

HARBINGER GROUP INC.  
Form 10-Q  
August 09, 2013

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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 incorporation or organization)	(I.R.S. Employer Identification No.)
450 Park Avenue, 30th Floor	10022
New York, NY	(Zip Code)
(Address of principal executive offices)	
(212) 906-8555	
(Registrant's telephone number, including area code)	
(Former name, former address and former fiscal year, if changed since last report)	

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

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

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-accelerated Filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

There were 144,028,151 shares of the registrant's common stock outstanding as of August 5, 2013.



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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

HARBINGER GROUP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In millions)

	June 30, 2013 (Unaudited)	September 30, 2012
<b>ASSETS</b>		
Investments:		
Fixed maturities	\$15,578.3	\$16,088.9
Equity securities	337.0	394.9
Derivatives	227.4	200.7
Asset-backed loans	430.2	180.1
Other invested assets	27.6	53.8
Total investments	16,600.5	16,918.4
Cash and cash equivalents	1,243.7	1,470.7
Receivables, net	611.3	414.4
Inventories, net	707.3	452.6
Accrued investment income	159.9	191.6
Reinsurance recoverable	2,371.0	2,363.1
Deferred tax assets	279.9	312.7
Properties, including oil and natural gas properties, net	999.4	221.6
Goodwill	1,470.2	694.2
Intangibles, including DAC and VOBA, net	2,649.9	1,988.5
Other assets	271.9	172.6
Total assets	\$27,365.0	\$25,200.4
<b>LIABILITIES AND EQUITY</b>		
Insurance reserves:		
Contractholder funds	\$15,342.6	\$15,290.4
Future policy benefits	3,576.2	3,614.8
Liability for policy and contract claims	66.9	91.1
Funds withheld from reinsurers	39.5	54.7
Total insurance reserves	19,025.2	19,051.0
Debt	4,554.3	2,167.0
Accounts payable and other current liabilities	843.4	754.2
Equity conversion feature of preferred stock	147.3	232.0
Employee benefit obligations	114.1	95.1
Deferred tax liabilities	508.4	382.4
Other liabilities	439.6	600.6
Total liabilities	25,632.3	23,282.3
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	325.4	319.2

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Harbinger Group Inc. stockholders' equity:		
Common stock	1.4	1.4
Additional paid-in capital	834.3	861.2
Retained earnings (Accumulated deficit)	9.7	(98.2 )
Accumulated other comprehensive income	140.0	413.2
Total Harbinger Group Inc. stockholders' equity	985.4	1,177.6
Noncontrolling interest	421.9	421.3
Total permanent equity	1,407.3	1,598.9
Total liabilities and equity	\$27,365.0	\$25,200.4

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended		Nine months ended	
	June 30, 2013 (Unaudited)	July 1, 2012	June 30, 2013 (Unaudited)	July 1, 2012
Revenues:				
Net consumer product sales	\$1,089.8	\$824.8	\$2,947.8	\$2,419.9
Oil and natural gas	37.8	—	54.5	—
Insurance premiums	19.0	12.1	46.9	42.2
Net investment income	189.6	179.2	539.7	539.0
Net investment gains (losses)	58.3	(12.9	) 411.5	254.6
Insurance and investment product fees and other	16.1	9.0	44.4	28.2
Total revenues	1,410.6	1,012.2	4,044.8	3,283.9
Operating costs and expenses:				
Consumer products cost of goods sold	707.0	533.1	1,954.0	1,584.1
Oil and natural gas direct operating costs	18.1	—	26.9	—
Benefits and other changes in policy reserves	107.2	141.0	431.7	559.7
Selling, acquisition, operating and general expenses	310.7	213.6	879.6	692.4
Amortization of intangibles	85.0	43.0	220.6	158.5
Total operating costs and expenses	1,228.0	930.7	3,512.8	2,994.7
Operating income	182.6	81.5	532.0	289.2
Interest expense	(83.9	) (54.4	) (302.7	) (194.4
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	52.6	(125.5	) 81.9	(124.0
Gain on contingent purchase price reduction	—	—	—	41.0
Other income (expense), net	4.2	(17.5	) (7.7	) (26.0
Income (loss) from continuing operations before income taxes	155.5	(115.9	) 303.5	(14.2
Income tax expense (benefit)	36.8	(5.8	) 167.2	50.6
Net income (loss)	118.7	(110.1	) 136.3	(64.8
Less: Net income (loss) attributable to noncontrolling interest	15.1	25.0	(8.1	) 18.8
Net income (loss) attributable to controlling interest	103.6	(135.1	) 144.4	(83.6
Less: Preferred stock dividends and accretion	12.0	14.0	36.3	45.6
Net income (loss) attributable to common and participating preferred stockholders	\$91.6	\$(149.1	) \$108.1	\$(129.2

Net income (loss) per common share attributable to controlling interest:

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Basic	\$0.45	\$(1.07	) \$0.54	\$(0.93	)
Diluted	\$0.25	\$(1.07	) \$0.30	\$(0.93	)

See accompanying notes to condensed consolidated financial statements.

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HARBINGER GROUP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In millions)

	Three months ended		Nine months ended		
	June 30, 2013 (Unaudited)	July 1, 2012	June 30, 2013 (Unaudited)	July 1, 2012	
Net income (loss)	\$118.7	\$(110.1	) \$136.3	\$(64.8	)
Other comprehensive income (loss):					
Foreign currency translation (losses) gains	(7.8	) (34.1	) (25.4	) (30.5	)
Net unrealized gain on derivative instruments					
Changes in derivative instruments before reclassification adjustment	3.2	3.2	4.6	0.4	
Net reclassification adjustment for losses included in net income	(0.5	) (0.3	) (0.1	) 3.2	
Changes in derivative instruments after reclassification adjustment	2.7	2.9	4.5	3.6	
Changes in deferred income tax asset/liability	(0.4	) (1.9	) (1.5	) (1.5	)
Deferred tax valuation allowance adjustments	(0.5	) 0.5	(0.1	) 0.3	
Net unrealized gain on derivative instruments	1.8	1.5	2.9	2.4	
Actuarial adjustments to pension plans					
Changes in actuarial adjustments before reclassification adjustment	(0.6	) 0.2	(2.2	) 0.5	
Net reclassification adjustment for losses included in cost of goods sold	0.3	0.2	1.0	0.3	
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.2	0.1	0.6	0.2	
Changes in actuarial adjustments to pension plans	(0.1	) 0.5	(0.6	) 1.0	
Changes in deferred income tax asset/liability	—	(0.1	) 0.2	(0.1	)
Deferred tax valuation allowance adjustments	—	—	0.1	—	
Net actuarial adjustments to pension plans	(0.1	) 0.4	(0.3	) 0.9	
Unrealized investment gains (losses):					
Changes in unrealized investment gains before reclassification adjustment	(559.2	) 168.5	(379.1	) 454.8	
Net reclassification adjustment for gains included in net income	(35.3	) (41.9	) (281.8	) (175.7	)
Changes in unrealized investment gains after reclassification adjustment	(594.5	) 126.6	(660.9	) 279.1	
Adjustments to intangible assets	210.7	(61.3	) 260.9	(92.5	)
Changes in deferred income tax asset/liability	135.4	(22.9	) 140.9	(65.4	)
Net unrealized gain on investments	(248.4	) 42.4	(259.1	) 121.2	
Non-credit related other-than-temporary impairment:					
Changes in non-credit related other-than-temporary impairment	—	0.1	—	(1.5	)
Adjustments to intangible assets	—	—	—	0.6	
Changes in deferred income tax asset/liability	—	—	—	0.3	
	—	0.1	—	(0.6	)



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Net non-credit related other than-temporary impairment				
Net change to derive comprehensive income (loss) for the period	(254.5	) 10.3	(281.9	) 93.4
Comprehensive (loss) income	(135.8	) (99.8	) (145.6	) 28.6
Less: Comprehensive (loss) income attributable to the noncontrolling interest:				
Net income (loss)	15.1	25.0	(8.1	) 18.8
Other comprehensive loss	(2.5	) (13.7	) (9.6	) (12.0
	12.6	11.3	(17.7	) 6.8
Comprehensive (loss) income attributable to the controlling interest	\$(148.4	) \$(111.1	) \$(127.9	) \$21.8

See accompanying notes to condensed consolidated financial statements.

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HARBINGER GROUP INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In millions)

	Nine months ended			
	June 30, 2013	July 1, 2012		
	(Unaudited)			
Cash flows from operating activities:				
Net income (loss)	\$136.3	\$(64.8)	)	
Adjustments to reconcile net income (loss) to operating cash flows:				
Depreciation of properties	65.0	28.8		
Amortization of intangibles	220.6	158.5		
Stock-based compensation	44.9	17.1		
Amortization of debt issuance costs	10.3	7.4		
Amortization of debt discount	1.1	0.6		
Write-off of debt issuance costs on retired debt	15.5	2.9		
Write-off of debt discount on retired debt	3.0	(0.5)	)	
Deferred income taxes	164.6	57.9		
Gain on contingent purchase price reduction	—	(41.0)	)	
Cost of trading securities acquired for resale	—	(741.1)	)	
Proceeds from trading securities sold	—	829.8		
Interest credited/index credits to contractholder account balances	320.2	414.7		
Amortization of fixed maturity discounts and premiums	24.4	67.9		
Net recognized gains on investments and derivatives	(494.4)	)	(103.2)	)
Charges assessed to contractholders for mortality and administration	(23.9)	)	(10.4)	)
Deferred policy acquisition costs	(109.2)	)	(157.6)	)
Cash transferred to reinsurer	—	(176.8)	)	
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	31.0	—		
Non-cash restructuring and related charges	—	3.0		
Changes in operating assets and liabilities:	(315.4)	)	(88.5)	)
Net change in cash due to operating activities	94.0	204.7		
Cash flows from investing activities:				
Proceeds from investments sold, matured or repaid	7,396.3	4,386.3		
Cost of investments acquired	(7,271.4)	)	(3,860.6)	)
Acquisitions, net of cash acquired	(2,013.7)	)	(185.1)	)
Asset-backed loans originated, net	(251.8)	)	(74.5)	)
Capital expenditures	(58.8)	)	(33.6)	)
Other investing activities, net	(0.6)	)	0.3	
Net change in cash due to investing activities	(2,200.0)	)	232.8	
Cash flows from financing activities:				
Proceeds from issuance of new debt	2,952.1	523.2		
Repayment of debt, including tender and call premiums	(958.5)	)	(372.5)	)
Revolving credit facility activity	348.1	2.5		
Debt issuance costs	(79.0)	)	(11.2)	)
Purchases of subsidiary stock, net	(73.9)	)	(85.0)	)
Contractholder account deposits	1,078.4	1,736.0		
Contractholder account withdrawals	(1,323.7)	)	(1,505.4)	)
Dividend paid by subsidiary to noncontrolling interest	(12.1)	)	—	

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Dividends paid on preferred stock	(25.0	) (23.4	)
Share based award tax withholding payments	(22.4	) (3.9	)
Other financing activities, net	—	(1.0	)
Net change in cash due to financing activities	1,884.0	259.3	
Effect of exchange rate changes on cash and cash equivalents	(5.0	) (1.4	)
Net (decrease) increase in cash and cash equivalents	(227.0	) 695.4	
Cash and cash equivalents at beginning of period	1,470.7		