value was in excess of the purchase price.

Other Expense, net. Other expense, net was $43 million for Fiscal 2011 compared to $12 million for Fiscal 2010. Fiscal 2011 other expense consisted principally of $41 million of net recognized losses on trading securities, including $44 million of unrealized losses on those still held at September 30, 2011, reflecting the general stock market decline since those securities were purchased in the second half of Fiscal 2011.

Other expense, net of $12 million for Fiscal 2010 included a $10 million expense for a foreign exchange loss recognized in connection with the designation of Spectrum Brands Venezuelan subsidiary as being in a highly inflationary economy, as well as the devaluation of Venezuela s currency. At January 4, 2010, the beginning of our second quarter of Fiscal 2010, we determined that Venezuela met the definition of a highly inflationary economy under US GAAP. As a result, beginning January 4, 2010, the U.S. dollar was the functional currency for Spectrum Brands Venezuelan subsidiary. Accordingly, beginning January 4, 2010, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses have been reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to the Venezuelan subsidiary were reflected in stockholders equity as a component of accumulated other comprehensive income (loss).

Reorganization Items. During Fiscal 2010, SBI, in connection with its reorganization under Chapter 11 of the Bankruptcy Code in 2009, recorded reorganization items expense of $3 million, which primarily consisted of legal and professional fees.

Income Taxes. For Fiscal 2011, our effective tax rate of 87% was higher than the United States Federal statutory rate of 35% principally due to (i) deferred income tax expense due to changes in the tax bases of indefinite lived intangible assets that are amortized for tax purposes, but not for book purposes, and (ii) U.S. and foreign tax expense on remitted income from certain foreign jurisdictions. Partially offsetting these factors was (i) a $158 million bargain purchase gain from the FGL acquisition, for which no tax provision is necessary, and (ii) the reversal of $30 million of valuation allowance based on our reassessment of the amount of FGL s deferred tax assets that we determined are more-likely-than-not realizable.

For the year ended September 30, 2010, our effective tax rate of (48)%, representing a tax provision despite a pretax loss, was negatively impacted by (i) a deferred income tax provision related to the change in book versus tax basis of indefinite lived intangibles, which are amortized for tax purposes but not for book purposes, (ii) pretax losses in the United States and some foreign jurisdictions for which no tax benefit can be recognized due to full valuation allowances we provided on its net operating loss carryforward tax benefits and other deferred tax assets and (iii) pretax income in certain non-U.S. jurisdictions that was subject to tax.

Discontinued Operations. Loss from discontinued operations of $3 million in Fiscal 2010 related to the shutdown of Spectrum Brands growing products line of business, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed, following an evaluation of the historical lack of profitability and the projected input costs and significant working capital demands for growing products during Fiscal 2009.

Noncontrolling Interest. The net loss attributable to noncontrolling interest of $35 million in Fiscal 2011 reflected the share of the net loss of Spectrum Brands during Fiscal 2011 attributable to the noncontrolling interest not owned by HGI (45.5% through July 3, 2011 and 46.9% thereafter). The net loss attributable to noncontrolling interest of $46 million in Fiscal 2010 reflected the 45.5% share of the net loss of Spectrum Brands from June 16, 2010 through September 30, 2010 attributable to the noncontrolling interest not owned by HGI.

Table of Contents

Preferred Stock Dividends and Accretion. The Preferred Stock dividends and accretion for Fiscal 2011 of $20 million consisted of a cumulative quarterly cash dividend of 8%, a quarterly non-cash principal accretion at an annualized rate of 4% and accretion of the carrying value of our Preferred Stock, which was discounted by the bifurcated equity conversion feature and issuance costs. As the Preferred Stock was issued in the second half of Fiscal 2011, there were no comparable charges in Fiscal 2010.

Liquidity and Capital Resources

HGI

HGI is a holding company and its liquidity needs are primarily for interest payments on the 10.625% Notes (approximately $53 million per year), dividend payments on its Preferred Stock (approximately $33 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 FGL, Spectrum Brands and Salus.

During Fiscal 2012, we received dividends totaling $40 million from FGL. We currently expect to receive dividends from FGL in future periods sufficient to fund a substantial portion of the interest payments on the 10.625% Notes. In addition, in September 2012, we received a dividend of $30 million from Spectrum Brands as HGI s portion of a $1.00 per share special dividend declared by Spectrum Brands to its stockholders. We currently expect to receive quarterly dividends of $0.25 per share from Spectrum Brands totaling approximately $30 million (based on our current ownership of Spectrum Brands) in Fiscal 2013. The remainder of HGI s operating cash needs for Fiscal 2013, including if the EXCO/HGI Production Partners Acquisition is completed, is 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 its subsidiaries financing agreements, availability of sufficient funds in such subsidiaries and 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 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 rating 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. 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, including any possible transaction with FGL, and may require additional capital to meet regulatory capital requirements.

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 if the EXCO/HGI Production Partners Acquisition is completed. At September 30, 2012, HGI s cash, cash equivalents and short-term investments were $433 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 the time, in the amounts necessary or with terms satisfactory to HGI. We also continuously evaluate our capital structure and in addition to raising additional debt or equity financing may seek to purchase, repay, redeem or retire any of our outstanding debt or preferred equity securities in privately negotiated or open market transactions, by tender offer or otherwise.

Table of Contents

Spectrum Brands

Spectrum Brands expects to fund its cash requirements, including capital expenditures, dividends, and interest and principal payments due on debt in the fiscal year ending September 30, 2013 (Fiscal 2013), including if the Hardware Acquisition is completed, through a combination of cash on hand ($158 million at September 30, 2012) and cash flows from operations and available borrowings under its revolving credit facility (the ABL Facility). Going forward its ability to satisfy financial and other covenants in its senior credit agreements and senior unsecured indenture 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.

Spectrum Brands is not treating Fiscal 2012 and future earnings as permanently reinvested. At September 30, 2012, there are no significant foreign cash balances available for repatriation. For Fiscal 2013, Spectrum Brands expects to generate between $60 million and $90 million of foreign cash, which does not include the HHI Business, that will be repatriated for its general corporate purposes.

On November 16, 2012 Spectrum Brands Escrow Corp. issued $520 million aggregate principal amount of 6.375% Senior Notes due 2020 (the 2020 Notes) and $570 million aggregate principal amount of 6.625% Senior Notes due 2022 (the 2022 Notes .) The 2020 Notes and the 2022 Notes will be assumed by Spectrum Brands upon the closing of the Hardware Acquisition. Spectrum Brands intends to use 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 intends to finance the remaining portion of the Hardware Acquisition, as well as refinance its existing Term Loan, with a new $800 million senior secured term loan, which is expected to close concurrently with the Hardware Acquisition.

From time to time we may repurchase our existing indebtedness, including outstanding securities of Spectrum Brands or its subsidiaries, in the open market or otherwis